

Table of Contents

1	Basic Information about the Company
2	Foreword
3	Board of Directors
4	Supervisory Board
5	Results in Brief
6	Business Activity Report
	<i>Business Performance</i>
	<i>Products</i>
	<i>Description of Products</i>
	<i>Distribution</i>
	<i>Re-insurance</i>
	<i>Financial Highlights</i>
7	Summarized Balance Sheet
8	Summarized Profit and Loss Account
9	Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000
10	Auditor's Report
11	Report of the Supervisory Board
12	Addresses
13	Branch Offices of Komerční pojišťovna, a. s., in the Czech Republic

1 Basic information about the company

Business Name	Komerční pojišťovna, a. s.
Legal Status	Joint stock company
Date of Incorporation	1 September 1995
Share Capital	CZK 450 million
Shareholder	The sole shareholder is Komerční banka, a. s., having its registered office address at Prague 1, Na Příkopě 33, Corporate ID 45317054
Business Activities	<ul style="list-style-type: none">> Life and non-life insurance> Re-insurance by ceding part of assumed risk to the re-insurer> Activities underlying insurance and re-insurance activities> Preventive activities> Entering into brokers' insurance contracts with individuals or corporate entities resident on the territory of the Czech Republic
Bodies of the Company	General Meeting of Shareholders Board of Directors Supervisory Board
Registered Office Corporate ID	Prague 1, Jindřišská 17, 63998017 Recorded in the Register of Companies held at the Municipal Court in Prague, File B, Insert 3362.

The Company is part of the Komerční banka Group, the Czech Insurers' Bureau and the Czech Nuclear Pool.

2 Foreword

Ing. Jan Klak,

Acting CEO from 2 January 2001 to 31 March 2001



In the fifth year of its operations Komerční pojišťovna, a. s. (the “Company“) continued to make significant inroads into the motor third party liability insurance market and made an effort to diversify risk exposures by rapidly developing the sales of other insurance products. The ultimate results of trading showing underwritten premium of almost CZK 2 billion and the overall 7th position among Czech insurance carriers have confirmed that the Company was successful in meeting its targets.

The major proportion of insurance transactions were entered into through the Company’s own branch network which, at the year-end date, consisted of 4 divisional branch offices, 14 regional branch offices and 73 agency offices, predominantly located at the available premises of branch offices of Komerční banka, a.s. (“KB”). The Company’s branch network entered into 80 percent out of the aggregate volume of transactions. The remaining portion of approximately CZK 350 million was executed by agency offices of KB. We are pleased to note that we rolled out the sale of insurance products by phone during the year. In doing so we used the call center of KB and trained its staff to offer new insurance products to call center customers. This has carried the cooperation with KB a stage further, the objective invariably being to ensure that clients always receive comprehensive services to the best of their satisfaction.

In addition to developing sales, there has been a greater emphasis on processing insurance claims. During the year, the Company’s network of processing centers was expanded geographically and substantially upgraded in terms of staffing in order to ensure that motor third party liability insurance claims are processed in an efficient and effective manner. We also monitor the length of time and results of the processing of other insurance products and evaluate client signals and suggestions.

The Company’s results in managing the technical reserves portfolio can be viewed as manifesting the Company’s success and responsible approach to clients. Whilst interest rates have steadily declined over time the Company’s results made it possible to retain shares of profit of certain client groups at 10.4 percent (including the technical interest rate).

In conclusion, we can safely state that the year 2000 has been a milestone in the Company’s history. Not only has the Company managed to boost its sales of products up to a two billion level but it has also managed to report results close to the so called ‘black nil’. This development, combined with a proactive approach of the sole shareholder to implementing a balanced production strategy, is the most important precondition for the Company’s growth in the coming years.

3 Board of Directors

Ing. Zdeněk Lustig

*Chairman of the Board
(until 25 February 2000)*

Ing. Jan Klak

Vice-chairman of the Board

Ing. Stanislava Fiedlerová

Member of the Board

Ing. Václav Runštuk

*Member of the Board
(Chairman of the Board with effect
from 25 February 2000)*



4 Supervisory Board

**JUDr. Ing. Otakar
Schlossberger**

*Chairman of the Supervisory Board
(until 25 August 2000)*

**Ing. Jaroslav
Martinec**

*Vice-chairman of the Supervisory
Board*

Ing. Jiřina Bokšová

Member of the Supervisory Board

Ing. Tomáš Kučera

*Member of the Supervisory Board
(until 27 October 2000)*

**doc. Ing. Jiří
Dvořáček, CSc.**

Member of the Supervisory Board

**prof. RNDr.
Petr Mandl, DrSc.**

Member of the Supervisory Board

5 Results in Brief

year	2000	1999	1998
Gross premium underwritten (CZK '000)	1 923 148	462 259	140 788
Of which:			
Life	468 334	187 269	43 534
Non-life	1 454 814	274 990	97 254
Assets (CZK '000)	2 061 120	1 382 542	372 560
Share capital (CZK '000)	450 000	450 000	300 000
Technical reserves (CZK '000)	1 109 028	328 278	109 180
Profit/(loss) (CZK '000)	(6 598)	(98 856)	(84 410)
Policies (pcs)			
Long-term	475 405	21 133	11 725
Short-term	38 544	28 849	20 116
Proportion to revenues for clients (%)*	5,9	5,8	16,5
Insurance claims (CZK '000)	323 930	40 803	9 734
Of which			
Life	7 227	2 184	1 083
Non-life	316 703	38 619	8 651
No. of employees	417	247	153

*) Note: Proportion to revenues exceeds the technical interest rate.

6 Business Activity Report

6.1 Business Performance

For the year ended 31 December 2000, the Company's business performance once again saw an increase in life and non-life insurance. On a year-on-year basis, the multiple of premium underwritten was 4.16 (in life insurance 2.50 and non-life insurance 5.29). The Company underwrote CZK 1,923,148 thousand of premiums, attaining 7th place, a result substantially better than that achieved in the past year.

By underwriting CZK 468,334 thousand of life insurance premiums and CZK 1,454,814 thousand of non-life insurance the Company attained 9th and 6th place, respectively.

The Company had much success in obtaining motor third party liability insurance policies and attained 4th place, having underwritten CZK 1,113,115 thousand of this insurance product. In parallel with this, the portfolio of other insurance products increased as a consequence of advantageous terms and conditions being provided to clients that entered into motor third party liability insurance agreements with the Company. There has been greater cooperation between the Company's branch network and the agency offices of KB. At present, the Company's branch network accounts for 82.5 percent of the Company's transactions on the territory of the Czech Republic. Transactions executed by the agency offices of KB account for 17.5 percent and largely involve providing travel insurance, payment card insurance, risk life insurance underlying loans, mediation of contacts in relation to industrial and business insurance and last, but not least, the motor third party liability insurance.

The Company's branch business network, the central branch office in Jihlava and the processing network are devised in such a way so as to ensure an effective coverage of the whole territory of the Czech Republic, primarily in connection with the processing of claims under motor third party liability insurance policies.

One of the stated objectives of the business network was to ensure that the Company remains the key player in the motor third party liability insurance marketplace. Despite increased competition the Company achieved this goal.

The Company began to develop alternative distribution channels by selling the motor third party liability insurance and household insurance via the call center.

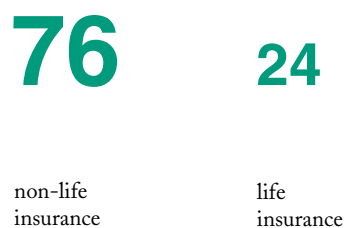
6.2 Products

In the past year the Company's principal strategic plans involved extending the range of products being offered. The Company updated its diverse range of capital life and accident insurance products and combined children and retirement insurance schemes. In addition, these insurance products are accompanied by a broad variety of additional insurance schemes. At present, the structure and scope of life insurance products offered by the Company meets client requirements for the coming period.

The Company provides its clients with a substantial number of life and non-life insurance schemes and has the capacity to provide coverage against regular risks.

