



ANNUAL REPORT 2001

Ministry of Finance

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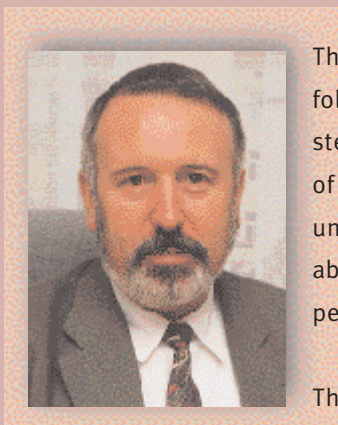
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Dear Readers,

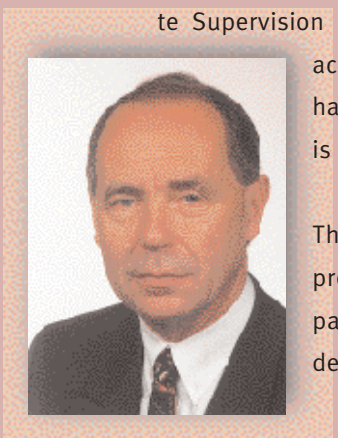
the contributory pension scheme with state contribution is gradually becoming not only an important part of the pension system in the Czech Republic, but also an important part of the whole Czech financial market. Today, it is a stable and developing branch, a fact which is demonstrated both by results achieved in this sector in 2001 and the forecast of its further development.



The Annual Report prepared by the State Supervision in Pension Funds for the year 2001, following up the first Annual Report for the year 2000, characterises the eighth year of existence of the contributory pension scheme with state contribution from the point of view of the State Supervision. Let's recall that the first Annual Report was prepared in a rather untraditional way, containing, in addition to facts from the year 2000, brief information about development of this branch since its creation and also development of the State Supervision in this area.

The layout of the present Annual Report is both understandable to the professional and lay public. The material contains both basic factual information about the year being assessed and time lines of selected indicators for the whole period being monitored. In order to edit the updated Annual Report it also includes certain data as of the subsequent mid-year, i.e. as of the end of June 2002. In its two parts covering the different subjects - "State Supervision in the Contributory Pension Scheme" and the "Contributory Pension Market" - the Annual Report provides information about crucial activities undertaken by the State Supervision, documents changes on the contributory pension scheme market and comments on basic trends in current and expected development.

How than was the eighth year of the contributory pension scheme with state contribution from the point of view of the State Supervision? Above all, State Supervision activities within the Office of the State Supervision in Insurance and Pension Funds continued to stabilise and focus on three basic activities – legislative activity, licensing activity, and inspection activity. These activities have been developed with regard of the fact that the year 2003, when Czech Republic law is to be harmonised with EC law, is approaching.



The amendment of the State-Contributory Supplementary Pension Insurance Act was prepared and presented to the Czech Parliament in 2001. Although the bill was not passed on its first reading, it became an impulse for the discussion about further development of the system already involving as many as almost 2.5 million people.

The structure of the contributory pension scheme market changed again as compared to 2000 with only fourteen pension funds operating on the market in 2001. The structure of shareholders changed, as well as members of pension funds statutory bodies.



Inspection activity of the State Supervision was considerably intensified, especially in the area of on-site inspections, both in terms of the number, scope and quality of inspections carried out. The list could go on. These and all other facts are described in detail in the present Annual Report.

Overall results of the contributory pension scheme were very good in 2001, following up preceding years without any significant deviations, a fact which is favourable news for the public with regard to the year being assessed, as well as a commitment for the next period of 2002. Security of deposited money is still the absolute priority, both with regard to planholders and employers money put into the system and to that allocated from the state budget. The space for investment opportunities is strictly defined, though at the expense of relatively low revenues from operations on the financial market.

It is appropriate to thank all those who were involved in the development of the contributory pension scheme in 2001, above all pension funds and their depositories, the Ministry of Labour and Social Affairs, the Securities Commission, and the Association of Pension Funds in the Czech Republic. Thanks also belong to all people – planholders for their trust in the system and for their motions suggesting solutions to standard situations, which mostly resulted in improved system legibility and reliability.

Jaroslav Šulc, Vice-Minister

Václav Křivohlávek, Director of the Office

■ I. State Supervision in the Contributory Pension Scheme

▼ 1. Office of State Supervision in Insurance and Pension Funds

As per the State-Contributory Supplementary Pension Insurance Act No. 42/1994 Coll., as amended (the "Act"), the Ministry of Finance is authorized to supervise the pension funds.

Supervision of pension funds was incorporated, from the organisational point of view, into the Office of State Supervision in Insurance and Pension Funds ("Office"), being one of the Ministry of Finance

divisions. The Office organisational structure was divided into eight separate sections. Four sections were focused on the insurance industry, two sections were specialized in the pension funds area, two sections were concerned with both insurance and pension funds. Another areas of the Office's mandate dealt with external and internal relations in the insurance and pension funds industry. That area was handled directly by the Office's management.

The following chart indicates the organisational structure as of 31 December 2001.

Section 321	Legislation and Legal Matters in Insurance;
Section 322	Licensing in Insurance;
Section 324	Inspection I, insurance companies;
Section 325	Inspection II, other entities of insurance market;
Section 326	Legislation and Legal Matters in Pension Funds;
Section 327	Inspection of Pension Funds and Depositories;
Section 323	Supervision Methodology and Standardisation;
Section 328	Analytics and Statistics.

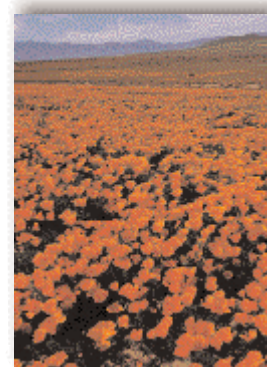
Out of the total number of 62 Office employees, there were eighteen people specialised in the contributory pension scheme. Their training was organised in the form of specialised short-term training courses and external workshops. Training courses in 2001 focused in particular on changes in regulations pertaining to the contributory pension scheme, on prepared changes in pension fund accountancy, on methods of calculating pensions, inspection psychology and improvement of skills in the field of administrative management.