6 Business Activity Report

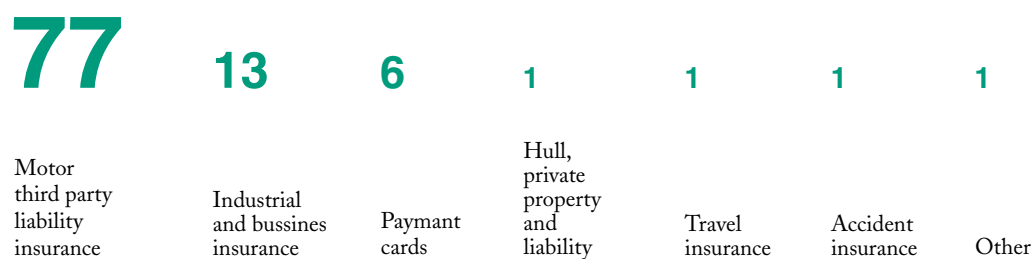
Premium structure (%)



Life premium structure (%)



Non - life premium structure (%)

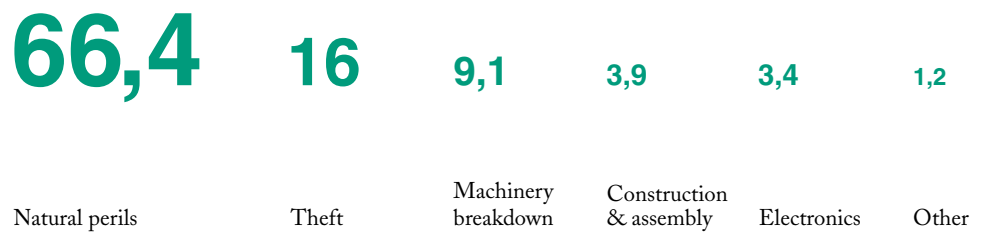


6 Business Activity Report

Industrial and business premium structure (%)



Industrial and business property premium structure (%)



6 Business Activity Report

6.3 Description of Products

We provide below a summary of key products being offered by the Company by individual sections:

Personal Insurance

1. Capital life insurance;
2. Combined children's insurance;
3. Retirement insurance with profit shares;
4. Management insurance;
5. Collective employee insurance;
6. Risk life insurance underlying loans;
7. Personal accident insurance;
8. Personal accident insurance for recoverable deposit;
9. Harmony („Harmonie“);
10. Travel insurance and insurance attached to payment card.

Private Property and Liability Insurance

1. Household insurance;
2. Weekend household insurance;
3. Building insurance;
4. Professional liability insurance;
5. Private liability insurance;
6. Hull insurance;
7. Motor third party liability insurance;
8. Universal trading insurance.

Industrial and Business Insurance

Property Insurance

1. Insurance against natural perils;
2. Theft insurance;
3. Machinery breakdown insurance;
4. Electronics insurance;
5. Transport insurance;
6. Glass insurance;
7. Cooling apparatus insurance;
8. Construction & Assembly insurance;
9. Motor vehicles insurance;
10. Other as required by the client.

Liability Insurance

1. General liability insurance;
2. Product liability insurance;
3. Transportation liability insurance;
4. Management liability insurance;
5. Other as required by the client.

6 Business Activity Report

Personal Insurance

Life Insurance

Life insurance products continued to make up a significant segment of the Company's business product range during 2000. In the second half of 2000, the Company substantially adjusted its range of products to be able to respond to the expected revisions to the Income Tax Act.

The range of products covers the client's whole life cycle. At the client's request life insurance can be supplemented with personal accident insurance and, recently, also with serious illness insurance and insurance of daily benefits during sickness leave or hospitalization.

With regard to risk life insurance tied to credits issued to clients the Company continued to cooperate closely with KB and launched steps to co-insure other risks together with this insurance.

The level of life premiums underwritten amounted to CZK 468,334 thousand.

Capital Life Insurance with Profit Shares

This product combines insurance coverage and funding that bears interest at both the floating and fixed interest rates. The fixed component of the interest rate is guaranteed over the whole term of the policy, the floating component is derived from annual profit shares. Amongst many other things, this product makes it possible to deposit finance in addition to regular insurance payments, to withdraw finance (extraordinary benefit) during the course of the policy and to claim income tax base deduction of up to CZK 12,000 per annum.

Capital life insurance with profit shares includes elements of:

- > Death benefits;
- > Endowment assurance;
- > Waiver of insurance payment obligations subject to compliance with the terms and conditions of the insurance policy;
- > Accident insurance;
- > Serious illness insurance;
- > Additional benefits during hospitalization.

Saving Capital Life Insurance

This represents a beneficial financial instrument bearing interest at a fixed rate, guaranteed over the whole term of the policy, and at a floating rate that is derived from annual profit shares. This may serve as a basis for creating a financial reserve for planned events as well as late surprises. Capital life insurance is tax allowable and makes it possible to claim annual income tax deductions of up to CZK 12,000, to deposit finance in addition to regular insurance payments and to withdraw finance (extraordinary benefit) during the course of the policy. At maturity of the insurance policy the policy holder is provided with a one-off payment of the contracted insurance life proceeds, increased by profit shares.

Combined Children's Insurance

This product is aimed at providing death benefits to the child in the event that its closest relatives decease. This coverage is intended for one or two persons (typically parents, but it is not a requirement) for the benefit of the child and will provide finance to the child as and when urgently needed. Life assurance claims are increased by the profit shares. The combined children's insurance includes elements of:

- > Comprehensive family coverage with savings for the benefit of the child;
- > Payment of insurance proceeds prior to expiration of the insurance policy term from the year the child is of age;
- > Possibility of opting for the payment of insurance proceeds as a one-off payment (eg, dowry) or regularly on a monthly basis (eg, school fee or scholarship);
- > Substantial security in the case of death of the policy holders (immediate one-off payment + monthly pension + payment of as much as four times the insured sum at maturity);
- > Waiver of insurance payment obligations in the case of handicap or death of one of the policy holders;
- > Additional accident insurance of the policy holders and the child;

6 Business Activity Report

Retirement Insurance

This product complements to the Government-run pension system and results in a financial reserve to maintain an adequate standard of living over the pension term and makes it possible to claim annual income tax deductions of up to CZK 12,000. Additionally, by entering into this insurance policy you will obtain assurance coverage for both yourself and your next of kin in respect of complicated life situations such as disability, hospitalization, limited work ability or death.

The retirement insurance includes elements of:

- > Retirement benefits;
- > Widow/widower benefits;
- > Contribution to funeral expenses;
- > Disability annuity;
- > Waiver of insurance payment obligations;

Furthermore, this product provides profit shares, accident insurance, additional insurance of daily benefits during hospitalization or sickness leave.

Management Insurance

This product represents a capital life insurance with profit shares and bonus being paid at maturity of the policy. Should the policy holder die the contracted insured sum, together with profit shares accrued as of the date of death, will be paid to the authorized person. At maturity of the insurance policy the policy holder is provided with the contracted insurance proceeds, increased by profit shares accrued over the term of the policy and a bonus. Management insurance may be accompanied by accident coverage.

Collective Employee Insurance

This type of insurance is entered into by the employer on behalf of his employees. Practical and beneficial modules of the product include death coverage, endowment assurance, mixed life insurance and retirement insurance. The product is adjusted as required by the client and makes it possible to claim annual income tax deductions of up to CZK 12,000.

Risk Life Insurance underlying Loans

This product with the declining insured amount relates solely to the risk of death of the policy holder. The coverage policy is invariably entered into as a loan collateral and due to the declining insured sum it is designed to satisfy claims of the bank in the event of death of the policy holder. This type of insurance provides assurance to the guarantors or the survivors that they will not experience difficulties following the death of the person that obtained a loan because the outstanding loan amount will be paid by the Company. The insured sum is equal to the loaned balance and is based on the repayment schedule ruling as of the date of signature of the loan agreement. The term of the insurance policy is consistent with the loan agreement term.

Personal Accident Insurance

Personal Accident Insurance for Recoverable Deposit

Personal accident insurance is currently offered as a standalone product with normal payment terms, as a special product for recoverable deposit and as an additional insurance attached to the capital life insurance, the combined children's insurance and retirement insurance.

The range of accident insurance products was expanded in 2000. The Company launched the 'progressive benefit' scheme applicable to accidents, resulting in permanent effects.

The claims reported to the Company were settled on an ongoing basis and the loss occurrence profile was favorable.