Issues of insurance and supervision in insurance are covered by a separate Annual Report.



▼ 1.1 Cooperation with Domestic Entities

The contents of the Agreement of Mutual Cooperation between Bank supervision and State Supervision over the Financial Market ("Agreement"), which was signed in 1998 between the Czech National Bank, the Securities Commission and the Ministry of Finance, are important for the Office's supervisory activities. A new Agreement is expected to be signed in 2002. Its contents are being prepared, especially with regard to the amended Act of Banks, which introduced supervision on a consolidated basis. The Agreement should regulate in a new way the collaboration between signatories in the execution of supervision on a consolidated basis and stipulate further conditions for efficient cooperation in the field of supervisory activities including fulfilment of its basic objective, i.e. the application of similar criteria and procedures in the execution of supervision over the financial market. The new Agreement will replace the one signed in 1998, the contents of which are obsolete due to the amended laws.



▼ 1.2 Cooperation with Foreign Entities

In its foreign activities in the field of pension systems, the Office focused especially on the collaboration with the international organisation associating supervisory bodies in pension funds (International Network of Pension Regulators and Supervisors - INPRS). The situation is not yet mature enough for INPRS to be transformed into a regular international association based on the membership of involved supervisors, like in the insurance sector for example. Undoubtedly, one of the main reasons is the absence of any unification of standards (e.g. European guidelines, etc.). The current situation where each country has got its specific pension system is frequently discussed at the international level. A change towards a gradual approach to harmonisation of national systems will probably be brought about by the adoption of the first European directive, which is still, however, under preparation.

INPRS activities up to now run generally in collaboration with the OECD Commission for Financial Markets in the form of international meetings, conferences and seminars. These forums present, discuss and assess individual pension schemes, look for solutions to common supervisory issues and stress efforts aimed at the gradual introduction of unified principles. The Office's employees attended selected important international meetings.

Work contacts and the mutual exchange of information between supervisors from neighbouring countries, above all from Poland, Hungary, Slovakia and Slovenia, deepened in 2001. Individual consultations concerned the exchange of information from the branch and considerations of further potential development of pension systems as a whole.

▼ 2. Legislative Activity

The Office, in cooperation with the Ministry of Labour and Social Affairs, completed in 2001 a new draft

amendment to the Act, which was approved in September by the government. The amendment was presented only by the Ministry of Finance, which is responsible for the legislation pertaining to the state supervision in insurance and pension funds including pension funds management and their investments. The amendment was to bring about a principal change and improve transparency in pension funds management, namely by means of separating pension funds assets from those consisting of planholders' contributions, state contributions and revenues of the contributions. The proposed regulation was prepared by using the model of an investment company managing assets in a unit trust on commercial basis. In addition to the aforementioned change, which was the most important one, other amendments to the current Act, especially modifications connected with the accession to the EU being under preparation, were also proposed. The presented amended bill was rejected on its first reading by the Czech Parliament, the main reason for rejection having been the mentioned separation of assets.

Since the year 2001 did not bring the expected legislative regulation, not even with regard to the achievement of harmonisation between the regulations as in force in the field of the contributory pension scheme and EU law, the government's Plan of Legislative Works for 2002, as approved by the government late in 2001, again includes the amendment to the Act. In addition to the proposal of harmonisation measures, the previously mentioned separation of assets will be proposed again as "separation of founders' assets and planholders' assets" is one of EU basic requirements for optional contributory pension schemes. Opinions can be expected to have been changed in the meantime and both the expert public and legislators could accept this solution.

One of the most important acts in the year 2001, having direct impact on amended Act, was the amendment of the Act on Accounting No. 353/2001 Coll. According to this amendment, planholders' contributions, state contributions and revaluation will not be included into the other capital funds (i.e. own capital) any more, but will be posted in the account of payables from pension contributions, i.e. in external sources separately from the pension fund's own capital.



▼ 3.Licensing and Approval Activity

The Office handed out a total of 55 administrative decisions in 2001 within the scope of its approving and licensing powers:

- Decisions approving the merging of pension funds (2 cases).

These decisions were given following opinions prepared by the Ministry of Labour and Social Affairs and Securities Commission because the Act stipulates that dividing, merging or fusing of pension funds is approved of by the Ministry of Finance upon agreement with the aforementioned central administration agencies. The Ministry of Finance approved two mergers of pension funds:

- Winterthur, penzijní fond, a.s., Bářský a hutní penzijní fond, a.s., and Penzijní fond Všeobecné zdra-

votní pojišťovny České republiky, a.s., which merged to pension fund named Winterthur, penzijní fond, a.s.

■ ABN AMRO Penzijní fond, a.s. and Stavební penzijní fond ČR, a.s., which merged to pension fund named ABN AMRO Penzijní fond, a.s.

■ Decisions approving transfers of pension fund shares in excess of 10 % of the pension fund registered capital (3 cases).

The Ministry of Finance decides upon approving of transfers of shares in agreement with the Securities Commission. The following pension funds were granted such approvals:

■ Winterthur Leben Aktiengesellschaft asked for approval of the acquisition of a 93.3 % share in the registered capital of Vojenský otevřený penzijní fond, a.s.;

■ Proxy Finance asked for approval of the acquisition of a 30 % share in the registered capital of Stavební penzijní fond ČR, a.s.;

■ CGNU Co. /England/ asked for approval of the acquisition of a 65 % share in the registered capital of Všeobecný vzájemný penzijní fond, a.s.