This insurance applies to accidents and their effects that may take place on various occasions over the course of life. Children's insurance policies may be entered into immediately following the birth of the child. This advanced form of accident insurance brings not only assurance but also a new quality of services. Accident insurance protects the policy holder 24 hours a day all over the world. Insurance benefits are payable in respect of death that occurs as a result of accident, accident with permanent effects and injury incurred as a result of accident. With regard to the insuran-

6 Business Activity Report

ce with normal payment terms the policy holder is entitled to receive bonus equal to the annual insured sum as of the fifth anniversary from the inception of the insurance policy provided that no claim arises over the latest five years. In negotiating the 'progressive' benefit the claim is paid in the amount of up to the five fold of the percentage of the insured sum as determined pursuant to the Classification Rules for relevant injury. In negotiating the accident insurance for recoverable deposit the Company does not require regular payments of premium to be made. The obligations of the policy holder in relation to premium is fulfilled subject to a one-off deposit being made. Premium is paid from the proceeds on the deposit and the Company pays annual profit shares to the policy holder.

Harmony („Harmonie“)

Harmony is a comprehensive insurance program run by Penzijní fond Komerční banky and the Company. The program combines the benefits offered by the Government-subsidized pension insurance, life assurance, accident insurance and coverage during hospitalization. Not only does this comprehensive product lead to assurance being in place when needed during complicated life situations but also creates a substantial financial reserve. In the case of full disability, the client is released from paying a portion of contribution to the entire insurance program while pension insurance claims remain unchanged and the invested finance is appreciated substantially over time. This type of insurance makes it possible to claim annual income tax deductions of up to CZK 12,000.

Travel Insurance and Payment Card Insurance

The travel insurance product covers insurance of medical treatment costs abroad, including assistance services and the following optional coverage: accident, liability, travel luggage, and cancellation of travel.

The coverage may be provided for one travel, both as a short-term insurance (less than 90 days), or as a long-term insurance (up to one year), or for recurrent travels during the period of 12 months, in which case there is no cap on the number of trips during the defined period.

Coverage for recurrent travels is provided in various alternatives, such as those intended for firms (insurance transferable among employees), for individuals, couples and families with children.

The Company has developed a specialized insurance package for travel agencies. This package provides coverage to the clients of the travel agency on trips.

During 2000, the Company continued increasing its participation in the insurance of EC/MC, VISA and American Express international cards issued by Komerční banka, a. s.

For the year ended 31 December 2000, the gross premium underwritten in respect of travel insurance and payment card insurance amounted to CZK 106.9 million.

Private Property and Liability Insurance

Household Insurance

The household insurance relates to sets of movable assets that are located on a permanent basis in the occupied household or in the weekend household. The product covers assets held by the insured persons that live together permanently or persons listed in the insurance policy.

The insurance is also applicable to assets that are utilized by the insured and have the same nature as the assets forming the insured set of assets.

The occupied household insurance is provided in two forms: a standard track intended for clients that agree with the insured sum as outlined by the Company with a percentage cap on selected groupings of insurance such as audio - video, electronics, optics, antique. The second, extended form is pieced together subject to the client himself, or with assistance from the Company's staff, determining the insured amounts of individual insurance groupings (eg, key household facilities, electronics, optics, antique) as he desires.

Weekend Household Insurance

It is possible to extend the household insurance policy to include the so called 'second household' where the policy holder stays on a temporary basis. The weekend household insurance policy covers an amount that is indicative of the aggregate value of the weekend household equipment with a percentage cap on selected groupings of insurance such as audio - video, electronics, optics, antique etc.

6 Business Activity Report

Building Insurance

This program is designed to provide coverage in respect of family houses, dwelling houses, weekend cottages, garden houses, garages, utility houses etc, located on the territory of the Czech Republic. This insurance product may be also used to obtain coverage in respect of a privately owned apartment.

Professional Liability Insurance

This insurance scheme applies to general liability for damage caused by the policy holder to his employers in performing assigned professional duties. Furthermore, this product relates to damage caused by the policy holder directly in carrying out his professional duties and also to damage incurred as a result of each employment or similar relationship and for which the policy holder is liable pursuant to the Labor Code or any other similar in-country labor regulation even if the damage occurred abroad (on the territory of whole Europe). The coverage also applies to damage sustained by the employer as a result of default interest, sanction for late billings, tax sanctions and sanctions for late return of packaging.

Private Liability Insurance

This insurance scheme applies to damage caused to third parties as a result of a variety of activities in the normal course of life, eg, in connection with household maintenance and use of household equipment, leisure sport activities, horse riding, ownership or custody of small livestock, legal ownership and use of guns. The insurance protection relates to the policy holder and his/her wife/husband, common-law wife/husband and unmarried children below the age of 18 years if they maintain a common household with the policy holders. The insurance product also applies to children of age but below the age of 25 years provided that they undergo vocational training and maintain a common household with the policy holders, and to household assistants employed by the policy holder for household services (eg, persons that have been instructed to take care of the apartment or a pet in the apartment). Furthermore, the insurance coverage provides protection in respect of the so called 'financial damage' such as regressive claims by health insurance companies or claims raised by property insurance carriers that are entitled by law to recover paid insurance claims from third parties that caused the losses.

Hull Insurance

This insurance applies to motor and other vehicles that are eligible for road traffic and are undamaged, in good technical condition and have a valid Czech technical registration paper and a valid Czech number plate (except for mopeds) and that are listed in the rate book. The hull insurance may be accompanied by insurance of special car accessories, insurance of transported luggage and personal assets and transport accident insurance.

The hull insurance consists of a basic all risk hull coverage of motor and other vehicles and associated normal and customary accessories, and supplementary insurance which cannot be negotiated without the basic coverage being provided:

- a) Insurance of special car accessories;
- b) Insurance of transported luggage and personal assets;
- c) Transport accident insurance.

The hull insurance is effective for the whole territory of Europe.

Motor Third Party Liability Insurance

In the last quarter of 1999 the Company launched its advertising and promotion campaign to capture a share of the attractive motor third party liability insurance market. This campaign has been continually carried forward to the year 2000. The sales of this insurance product exceeded expectations, with the Company attaining 4th place among the twelve insurance companies that have begun offering this product. The excellent results of the sales have placed the Company at the forefront of the Czech insurance marketplace.

During the year, the product has been put in the operating system and stabilized. In the last quarter of the year there was a considerable movement of clients among insurance carriers. The Company's client base went unaffected through this period of change and the Company remained a key player in the market.

The loss occurrence was amazingly low. However, it should be noted that the year 2000 saw only a roll-out of damage since as not all unmaturing claims, principally related to health injuries, have been processed.

6 Business Activity Report

Industrial and Business Insurance

In the fifth year of its existence in the insurance marketplace the Company is aware of the strong capital base of its sole shareholder, Komerční banka, and has further expanded the range of industrial and business insurance products.

Besides traditional property insurance products such as insurance against all natural perils and a series of products designed to cover industrial and business activities against machinery, electronic and cooling risks, we specifically note the business interruption coverage that is viewed as being a key component of all business risk assurance efforts.

Furthermore, the Company has extended its spectrum of liability insurance products. The Company is set to continue its focus on liability insurance products in order to cover all key business, legal and economic activities.

The aggregate premiums underwritten in respect of industry amounted to CZK 192,547 thousand.

Not only does the Company expect to broaden the range of its insurance products but also places great emphasis on the underlying quality in regard to both the underwriting of risk and the processing of insurance claims.

Property Insurance

Insurance against Natural Perils

This product is designed to provide insurance against unforeseen natural perils such as:

- > Fire,
- > Direct stroke of lightning;
- > Explosion;
- > Fall of airplane;

Extended risk:

- > Flooding;
- > Deluge;
- > Storm;
- > Hailstorm;
- > Landslide, fall of rocks or earth;
- > Fall of trees, masts and other items that are not part of the insured item;
- > Earthquake of at least six degrees (MCS);
- > Weight of snow or icing if the insured item is a building;

Water-piping risk:

- > Relates to damage caused on the insured item as a result of water leaks from a water-piping facility or tank, other liquid or steam leaking from the central, story or distant heating facilities or solar systems if damaged by steam overpressure or water freeze. This can be also used to obtain protection of inventories as part of the warehouse management system.

Theft Insurance

Applies to items that have been stolen despite certain protective measures being put in place to prevent theft. Several items under insurance protection necessitate a special protection regime against theft or robbery.

Machinery Breakdown Insurance

Constitutes an extensive insurance of machinery and machine tools that is commonly referred to as "Machinery Breakdowns". This product is also applicable to damage incurred as a result of inappropriate handling, maintenance or repair, transportation to its assembly site or assembly etc. This does not cover damage resulting from natural disasters but these can be added to the terms of the insurance policy by entering into a supplemental arrangement. This scheme is not intended to provide insurance against damage sustained as a result of normal wear and tear, corrosion, impaired seals etc.

6 Business Activity Report

Electronics Insurance

Applies to all equipment that is based on electronic or electro-technical facilities. By providing this type of coverage the Company indemnifies against damage or destruction of assets by accident. This insurance scheme does not apply to damage arising as a result of permanent operation or gradual amortization of the insured asset, permanent moisture, chemical, temperature or mechanical effects, or defects inherent in the asset prior to entering into the insurance policy and damage for which the manufacturer assumes responsibility under applicable legislation.

Transport Insurance

This insurance scheme is used to insure against damage, destruction, theft or loss of personal assets during transportation that are damaged, destroyed or lost in a traffic accident investigated by the Czech Police. This coverage additionally applies to damage, destruction or loss of the transported asset that occurs directly as a consequence of a traffic accident if the damaged person or his substitute were not in a position to look after the insured asset;

This coverage is additionally provided in respect of damage or destruction of the insured transported asset that occur due to natural disasters such as fire, explosion, stroke of lightning storm, hailstorm, fall of tree or other objects that are not part of the car or the transported cargo.

Glass, Windows, Neon Tubes and Awning Insurance

This insurance may be entered into solely on condition that the client has taken out other insurance with the Company such as property insurance against natural disasters. This coverage applies to circumstances where the glass is broken, cracked or damaged to the extent that it needs replacement. The insurance is not applicable to damage sustained as a result of the glass being broken in its installing, assembling, dismantling, transporting, shipping. Additionally, the Company does not indemnify against damage incurred due to production defects inherent in the glass.

Cooling Apparatus Insurance

This insurance may be entered into solely on condition that the client has taken out other insurance with the Company such as property insurance against natural disasters. This insurance applies to the contents of a cooling or freezing apparatus. The insured property typically takes the form of a set of assets. The insurance policy needs to describe the set (and/or individual assets) in detail.

Construction & Assembly Insurance

The construction & assembly insurance applies to damage or destruction of assets arising by accident as a result of construction and assembly activities or in direct connection with these activities. This insurance is designed as an all risk coverage, that is, the Company indemnifies against all risks that are not indicated in the insurance policy or any of its components as not being covered. This scheme also includes construction & assembly liability insurance.

Motor Vehicles Insurance

This product represents both the accident and mandatory vehicular insurance. We are prepared to insure individual vehicles as well as fleets of cars and trucks, buses and other special vehicles.

Other as required by the client

On various occasions it is impossible to clearly allocate client's insurance requirements into the relevant grouping of insurance products. Furthermore, we often combine various insurance products. In any case, we are willing to take a flexible approach and customize our products to meet client expectations.

6 Business Activity Report

Liability Insurance

General Liability Insurance

This insurance product applies to damage incurred as a result of activities or relations of the insured as detailed in the trade license. The scope of insured activities may be lower, but not greater, than the scope of activities as listed in the valid trade license. This insurance covers liability for damage to health, life or property. The insurance is not applicable to liability for cars of the insured's employees used for business purposes. This basic arrangement covers liability for damage arising from the ownership or use (maintenance) of real-estate in the event that this real-estate is recorded in the accounting books of the insured.

Product Liability Insurance

This product provides coverage against damage incurred by the damaged person in connection with the delivery of defective product or work by the insured on condition that the damage was incurred as a result of poor quality of the delivered product or work. The Company will indemnify against such damage. The insurance applies to both in-country and cross-border insured events. The claims are paid in Czech Crowns and only in accordance with applicable Czech legislation.

Transportation Liability Insurance

This product is to be used by legal or physical entities that hold the license deed to engage in the road freight transport or shipping. The insurance applies to liability for damage that occurs on the transported movable asset on the territory of the Czech Republic, providing that the transport begins, continues and finishes on the territory of the Czech Republic, or it applies to international transports if the asset is transported via two countries, at minimum, pursuant to the 'CMR International Transport Treaty'.

Management Liability Insurance

This insurance product is intended for top management taking decisions that may lead to financial damage as well as damage to property. This insurance does not provide coverage against damage caused with intent to impair the area under management.

Other as required by the client

There is a variety of liability insurance areas that are subject to ongoing growth and need to be addressed on an individual basis. At any rate, we are prepared to take a flexible approach and customize our products to meet client expectations.

Universal Trading Insurance

The universal trading insurance has been designed to meet coverage requirements of small businesses with annual sales less than CZK 10,000,000 and covers damage that may be incurred in respect of movable and immovable assets as a result of natural disasters, water piping accident, vandalism or theft. Additionally, this type of coverage can be also used to insure against any machinery or electronics accidents and company liability insurance.

6 Business Activity Report

6.4 Distribution

Insurance products are sold through:

- The Company's own business network;
- Branch network of KB;
- Business network of KB Group companies;
- External network (brokers and dealers);
- Call center.

6.5 Re-insurance

Since the inception of its operations the Company has attached enormous significance to the cooperation with leading re-insurance companies whose excellent rating guarantees reliability and stability and contributes to the Company's ability to meet its commitments.

Life and Accident Insurance

Since 1995, the Company's leading re-insurer in respect of life and accident insurance has been the company Swiss Re. In addition, the Company closely cooperates with the German re-insurer Munich Re and the Swiss re-insurer Gerling Globale.

Non-life Insurance

The Company's non-life re-insurance program is arranged by a reputable re-insurance broker Willis London. The program is placed with the leading re-insurers GE Frankona and Zurich Re (other re-insurers are Hannover Re, Munich Re, Bavarian Re, Sorema, Royal&Sun Alliance and CERES (Lloyd's syndicates), CCR Re, Europa Re Cologne and Secura Re.

In other areas, we call upon the re-insurance services of another reputable broker, Heath Lambert Group. In addition to these re-insurers, we cooperate with other entities such as Koln Re and Partner Re.

Re-insurance of Travel Insurance

In the travel insurance industry, the re-insurance program for holders of the EC/MC and VISA cards is implemented through the re-insurance arrangements entered into directly with Inter Partner Assistance S.A., Le Mans Ré and Swiss Re. The holders of the American Express payment cards are re-insured through the arrangement entered into directly with Inter Partner Assistance S.A. and through the agreement with ACE mediated by the insurance broker Marsh, London.

6.6 Financial Highlights

It is no exaggeration to state that the financial results of the Company for the year ended 31 December 2000 were extraordinary. The audited loss of CZK 6.6 million is lower by CZK 123 million than the forecasted results. Given that the loss reflects the Company's contribution of CZK 19.5 million to the future deficit on the motor third party liability insurance that arose as a result of the provision of this insurance product by Česká pojišťovna, a.s. prior to 31 December 1999, the Company actually made a profit in 2000 after several years of losses (contributions to cover the deficit should have been commenced in 2000).

The reported result brings greater stability to the Company's financial position because the accumulated losses represent 40.6 percent of share capital as of 31 December 2000, resulting in no capital increases being necessary. However, the sole shareholder has stated his willingness to support the Company by raising additional capital, if and when necessary. It is worth noting that there was a year-on-year decrease in administrative overheads falling upon CZK 1 of underwritten premium from CZK 0.376 to CZK 0.203. This figure compares favorably with the key players in the Czech marketplace. In accordance with the Company's Articles and the recommendation of the Supervisory Board it was decided to carry forward the loss for the year ended 31 December 2000 and to settle the balance from future profits

6 Business Activity Report

Solvency

The actual solvency rate of the Company as a universal underwriter exceeds more than twice the minimum solvency rate, the implication being that the Company is solvent. However, the solvency rate for life insurance is negative at the year-end largely as a result of the substantive increase in underwritten premiums and associated acquisition costs. This is a provisional position which in no way puts at risk the Company's ability to meet its commitments to clients in view of the non-life insurance results.

year	2000	1999	1998
Non-life insurance			
Actual solvency rate	312 860	192 730	164 217
Minimum solvency rate	119 894	27 441	8 753
Life insurance			
Actual solvency rate	(17 063)	96 170	70 390
Minimum solvency rate	31 953	6 552	2 014

(CZK '000)

Technical Reserves

The level of technical reserves substantially increased and amounted to CZK 1,109,028 thousand as of 31 December 2000. This increase is largely attributable to the Company's success in selling the motor third party liability insurance product. When compared to the year ended 31 December 1999, the level of technical reserves increased by 230 percent. The technical reserves portfolio was appreciated by 8.47 percent despite the general and permanent decline in interest rates.