■ Decisions approving or disapproving of persons designated to be statutory body members in pension funds (41 cases)

Approval of persons designated to be members of the board of directors, of supervisory board or proxy-holders in a pension fund is decided upon by the Ministry of Finance within its own competence without any assistance from other central administration entities. The Ministry of Finance checked underlying data of the pension funds' requests for approval of members of the board of directors or supervisory board. The Ministry of Finance used such data and other facts about candidates to assess, in particular, their integrity and professional competence and to examine whether or not they were persons who were eligible for such positions as per the Act, and then approved 35 persons to become members of boards of directors and 24 persons to become members of supervisory boards in pension funds. Four persons proposed to be members of boards of directors and one person proposed to be a supervisory board member in pension funds were not approved because of the lack of their professional competence. One person proposed to become a supervisory board member was not approved because of non-compliance with conditions imposed on supervisory board members as per § 200 (3) of the Commercial Code.

■ Decisions approving of a change of pension fund depositories (1 case).

Approval of depositories is decided by the Ministry of Finance upon agreement with the Securities Commission. One decision was given, namely the one pertaining to the change of the depository of Hornický penzijní fond Ostrava, a.s.

■ Decisions approving of a change of pension fund statutes (5 cases).

Approval of statutes and changes thereof is decided by the Ministry of Finance upon agreement with the Securities Commission. Changes in statutes were requested in two cases in connection with fusion; other applications were connected with changes to pension funds trade names, registered offices and depositories.



Pension funds mostly applied to change their statutes for reasons that did not relate any more, for example, to changes in the investment strategy, which had been the case in the first years of the contributory pension scheme or after the amendment to the Act in 1999, but related to changes of shareholders or fusions.

■ Decisions approving of a change in pension plans (3 cases).

Pension plans and changes thereof are approved by the Ministry of Finance upon agreement with the Ministry of Labour and Social Affairs. The pension plan is one of the most important legal provisions of a pension fund. Pension plans, as well as statutes, were changed in the monitoring period mainly due to the applications to approve fusions and new pension plan provisions pertained especially to the maintenance of planholders' rights to benefits under the pension plans of invalidated pension funds. All cases of approved changes to pension plans pertained to fundamental changes. Two pension funds applied for changes to the context of fusion and one pension fund for a change pertaining to the distribution of profits.



The character and frequency of changes as proposed by pension funds in their pension plans, did, however, change over the years. Applications for changes in pension plans were filed most frequently during the first years of the contributory pension scheme because the Act allowed pension funds to offer quite different conditions for the right to individual types of pension. No minimum insured period for old-age pension was fixed and the minimum age for the planholder to become eligible to receive a pension was 50 years. At that time pension funds competed in their efforts to address and attract as many planholders as possible and were offering very generous conditions for eligibility to benefits. Pension plans were almost always changed after new shareholders appeared, as they believed it was the most important thing to have as many planholders as possible.

After the amendment to the Act in 1999, all pension funds had to change their pension plans within nine months so as to comply with new, stricter conditions. In addition to the opportunity to regulate conditions for eligibility differently to disability pension or in heritage pension (the Act stipulates the slightest conditions for those), pension funds' offers did not differ, using the lowest statutory limits (e.g. no pension fund applied a higher insured period for eligibility to old-age pension than 60 months, although the Act provides for up to 120 months). All pension plans were supplemented with the offer of all benefits according to the Act, as long certain pension funds had not previously offered all possible products, such as for example, superannuation, disability or inheritance pension.

▼ 4. Inspection Activity

Inspection activities included the following fields:

- Compliance with the Act;
- Compliance of operations with the conditions of the granted license;
- Compliance with instructions and measures as given by the Ministry of Finance;

- Observance of pension fund property management with regard to due diligence and the flow of continuous revenues;
- Method of profit distribution in favour of planholders;
- Compliance with procedures in applications for state contributions;
- Bookkeeping in line with regulations.

Pension funds' accounting reports and economic results were analysed and assessed by the State Supervision as of 30 June and 31 December of the current year. If faults were found in management of a pension fund, the State Supervision ordered corrective measures and more frequent submission of documents, which were necessary for assessment of further development in pension funds management. Together 34 accounting reports of pension funds were checked in 2001. Office's employees conducted five on-site inspections of pension funds in compliance with the State Supervision Act No. 552/1991 Coll., as follows:

Commercial Union Penzijní Fond, a.s.
 Hornický penzijní fond Ostrava, a.s.
 ABN AMRO Penzijní fond, a.s.
 Stavební penzijní fond ČR, a.s.
 Winterthur, penzijní fond, a.s.



Inspections conducted by the Office noted a generally good level of compliance with individual provisions of the Act. Faults identified in the management of pension funds can be summarised as follows:

- Non-compliance with the principle of due diligence management (high operating costs);
- Non-permitted placement of pension fund's assets (gifts to dealers);
- Defaults in benefit payments to planholders;
- Failure to credit state contributions to planholders' contributions due to errors in the pension fund's information system and errors in data as entered by the pension fund in the Ministry's information system;
- Errors in records of planholders;
- Faults in the record of written matter (planholders' contracts).

The aforementioned faults were not significant in nature and that is why no administrative proceedings had to be opened and no sanctions imposed as per § 43(1) of the Act. The inspected pension funds took specific measures to correct faults in obligatory terms for correction. The Office accepted the proposed measures and subsequently checked their performance.

■ 5.0ther Activities

The State Supervision in Pension Funds information system (SDPF) of the Ministry of Finance was used

in 2001 by the State Supervision not only to provide for data for payments and returning of state contributions, but also, and especially, to conduct off-site inspections. SDPF is used to check whether or not pension funds comply with the law and their respective pension plans both with regard to the settlement of planholders' rights (compliance with the insured period and minimum age for benefit payments, the sum of paid up state contributions as part of benefits in the event of planholders' complaints, etc.), and with regard to compliance with statutory terms for the returning of state contributions to which planholders are not eligible.