Human Resources

The human resources profile has developed as planned. As of 31 December 2000, the Company's staffing level was 417, representing a year-on-year increase by 117 employees. Substantially all new staff have been recruited to strengthen the Company's business network and the network of processing centers. One of the principal reasons for increasing the staffing level at the central branch office in Jihlava was the extensive administration work underlying the almost half million motor third party liability insurance portfolio. The Company has taken a rationale and prudent approach to wages and salaries, as evidenced by the final savings in wages compared to the plan.

7 Summarized Balance Sheet

Assets (CZK'000)	2000	1999	1998
Intangible assets	9 385	5 854	5 105
Investments	1 385 277	942 894	201 731
Land and structures	23 088	23 885	0
Securities	1 191 399	909 009	191 731
Placement with banks	170 790	10 000	10 000
Account receivables	147 934	75 886	44 936
Receivables from direct insurance	107 733	55 470	37 883
Other receivables	40 201	20 416	7 053
Other assets	70 309	181 749	103 696
Movable tangible fixed assets	36 684	27 711	39 235
Current accounts	33 625	154 038	64 461
Temporary assets	448 215	176 159	17 092
Total assets	2 061 120	1 382 542	372 560
Liabilities (CZK'000)			
Share capital and funds	460 038	460 038	317 151
Share capital	450 000	450 000	300 000
Other funds	10 038	10 038	17 151
Total technical reserves	1 109 028	328 278	109 180
Reserve for unearned premiums	80 596	51 804	5 856
Life insurance reserves	619 562	178 926	53 223
Non-life insurance reserves	169 473	95 550	49 357
Reserve for bonuses and discounts	13 758	1 998	744
Other technical reserves	225 640	3 149	0
Payables under deposits received	0	0	0
Accounts payable	574 369	737 832	19 374
From direct insurance	548 438	704 924	7 510
Other	25 931	32 908	11 864
Temporary liabilities	81 926	27 532	9 399
Retained earnings	1 866	1 866	1 866
Accumulated losses	(176 153)	(77 297)	0
Profit (loss) for the current year	(6 598)	(98 856)	(84 410)
Total liabilities	2 061 120	1 382 542	372 560

8 Summarized Profit and Loss Account

Profit and loss account	2000	1999	1998
Technical account – non-life insurance			
Total premiums underwritten	1 454 814	274 990	97 254
Premiums underwritten ceded to re-insurers	808 402	122 922	26 444
Change in reserve for unearned premium	90 552	45 995	5 315
Change in reserve for unearned premium – re-insurers' portion	61 760	0	0
Revenues transferred from investments from non-technical account	24 390	10 925	2 622
Other technical revenues, net	205 499	54	0
Costs of insurance claims	316 703	38 619	8 651
Costs of insurance claims ceded to re-insurers	200 896	17 209	5 071
Change in reserve for insurance claims	241 772	53 212	48 044
Change in reserve for insurance claims - re-insurers' portion	168 167	6 977	0
Change in other technical reserves, net	858	688	565
Bonuses and discounts, net	8	7	2
Acquisition cost of insurance policy	334 811	37 674	21 690
Deferral of insurance policy acquisition costs	(109 967)	3 533	(5 948)
Administrative costs	271 919	93 130	73 525
Re-insurance commissions and profit shares, net	211 020	26 370	5 492
Other technical costs, net	228 153	0	0
Change in the equalization reserve	561	0	0
Balance of technical account for non-life insurance	142 774	(52 189)	(67 848)
Technical account – life insurance			
Total premiums underwritten	468 334	187 269	43 534
Premiums underwritten ceded to re-insurers	7 836	4 955	3 293
Change in reserve for unearned premium, net	0	(47)	(4)
Revenues from investments	33 171	9 773	6 377
Other technical revenues, net	10	7	5
Costs of insurance claims	6 266	2 184	1 083
Change in reserve for insurance claims	317	(2 247)	143
Change in life insurance reserve	440 636	127 903	34 812
Change in other technical reserves, net	10 902	566	0
Acquisition cost of insurance policy	47 621	27 563	11 443
Deferral of insurance policy acquisition costs	0	0	0
Administrative costs	69 229	60 199	32 601
Re-insurance commissions and profit shares, net	0	0	0
Costs of investments	305	327	0
Other technical costs, net	0	0	0
Balance of technical account for life insurance	(81 597)	(24 386)	(33 488)
Non-technical account			
Balance of technical account for non-life insurance	142 774	(52 189)	(67 848)
Balance of technical account for life insurance	(81 597)	(24 386)	(33 488)
Revenues from investments	0	3 233 077	1 117 388
Costs of investments	0	3 215 710	1 101 669
Investment revenues transfer	21 232	(6 089)	(985)
Other income	5 694	8 180	5 281
Other costs	99 189	41 530	3 005
Extraordinary income	351	38	177
Extraordinary costs	145	94	234
Other taxes and fees	(4 282)	153	27
Profit/(loss) for the accounting period	(6 598)	(98 856)	(84 410)

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

1. General Information

General information is stated in the text above.

2. Accounting Policies

2.1 Intangible Fixed Assets

Intangible fixed assets are valued at cost. Assets costing less than CZK 60 thousand are expensed in the year of acquisition.

2.2 Tangible Fixed Assets

Tangible fixed assets are valued at cost. Assets costing less than CZK 40 thousand are expensed in the year of acquisition.

2.3 Depreciation of Tangible and Intangible Fixed Assets

Given the structure of acquired tangible and intangible fixed assets the Company depreciated tangible and intangible fixed assets on a straight-line basis. Depreciation periods of tangible and intangible fixed assets are as follows:

Category of assets	Depreciation period in years
Buildings and structures	30
Cars	4
Furniture and fixture	6 - 12
Software	4
Incorporation costs	5

2.4 Financial Investments

Financial investments are carried at cost pursuant to Section 25 of Accounting Act No. 563/1991 Coll. Listed and unlisted securities are carried at the lower of cost and market value. Market value is based upon the closing prices for the years ended 31 December 2000 and 1999, respectively, at which the securities were listed on the Prague Stock Exchange or by the major securities traders. Net accrued interest income on bonds is reported in the sub-ledger accounts. Purchased accrued interest income is recorded in the sub-ledger accounts - accounting class 1 at the time of acquisition.

2.5 Cash and Cash Equivalents

Cash and cash equivalents are recorded at nominal value.

2.6. Inventory

The Company does not maintain inventory accounts given the nature of purchased materials.

2.7 Provisions

The Company recorded provisions against financial investments and past due receivables. Provisions against financial investments were established for unrealized losses on a portfolio basis as a difference between market value and cost. Provisions for past due receivables were created as follows:

- > For receivables past due from 4 months to 6 months at 20 percent of the outstanding amount;
- > For receivables past due from 7 months to 1 year at 50 percent of the outstanding amount and at 100 percent of the amount outstanding on the motor third party liability insurance;

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

> For other past due receivables at 100 percent of the outstanding amount.

In calculating provisions for receivables the Company considers those debts as doubtful which were past due as outlined above.

2.8 Foreign Currency Translation

Transactions during the year were translated at the CNB exchange rate prevailing as of the first day and during the whole month (foreign business trips). Assets and liabilities denominated in foreign currencies at the year-end are translated using the CNB exchange rate prevailing as of that date.

2.9 Deferred Tax

In compliance with Section 26 (8) of Income Taxes Act No. 586/1992 Coll., the Company ceased to depreciate tangible and intangible fixed assets for tax purposes in 1996. Pursuant to Section VII. (6) of the Accounting Procedures the deferred tax balance is determined as a difference between tax-written down values and carrying amounts multiplied by the income tax rate effective for the following tax period.

2.10 Gross Premiums Underwritten

Gross premiums underwritten are recognized at the due date of the respective insurance policy in direct line with the payment method (monthly, quarterly, semi-annually and annually). Premium paid on a one-off basis is charged in full in the current accounting period. Income from underwritten premiums is recognized on an accrual basis by way of recording a reserve for unearned premiums in accordance with accounting procedures for insurance companies.

2.11 Costs of Insurance Claims

Costs of life and non-life insurance claims are charged on the basis of documentation underlying the payment of the insurance benefits prepared by individual departments. The cost is charged in the current period when the amount payable to the client is recognized.

2.12 Acquisition Costs

Commissions paid to the non-life acquirers are recognized in the period to which they relate. The portion of acquisition costs to be charged in the current year costs is calculated using the method of the average overall term of contracts entered into in the relevant period and the average term of contracts in the relevant period. The motor third party liability insurance policies entered into for the year ended 31 December 2000 and renegotiated for the year ending 31 December 2001 are treated as two-year contracts for the purpose of deferring commissions, that is, the appropriate portion of costs is recorded as a deferred expense.

Commissions paid to the life acquirers are recognized on an accrual basis in the period to which they relate by way of zillmerized life insurance reserves.

Costs of collecting marketing information incurred at the turn of 1999 of approximately CZK 56 million are amortized on a straight line basis over 4 years.

Other acquisition costs are not deferred.

2.13 Statutory Reserves

The Company creates reserves pursuant to Insurance Act No. 363/1999 Coll., as follows:

- > Life insurance reserve;
- > Reserve for unearned premium;
- > Reserve for insurance claims;
- > Reserve for bonuses and discounts;
- > Equalization reserve;
- > Other reserve (for deficit on the motor third party liability insurance).

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

2.14 Other Reserves

For the year ended 31 December 2000, the Company recorded a reserve for estimated losses on interest rate swap transactions equal to the interest rate prevailing as of 31 December 2000.

2.15 Changes in Accounting Policies

During the year, no changes were made to depreciation or accounting policies (under Section 8 (2) of Accounting Act No. 563/1991 Coll.).

2.16 Re-insurance Profit Shares

Under the terms of industrial re-insurance contracts the Company is entitled to receive a share of profits made by the re-insurers on re-insurance assignments. The Company recognizes these profit shares when the entitlement to this profit can be determined and ascertained with reasonable certainty. No profit shares were recognized as of 31 December 2000.

2.17 Financial Statements and the Closure of Accounting Records

In closing the accounting records and compiling its financial statements the Company refers to Accounting Act No. 563/1991 Coll. and the Provision of the Czech Finance Ministry ref. no. 282/58 850/1995, which sets out the chart of accounts and accounting procedures for insurance companies.

In order to provide a fair and true view of the balances of assets and liabilities the Company reports the current year loss and accumulated losses as part of liabilities on the face of the balance sheet.

3. Basic Non-life Insurance Information

year	2000	1999
Gross premiums underwritten	1 454 814	274 990
Gross premiums received	555 859	106 073
Administrative costs	271 919	93 130
Re-insurance balance	166 558	72 366
Insurance claims	316 703	38 619

(CZK '000)

4. Basic Life Insurance Information

year	2000	1999
Total premiums underwritten:	468 335	187 269
a) individual	464 403	183 651
collective	3 932	3 618
b) current	81 209	55 122
one-off	387 126	132 147
c) from contracts with profit shares	450 186	164 565
from contracts without profit shares	18 149	22 704
Administrative costs	69 229	60 199
Re-insurance balance	6 876	4 955

(CZK '000)

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

5. Insurance Commissions

The Company pays commission for the arrangement of insurance policies. The total commissions paid were as follows:

year	2000	1999
Life insurance	38 607	23 723
Non-life insurance	170 836	16 214

(CZK '000)

6. Technical Reserves

6.1 Life Insurance Reserves

Life insurance reserves are created as a sum of reserves calculated according to individual life insurance contracts and represent the value of the Company's payables, calculated using the Zillmer method. Technical reserves take account of calculated costs and the portfolio size. These reserves include elements, if any, of unearned premiums.

	Balance at 31 Dec 2000	Creation	Use	Balance at 31 Dec 1999
Life insurance reserve	619 562	441 587	951	178 926
Reserve for insurance claim	417	317	0	100
Reserve for bonuses and discounts	11 468	10 902	0	566

(CZK '000)

6.2 Non-life Insurance Reserves

Reserve for unearned premiums represents the actual (or estimated) premiums underwritten which do not relate to the current period.

Reserve for insurance claims is recorded for insurance claims for damage reported but not yet settled (RBNS) and for insurance claims incurred but not reported (IBNR).

The RBNS reserve is equal to the sum of reserves for estimated insurance claims for individual damage reported but not yet settled by reference to estimated damage on claims as of the balance sheet date.

The IBNR reserve is based upon statistical data regarding the risk profile and size of the insurance portfolio. For detailed information about the reserve for the motor third party liability insurance refer to Note 10.

The equalization reserve is recorded and used in accordance with Act 363/1999 Coll. and Regulation 75/2000 Coll. and actuarial principles. The balance of the reserve as of 31 December 2000 relates to private property and liability insurance as there are indications that loss occurrence in these two segments may be greater than the estimated amounts.

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

	Balance at 31 Dec 2000	Creation	Use	Balance at 31 Dec 1999
Reserve for unearned premiums	80 596	142 070	113 277	51 803
Reserve for insurance claims	169 055	600 107	526 502	95 450
Reserve for bonuses and discounts	2 289	858	0	1 431
Equalization reserve	561	30 025	29 464	0
Other reserve	225 080	225 080	0	0

((CZK '000))

7. Re-insurance and Co-insurance

Re-insurance and premium were as follows:

year	2000	1999
Life insurance	7 836	4 955
Non-life insurance	808 402	122 922

((CZK '000))

8. Revenues from Investments Transferred between Non-technical and Technical Accounts

Revenues from technical reserves for non-life and life investments are primarily posted to the technical account of life insurance. Net revenues not related to life insurance are re-allocated to the non-technical account in the annual financial statements. The balance re-allocated was equal to CZK 45,622 thousand and CZK 4,836 thousand for the years ended 31 December 2000 and 1999, respectively.

Revenues from investments of other funds are posted primarily to the non-technical account during the year. Net financial revenues related to non-life insurance (ie, equivalent to income from technical reserves for non-life insurance) are re-allocated to the technical account of non-life insurance in the annual financial statements. The balance re-allocated was equal to CZK 24,390 thousand and CZK 10,925 thousand for the years ended 31 December 2000 and 1999, respectively.

9. Other Information

9.1. Investments and Cash

The size and structure of the overall investment portfolio (except for land and structures) and cash forming part of the portfolio account is as follows:

	Balance at 31 Dec 2000	Balance at 31 Dec 1999
Government bonds	817 682	255 553
Other bonds	376 494	654 384
Term placements	19 944	10 000
Cash – balance on the portfolio account	112 100	119 655
Provision	(305)	(928)
Total	1 325 915	1 038 664

((CZK '000))

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

Other bonds principally consist of bonds issued by Komer_ní banka, Radiomobil, and _EZ. The volume of financial investments in the technical reserves portfolio increased at the year-end largely as a result of collecting premiums in connection with the motor third party liability insurance scheme.

During 1999, the Company entered into two interest rate swap transactions (till 2004) that were terminated earlier in 2000, the resulting loss being CZK 8,791 thousand. For the year ended 31 December 2000, the Company entered into two new interest rate swap transactions (till 2005 and 2010, respectively) and one forward transaction.

In addition, financial investments comprise the placement of technical reserves funds which are invested in bonds and placements at banks in compliance with applicable regulations. Their volume, structure and appreciation for the year ended 31 December 2000 is set out in the following table.

	Life insurance	Non-life insurance
Balance of reserves at 31 Dec 2000	631 448	477 581
Income earned	32 866	24 390
Percentage income from average reserves	8.47 % p.a.	8.47 % p.a.

(CZK '000)

9.2 Accounts Receivable and Temporary Assets

The Company's accounts receivable principally consist of receivables from direct insurance. Past due receivables from direct insurance totaled CZK 187,010 thousand and were provisioned to the value of CZK 107,348 thousand. The aging analysis of receivables from direct insurance is as follows:

	Past due	0-3 months	4-6 months	7-12 months	Greater than 1 year	Total
Receivables		40 542	37 497	64 346	44 625	187 010
Provision		0	7 449	55 224	44 625	107 348

(CZK '000)

Other receivables include prepayments and the deferred income tax credit of CZK 12,705 thousand.