Development of the information system in 2001 consisted particularly of the following modifications:

- Stricter conditions were set up for the payment of the state contribution in the event of planholder's incorrect identification data.
- Handling of applications for state contributions by pension funds in liquidation due to the amendment to the Commercial Code. The modification of conditions for transferring a planholder's suspended contributory pension policy to another pension fund was completed, and checks aimed at certain information about planholders incorrectly entered by pension funds in the information system and correction thereof were added.
- Accessibility of necessary data from the information system in the form of a "browser" (State Supervision user software) resulted in a good level of user comfort in State Supervision, statistics and analyses. The existing reports from individual pension funds were also completed by sums of contributions in non-terminated policies for pension funds in liquidation and with the information about state contributions, planholders' contributions and payments or non-payments by an employer in individual months for each policy.



Supervision also included the settlement of complaints the number of which doubled in comparison with the year 2000. In 2001 the Ministry of Finance received a total of 617 written complaints, which related in particular to the following issues:

- Arrears in state contributions;
- Reduction of the increased state contribution in the first two years of the contributory pension policy;
- Incorrectly granted state contributions after the amendment to the Act;
- Failure to terminate a contributory pension policy by the pension fund in the Ministry's information system;
- Errors in transfers of planholders' financial means to other pension funds;
- Incorrect ways of financial settlements with planholders;
- Defaults in deadlines of financial settlements with planholders;
- Discrepancies in planholders' account statements;
- Errors in planholders' birth identification numbers.

COMPARISON BETWEEN THE YEARS 2000 AND 2001

	2000	2001
Number of lodged complaints	297	617

The number of complaints lodged by planholders increased due to liquidation of pension funds. Such complaints contained requests for the settlement of losses, returning of planholder's contributions and state contributions. Because of the statutory regulation, such requests could not have been satisfied.



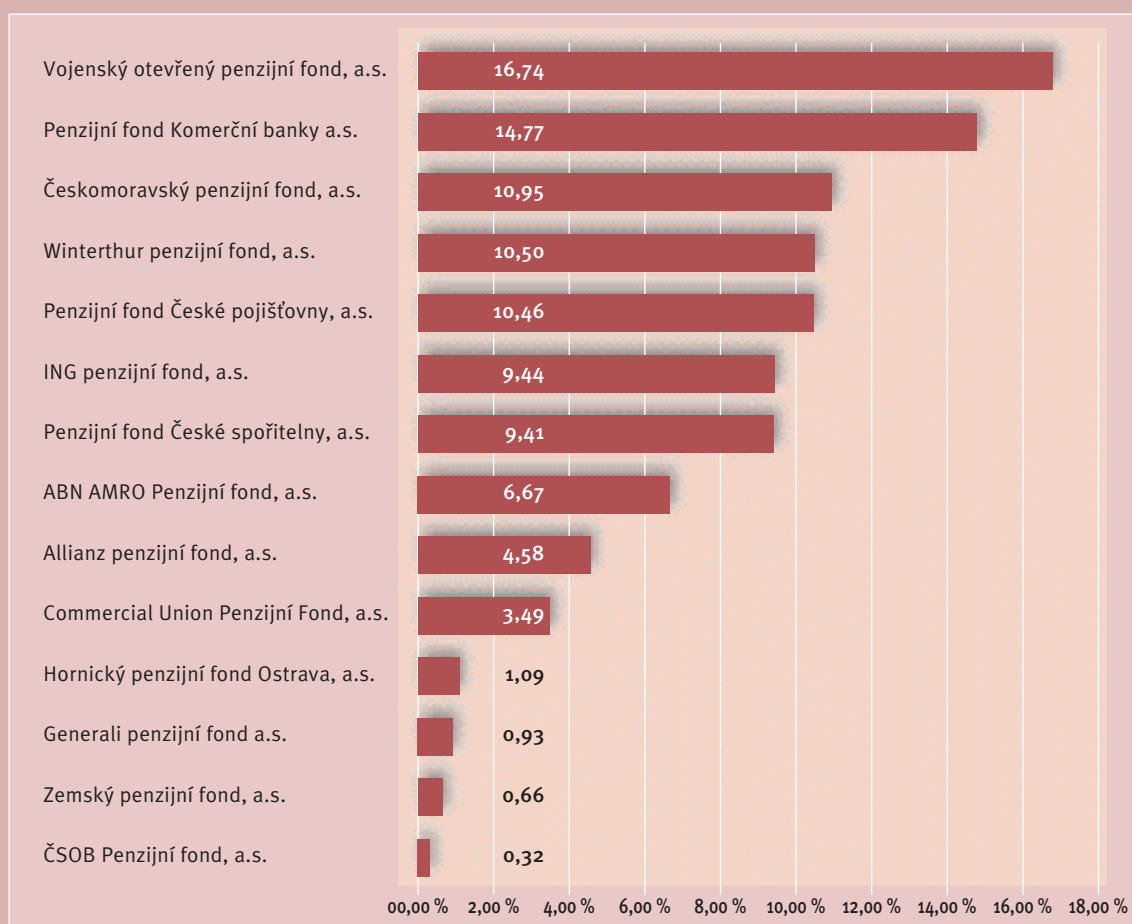
■ II. Contributory Pension Market

▼ 1. Market Structure

The trend of gradual concentration of the contributory pension market culminated in 2001. Out of forty-four originally licensed pension funds (from 1994 till 1996), their number dropped to fourteen pension funds as of 31 December 2001 (Annex No. 2a); a further possible decrease of their number cannot be excluded in the future. This corresponds to the high concentration of financial assets

in a relatively small number of the largest pension funds.

INDIVIDUAL PENSION FUNDS SHARES IN TOTAL ASSETS AS OF 31 DECEMBER 2001 (%)

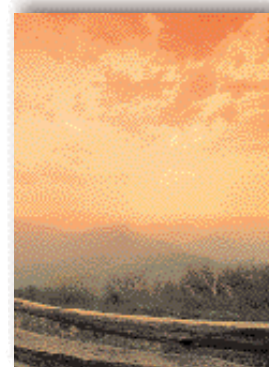


The five largest pension funds controlled 63,4 % of assets as of 31 December 2001, which was practically the same share as that in 2000 (63,5 %). The new addition to the five strongest pension funds was

Winterthur, penzijní fond, a.s., which took over the position of Penzijní fond České spořitelny, a.s. The other four pension funds have maintained their positions.