Temporary assets principally consist of:

- > Deferred acquisition costs of insurance policies and marketing information of CZK 119,753 thousand;
- > Accrued income of CZK 205,361 thousand attributable to an increase in minimum motor third party liability insurance premiums for the year ending 31 December 2001 in order to settle the Company's share of the prior years deficit (refer also to Note 10);
- > Estimated amounts of CZK 88,120 thousand due from re-insurers in the area of non-life insurance, principally commissions and re-insurers' shares of damage for the last quarter of 2000;
- > Deferred contribution of CZK 21,007 thousand to the Czech Insurers' Bureau related to the year ending 31 December 2001.

9.3 Accounts Payables and Temporary Liabilities

The Company records short-term accounts payable in the course of normal business. None of these payables are due for repayment over five years. The Company has no pledged payables.

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

The payables principally consist of premiums received prior to 31 December 2000 under the motor third party liability insurance scheme but related to the year ending 31 December 2001. Other payables include amounts of claims not yet matched or amounts owed to clients from coverage already awarded and not yet paid.

Temporary liabilities principally comprise amounts of CZK 50,658 thousand owed to re-insurers as commissions for the last quarter of 2000 and outstanding commissions, fees and other unbilled amounts related to the current year.

9.4 Intercompany Balances

Significant intercompany balances relate to:

- > the management of investment and cash portfolio by the parent company (KB);
- > the sale of internal products through the parent's business network;
- > the provision of insurance coverage to the parent company.

The Company recorded no significant intercompany receivables as of 31 December 2000. Intercompany payables amounted to CZK 9,007 thousand and largely consisted of a fee of CZK 8,453 thousand for the maintenance of securities accounts in 2000 and billed commissions for mediating insurance arrangement. All these amounts were owed to the parent company and were settled at the beginning of the following year.

9.5 Shareholders' Equity

	Balance at 31 Dec 1999	Allocation of loss	Current year profit/(loss)	Transfers	Balance at 31 Dec 2000
Share capital	450 000	0	0	0	450 000
Other capital funds	10 000	0	0	0	10 000
Statutory reserve fund	0	0	0	0	0
Other funds (Loss Prevention Fund)	38	0	0	0	38
Retained earnings	1 866	0	0	0	1 866
Accumulated losses	(77 297)	(98 856)	0	0	(176 153)
Current year profit/(loss)	(98 856)	98 856	(6 598)	0	(6 598)
Total	285 751	0	(6 598)	0	279 153

(CZK '000)

Other funds consist of the Loss Prevention Fund which was established from the net profit generated in 1996. Its balance was CZK 38 thousand as of 31 December 2000.

Other funds of CZK 10,000 thousand consist of a deposit made by the shareholder in accordance with Section 9 of Insurance Act No. 185/1991 Coll., as amended by Act No. 320/1993 Coll. This funding is placed on a term deposit with KB.

9.6 Administrative Costs

Administrative costs, the nature of which may be clearly determined, are posted to technical accounts of non-life and life insurance at the date of the relevant accounting transaction. Other accounting transactions were primarily charged to the non-technical account and were re-allocated to both technical accounts on a proportional basis for premiums underwritten in life and non-life insurance. The re-allocation ratio was 0.757 for non-life insurance and 0.243 for life insurance. Of the total re-allocated amount of CZK 277,814 thousand, CZK 210,160 thousand was charged to the non-life insurance account and CZK 67,654 thousand to the life insurance account.

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

9.7 Staff Costs

year	2000	1999
Total average number of employees	417	247
Total wages and salaries	112 053	62 598
Total social security	54 183	21 979
Total staff costs	166 236	84 577

(CZK '000)

The Company provided no advances, loans and borrowings to the members of the statutory, management and supervisory bodies.

10. Other Significant Events

10.1 Reserving for the Motor Third Party Liability Insurance

With effect from 1 January 2000, the Company has been licensed to provide the motor third party liability insurance following the cancellation of the monopoly enjoyed by Česká pojišťovna, a.s. prior to 31 December 1999. The Czech Insurers' Bureau has indicated that the loss occurrence, defined as the proportion of claims costs to the premium underwritten, arising from the provision of this insurance product by Česká pojišťovna in the past periods was substantially greater than the average loss occurrence arising from an analysis of claims reported to the Company for the period from 1 January 2000 to 31 January 2001.

In view of the nature of this insurance product, the sufficient number of claims in the period and the consistency of reported figures and trends, management of the Company believe that the actual loss occurrence on the portfolio of claims reported to the Company from 1 January 2000 is an appropriate basis for determining the level of technical reserves for this insurance, namely the IBNR reserve. As such, the Company established the IBNR reserves with reference to the actual loss occurrence reported which is lower than the historic loss occurrence arising from the information provided by the Czech Insurers' Bureau, whilst taking into account existing uncertainties and complying with the principle of prudence. The resultant level of the IBNR reserve as of 31 December 2000 approximates 19 percent of the sum of paid claims and the amount of the RBNS reserve.

Management of the Company believe that the aggregate reserves for the motor third party liability insurance as recognized in the financial statements for the year ended 31 December 2000 represent the best possible and a sufficiently prudent estimate of the claims actually incurred. Management are not aware of any matters indicating that the actual loss occurrence on the Company's portfolio for the year ended 31 December 2000 approximated the average benchmark historic rates as published by the Czech Insurers' Bureau.

However, management of the Company acknowledge and understand that given the absence of long-term historic loss occurrence rates there is a greater degree of uncertainty over the actual level of claims incurred but not reported as of the balance sheet date and hence also over the adequacy of the IBNR reserve.

9 Summarized Notes to the Annual Financial Statements for the Year Ended 31 December 2000

10.2 Other Technical Reserve and Its Investment

In transferring assets and liabilities arising from the provision of the motor third party liability insurance by Česká pojišťovna, a.s., the former monopoly provider of this insurance, it was determined that there exists a deficit in the funding required to settle estimated payables to the damaged that have been transferred from Česká pojišťovna to the Czech Insurers' Bureau as of 1 January 2000.

Pursuant to the applicable insurance legislation the Czech Insurers' Bureau calculated the share of its individual members of the deficit and communicated to its members the estimated time requirements for settling this deficit.

Based on the information provided by the Czech Insurers' Bureau and following the approval by the Finance Ministry, the Company recorded a reserve of CZK 225 million as of 31 December 2000, representing a liability arising from the Company's share of the deficit referred to above. The Czech Insurers' Bureau has increased the minimum premium rates by approximately 30 percent year-on-year. Based on the information of the Czech Insurers' Bureau, a substantial portion of this increase represents the funding of the deficit referred to above, not the insurance premium required to cover claims expected in the relevant period. By implementing this measure the Czech Insurers' Bureau has made it possible for its members to collect a majority of funds required to settle their share of the deficit. Having considered all information available to it, management has estimated the future income from the increased premium rates and recognized it on the face of the balance sheet as a temporary asset of CZK 205 million.

In order to review the pricing of this temporary asset for adequacy, management of the Company have also analyzed all the available information and projected developments in the motor third party liability insurance marketplace in the coming years. Based on this analysis, management believe that the recoverability of this asset is reasonably certain and its recognition on the face of the balance sheet as of 31 December 2000 is appropriate.

10 Auditor's Report to the Shareholders of Komerční pojišťovna, a. s.



Based upon our audit, we issued the following audit report dated 21 March 2001:

"We have audited the accompanying financial statements of Komerční pojišťovna, a.s. for the year ended 31 December 2000. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and equity of Komerční pojišťovna, a.s. as of 31 December 2000, the results of its operations and its financial position for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Without qualifying our opinion we draw attention to the following matters.

As discussed in Note 10.1 to the financial statements, in determining the level of the IBNR reserve for motor third party liability insurance, management of the Company referred to an analysis of the actual loss occurrence on its client portfolio during 2000 which is substantially different from the historic loss occurrence rate as published by the Czech Insurers' Bureau. Management of the Company believe that the actual loss occurrence on the portfolio of claims reported to the Company from 1 January 2000 is an appropriate basis for determining the level of technical reserves. However, management of the Company acknowledge and understand that given the absence of long-term historic loss occurrence rates there is a greater degree of uncertainty over the actual level of claims incurred but not reported as the balance sheet date and therefore also over the adequacy of the IBNR reserve.