▼ 2. Pension Funds Shareholders

A half of the pension funds in the Czech Republic were controlled by shareholders with strong foreign capital who, as of 31 December 2001, held one hundred percent of shares in four pension funds and the majority shares in three pension funds. These shareholders controlled about 49 % of all pension funds assets. The trend of foreign shareholders' presence is ever increasing; their share in 2000 was 47 % of all assets. The development of the structure of shareholders in the period from 1999 till 2001 is given in Annex No. 3.



▼ 3. Pension Funds Management

DEVELOPMENT OF THE RATIO OF PENSION FUNDS ASSETS TO GDP IN 1999 – 2001

	1999	2000	2001
Pension funds assets [in billion CZK]	37	44	55
GDP [in billion CZK, in current prices]	1 902	1 985	2 158
Ratio of pension funds assets to GDP [in %]	1,95	2,22	2,55

Most pension funds' investment policies were conservative, focusing mainly on purchases of government bonds and treasury bills. Such securities are acceptable with regard to risk, but yield lower revenues.

STRUCTURE OF PENSION FUNDS - PORTFOLIOS (%)

	31/12/1999	31/12/2000	31/12/2001
Shares and allotment certificates	9,97	9,43	7,23
Bonds	49,05	56,12	60,37
Treasury bills	25,89	22,30	22,35
Money in accounts and term deposits	9,77	5,70	3,90
Real property	1,66	1,79	1,15
Other assets	3,29	4,42	4,02
Other investments	0,37	0,24	0,98
Total	100,00	100,00	100,00

Total pension funds' assets (in CZK) as of 31 December 2001 are shown in Annex No. 4.

TOTAL FINANCIAL RESULTS OF PENSION FUNDS IN 1999 - 2001

	1999	2000	2001
Financial result of the fiscal year [in thousand CZK]	1 706 633	1 325 219	1 735 873

Profits decreased in 2000 due to lower investment and financial revenues, a decrease in the interest rate and, last but not the least, due to higher pension funds' costs.

Pension funds' balance sheets and profit and loss statements for the year 2001 are enclosed as Annex No. 5a and 5b.

The amended Act made it possible to invest in securities in OECD countries. Some pension funds used this opportunity in buying particularly the OECD government bonds; their value amounted in 2001 to 4,38 % of the portfolio.

PENSION FUNDS' BONDS AND ASSETS (IN THOUSAND CZK)

		as of 31/12/2000		as of 31/12/2001	
		Purchase Price	Market Price incl. AIR	Purchase Price	Market Price incl. AIR
Bonds	Total	23 782 185	24 135 299	31 577 373	32 680 978
	incl. foreign bonds	347 503	367 628	2 332 025	2 373 564
Assets	Total	43 037 732	43 003 093	53 914 789	54 137 030
% of foreign bonds					
	of total bonds	1,46	1,52	7,39	7,26
	of assets	0,81	0,85	4,33	4,38

Note: Pension funds did not hold any foreign bonds in 1999.

Actual shares in pension funds' financial results, which are credited to planholders, are derived from the achieved financial results in individual pension funds. The average nominal revenue in the year 2001 was 3,92 %. Nominal revenues of individual pension funds are reviewed in Annex No. 10 to this report.

DEVELOPMENT OF PENSION FUNDS' COSTS INCLUDING SHARE PER PLANHOLDER IN 1999 - 2001

	1999	2000	2001
Total costs excl. costs of financial operation [thousand CZK]	1 940 747	2 156 001	2 125 347
Incl. operating costs per year [thousand CZK]	1 359 742	1 618 806	1 506 589
Number of planholders	2 006 276	2 298 340	2 472 538
Total average costs per planholder [thousand CZK]	967	938	860
Average operating costs per planholder [thousand CZK]	678	704	609

In addition to the inflation rate and rate of return on individual investments, pension funds' costs are also reflected in their financial results. Operating costs were increasing until 2000 and both the absolute and relative decreases in costs did not occur before 2001. The development of pension funds' costs (excluding costs of capital investments) including share per planholder is shown in the table on the previous page.

STRUCTURE OF OPERATING COSTS IN 1999 - 2001 [in thousand CZK]

	1999	2000	2001
Performance consumption	709 543	827 669	846 245
incl. services	656 256	769 066	789 999
incl. remuneration for dealers	348 799	504 943	504 792
consumption of materials and energy	53 287	58 603	56 246
Personnel costs	314 814	333 992	327 060
Taxes and fees	4 111	6 279	2 026
Depreciation of TFA and IFA	102 234	111 322	114 328
Creation of provisions and accrued costs	61 926	24 738	35 885
Adjustments posted in operating costs	72 463	139 464	32 947
Other operating costs	94 651	175 342	148 098
Operating costs - total	1 359 742	1 618 806	1 506 589

The item "services" includes the costs of:

- Remuneration for dealers mediating contributory pension policies;
- Advertising;
- Information system and software operation;
- Remuneration for the depository;
- Capital market services;
- Consultancy and other external services.



▼ 4. Planholders

According to the Office's records, a total of 3 227 147 persons joined the contributory pension scheme from the time of its creation till 31 December 2001. As of the same date the Office recorded 3 871 242 contributory pension plans as some planholders took out more contributory pension plans and some planholders, having met conditions for eligibility for benefits, asked for the payment thereof and re-joined the contributory pension scheme under new contracts. A total of 1 195 540 contracts were signed in this way.

Planholders may transfer the financial means they saved with one pension fund (under new contracts for contributory pension plans) to another pension fund. Totally 315 169 of such contracts were signed.

PLANHOLDERS' TRANSFERS IN BETWEEN PENSION FUNDS

Year	Transferred Contribution	Number of Transfers (in thousand CZK)	
		by Planholders	by State
1999	48 039	495 677	155 199
2000	64 950	603 350	181 578
2001	45 917	475 977	147 489

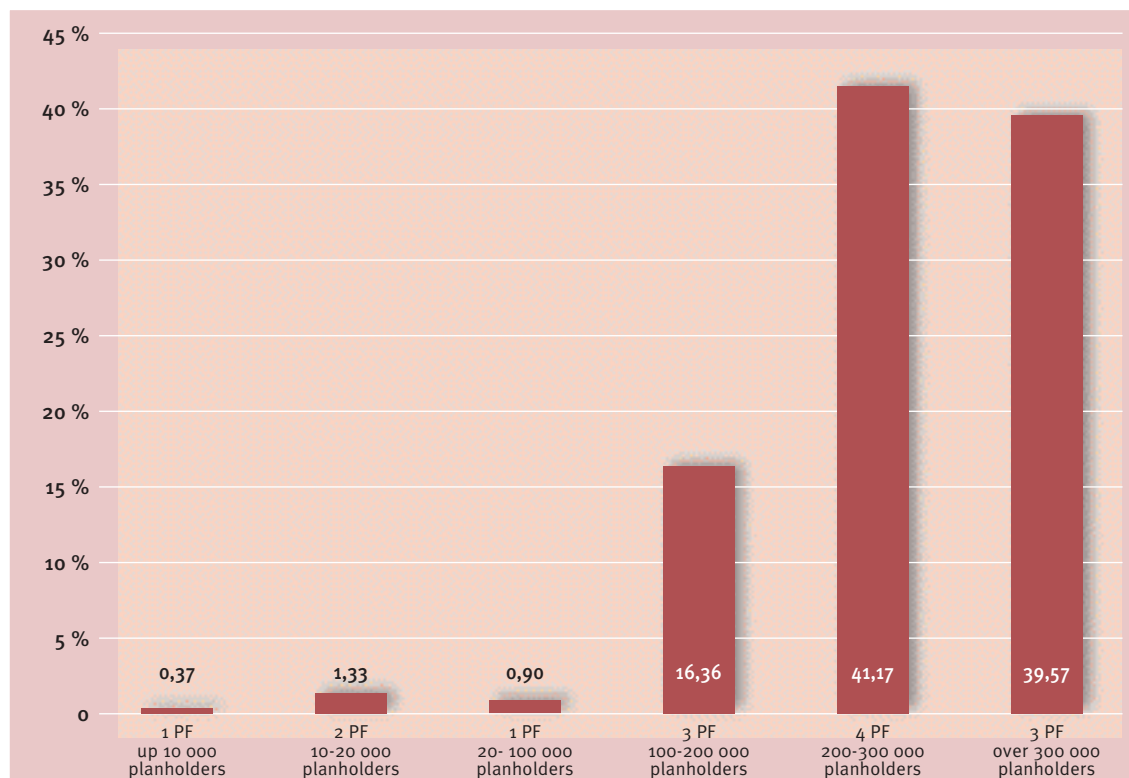
NUMBER OF NEW PLANHOLDERS WHO JOINED THE CONTRIBUTORY PENSION SCHEME FOR THE FIRST TIME AFTER THE AMENDMENT

	1999	2000	2001
Number of new planholders in the year under monitoring	260 943	400 174	264 742
Total number of new planholders since the amendment to 31 December of the respective year (cumulated)	260 943	661 117	925 859

Note: Amendment No. 170/1999 Coll. came into effect on 31 August 1999.

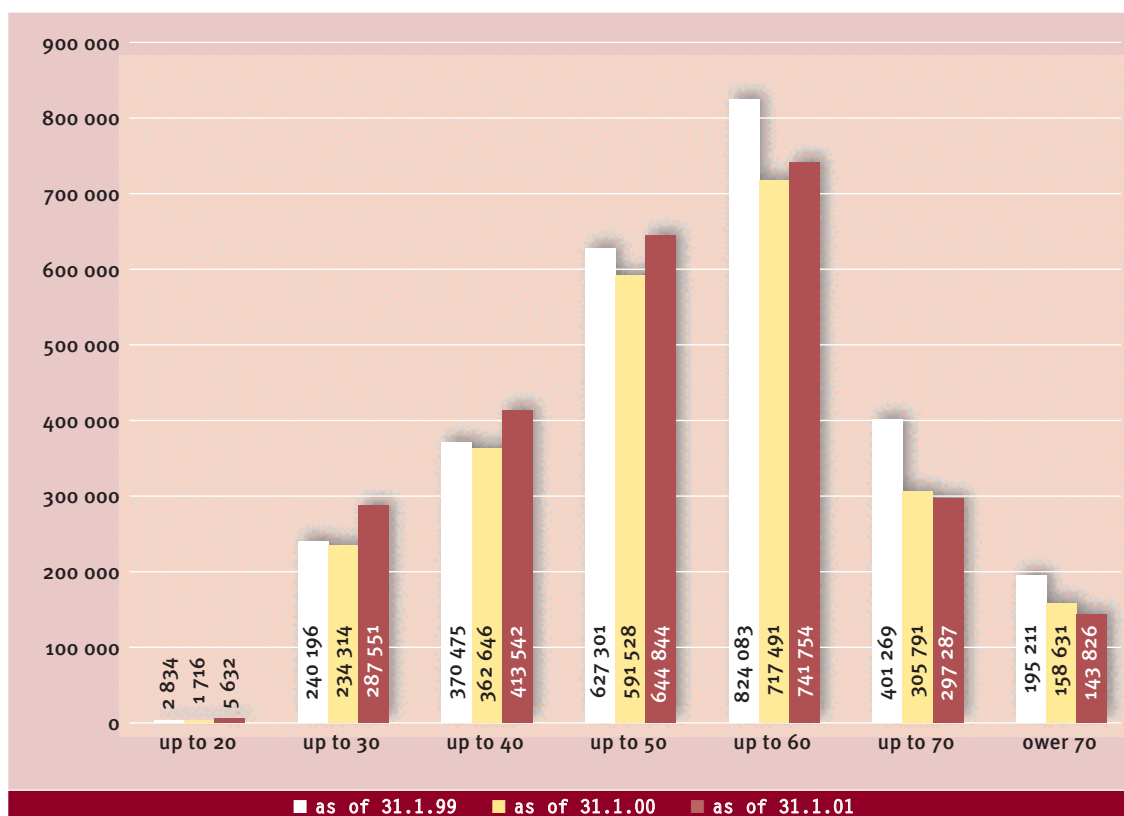
The number of planholders who joined the contributory pension scheme for the first time increased by 264 742 persons in the monitored period. Development on the pension fund market resulted in the concentration of more than 80 % of planholders into the seven largest pension funds (i.e. into half of all pension funds).