As discussed in Note 10.2 to the financial statements, in transferring assets and liabilities arising from the provision of motor third party liability insurance by Česká pojišťovna, a.s., the former monopoly provider of this insurance, to the Czech Insurers' Bureau, it was determined that there exists a deficit in the funding required to settle estimated payables to the insured that have been transferred from Česká pojišťovna, a.s. to the Czech Insurers' Bureau as of 1 January 2000. Pursuant to the applicable insurance legislation, the Czech Insurers' Bureau calculated the share of the deficit for its individual members. Based on the information provided by the Czech Insurers' Bureau and following the approval by the Finance Ministry, the Company recorded a reserve of CZK 225 million as of 31 December 2000, representing a liability arising from the Company's share of the deficit referred to above.

The Czech Insurers' Bureau has reflected the need to settle the deficit by increasing the minimum premium rates for the year ending 31 December 2001. Having considered all information available to it, management of the Company has estimated the future income from the increased premium rates and recognized it on the face of the balance sheet as a temporary asset of CZK 205 million. Based on an analysis of all the available information and projected developments in the motor third party liability insurance industry, management believe that the recoverability of this asset is reasonably certain and its recognition on the face of the balance sheet as of 31 December 2000 is appropriate."

Financial information included in this annual report in Section 7 (Summarized Balance Sheet as of 31 December 2000 and 1999), Section 8 (Summarized Profit and Loss Account for the year ended 31 December 2000) and Section 9 (Summarized Notes to the Annual Financial Statements) was derived from audited financial statements, on which we issued the above audit opinion. In our opinion, this financial information is consistent, in all material respects, with the audited financial statements.

This annual report does not contain full audited financial statements. For a better understanding of the Company's financial position and the results of its operations, the attached summarized financial statements should be read in conjunction with the full financial statements, from which they were derived, and our audit report thereon.

We have read other financial information included in this annual report for consistency with the audited financial statements. In our opinion, this information is consistent, in all material respects, with the audited financial statements.

Prague, 31 May 2001

Audit firm:
Deloitte & Touche spol. s r.o.
Certificate no. 79

Statutory auditor:
Michal Petrman
Certificate no. 1105

11 Report of the Supervisory Board of Komerční pojišťovna, a.s., _____ for the Year Ended 31 December 2000

The Supervisory Board carried out the role appertaining to it pursuant to Act No. 513/91, Commercial Code and the Statute of the Company. During the year ended 31 December 2000, the Supervisory Board held regular meetings at intervals as set out in the Statute of the Company. The Board of Directors and management of the Company provided the Supervisory Board with any and all documentation and information required for it to fulfill its function in a responsible manner. During the fiscal year, the Supervisory Board oversaw the Company's operations and provided the Board of Directors with suggestions and proposals for dealing with key matters of concern.

Having examined the Company's annual financial statements for the year ended 31 December 2000 in accordance with the accounting policies applicable for insurance companies, the Supervisory Board states that the accounting records were maintained in a supportable and correct manner in compliance with generally applicable legislation as well as the Statute of the Company. The presented figures reflect fairly and truly the financial position of the Company.

Furthermore, in compliance with S. 36 of the Statute of the Company, the Supervisory Board recommends that the Company's loss of CZK 6,598 incurred for the year ended 31 December 2000 be carried forward and settled from future profits.

The Company's financial statements were audited in accordance with the applicable Act on Auditors and auditing standards. The Supervisory Board recommends to the General Meeting of Shareholders to approve the balance sheet and profit and loss account as of and for the year ended 31 December 2000.

Prague, 17 April 2001

On behalf of the Supervisory Board



Petr Mandl

Member of the Supervisory Board

12 Adresses

HEAD OFFICE

pracoviště Jindřišská 17, 111 21 Praha 1,
tel.: 02/22095111,
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<http://www.kp-kb.cz>

CENTRAL BRANCH OFFICE

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Regional branch office Praha,

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fax: 02/51091535

Regional branch office Střední Čechy,

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Regional branch office Liberec,

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Regional branch office Jihlava

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Regional branch office Plzeň,

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Divisional branch office

Hradec Králové,

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Regional branch office Ostrava,

U Soudu 6/6188,
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fax: 069/6970132

Regional branch office Pardubice,

U Divadla 784,
530 78 Pardubice,
tel.: 040/6856569, 040/6210349

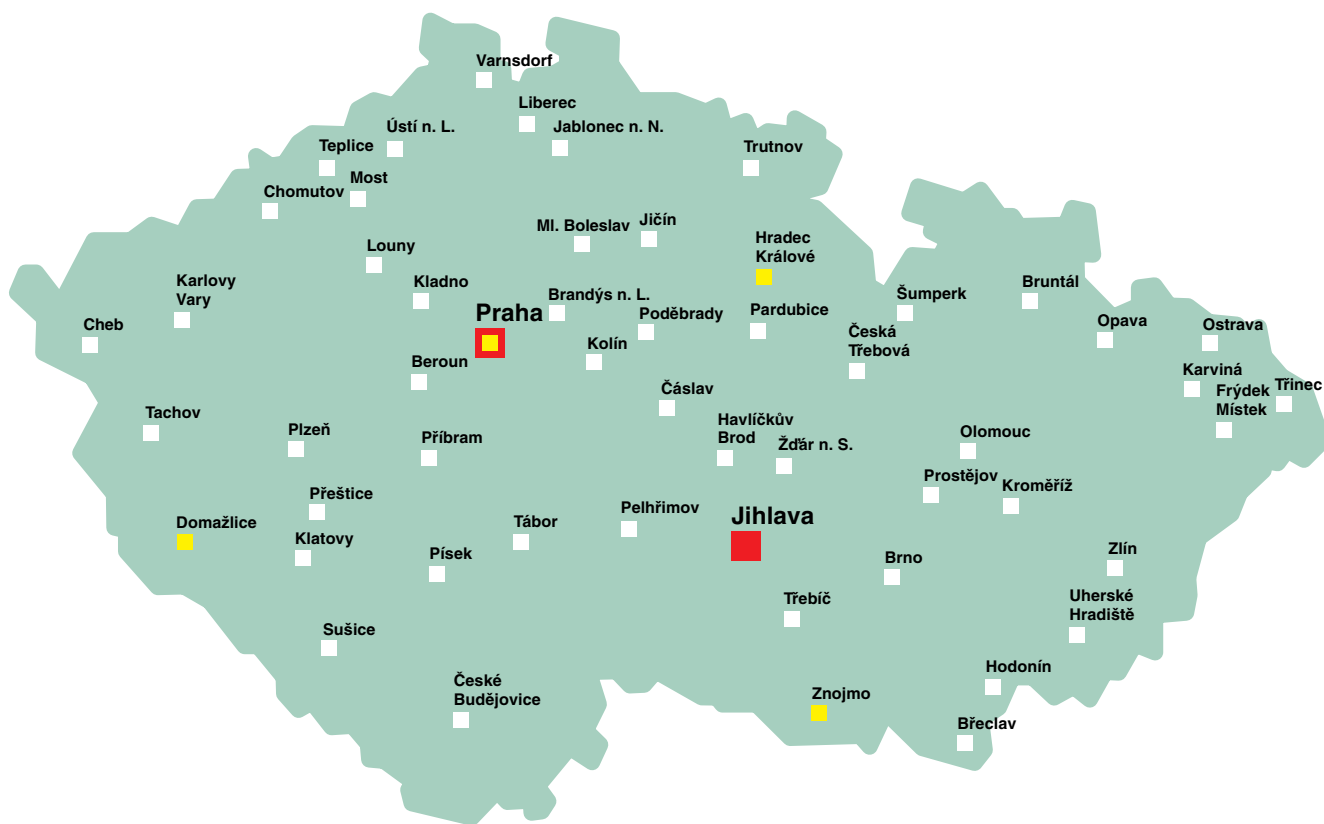
Regional branch office Olomouc,




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772 14 Olomouc,
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fax: 068/5221613

Regional branch office Hradec Králové,

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500 02 Hradec Králové,
tel.: 049/5610252,
fax: 049/5630196

13 Branch Offices of Komerční pojišťovna, a. s., in the Czech Republic



-  Head Office and Central Branch Office
-  Divisional Branch Office
-  Regional Branch Office