CONCENTRATION ON THE PENSION FUNDS MARKET



The age structure of planholders has not changed considerably since the beginning of the contributory pension scheme. Even though the number of planholders keeps increasing and younger planholders joining the system, the portfolio is growing older. Similar to the Czech population as a whole, the largest group of planholders consists of people aged between 50 to 59.

AGE STRUCTURE – COMPARISON OF PLANHOLDERS BY AGE



The table below compares the total amount of planholders' contributions and related state contributions, as well as the average amount of the planholder's contribution and the related state contribution (see Annexes Nos. 7-9 for the development in 1994 –2001):

CUMULATED CONTRIBUTIONS TO THE CONTRIBUTORY PENSION SCHEME IN 1999 - 2001

	as of 31/12/1999	as of 31/12/2000	as of 31/12/2001
Total contributions by planholders from 1994 (in thousand CZK)	28 835 196	37 918 925	47 958 740
Total contributions by the state from 1994 (in thousand CZK)	8 842 135	11 312 401	13 970 537
Total contributions from 1994 (in thousand CZK)	37 677 331	49 231 327	61 929 278
Number of planholders	2 006 276	2 298 340	2 472 538
Planholder contribution-monthly average per planholder (in CZK)	339	359	366
State contribution-monthly average per planholder (in CZK)	96	92	92

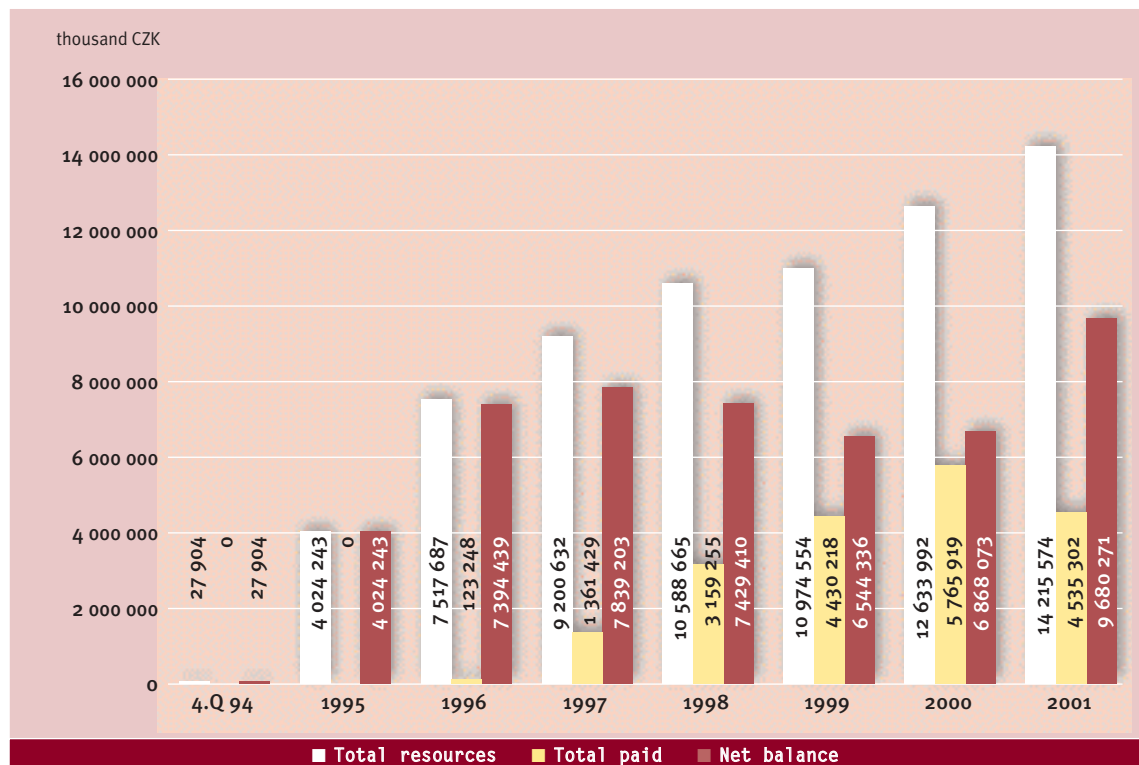


Total amount of CZK 62 billion deposited in planholders' accounts consisted by two thirds of payments made by planholders themselves. Planholders state contribution is probably the most important out of four partial items, i.e. state contribution, credited revenues, tax allowances, and employer contributions.

The crucial item on the expense side in pension funds' financial balances consists in the total volume of lump discharge paid to planholders. That withdrew CZK 16,4 billion as of 31 December 2001, which represents 85 % of all payments from the system. Other considerable payment was total termination surrender value amounting to CZK 2,4 billion.

Comparison of total incomes and total expenses in time enables the assessment of financial stability of the entire pension fund sector.

PENSION FUNDS' TOTAL INCOME AND EXPENSES IN 1994 - 2001



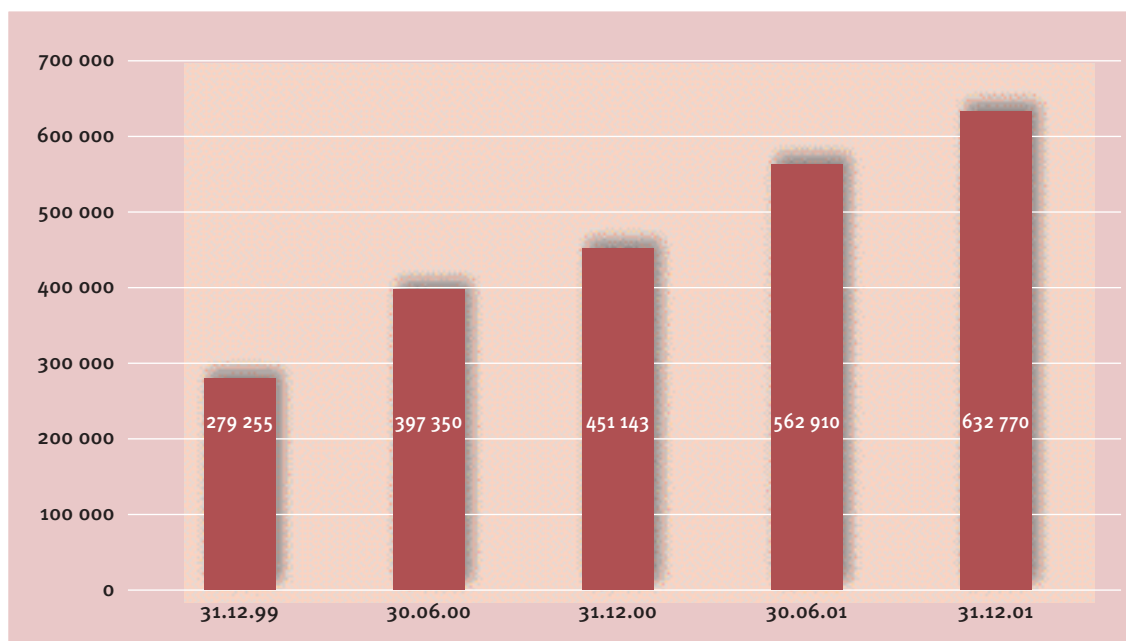
The tendency of greater interest in the contributory pension scheme kept on continuing in 2001 as well. The tendency of increasing withdrawals of money from the system changed for the first time, a fact which was necessarily demonstrated in the previous record annual accrual of the net balance. The system is also attractive due to tax allowances, which are granted both to planholders and to employers contributing to their employees' pension plans. The initial assumption that tax allowances would mainly impact on the collection of public budgets in 2001 and this impact would further increase in 2002 was



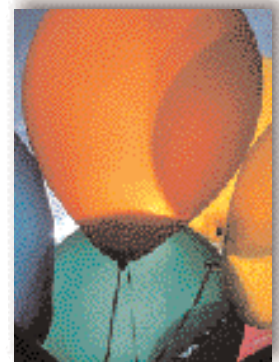
confirmed. According to the Ministry of Finance's estimate, the total impact of tax allowances on public budgets in the fiscal year 2001 was more than CZK 1,1 billion as compared to CZK 0,9 billion in the preceding year.

In 2001, employers paid contributions to almost 63 thousand planholders, including more than 12 thousand planholders who only had employer contributions. That means the total number of planholders receiving contributions from their employers is about a quarter of all planholders as compared to about a fifth in 2000.

NUMBER OF PLANHOLDERS RECEIVING CONTRIBUTIONS FROM THEIR EMPLOYERS



For the fiscal year 2001, employers paid a total of CZK 1 930 million to planholders, which is an increase of more than 66 % as compared to the previous year. The opportunity to deduct employer contributions to contributory pension scheme from taxes resulted, according to the Ministry of Finance's estimate, in the impact on public budgets in the fiscal year 2001 amounting to CZK 465 million as compared to CZK 400 million in the previous year. The fact that contributions paid by employers are not taxed resulted in savings amounting to CZK 380 million for planholders.



Tax allowances, which mean that planholders may deduct from their income tax bases payments paid to contributory pension scheme in excess of CZK 6 000 up to CZK 12 000 per fiscal year, were used in 2001 by a total of 193 105 planholders, which is an increase of more than 28 % as compared to the previous year. This tax-deductible item was fully used by a total of 63 972 planholders. The figures indicate that the number of planholders using the tax allowances keeps increasing.

This tendency can also be credited to pension funds themselves and their successful information campaign. According to the Ministry of Finance's estimate, the aforementioned tax allowances resulted in the impact on public budgets amounting approximately to CZK 260 million.

Tax regulations in force in 2001 stipulated, as opposed to the year 2000, an amended tax rate for corporation income tax to be paid by pension funds, namely 15 % as compared to the original 25 %.



After 1 January 2000 the lump discharge or settlement is not reduced by contributions as paid up to the pension fund by the planholder's employer to assess the income tax base for individuals, which is one of important changes as well. A tax rate on valuations amounting to 25 % was also introduced in the event of termination of the contributory pension scheme with state contribution in the form of settlement. Both changes were designed to motivate planholders to draw benefits in the form of pensions.

Act	State-Contributory Supplementary Pension Insurance Act No. 42/1994 Coll.
AIR	aliquot interest return
EC	European Community
EU	European Union
GDP	gross domestic product
IFA	intangible fixed assets
INPRS	International Network of Pension Regulators and Supervisors
OECD	Organisation for Economic Co-operation and Development
Office	Office of the State Supervision in Insurance and Pension Funds
PF	pension funds
SDPF	State Supervision in Pension Funds
TFA	tangible fixed assets

1	List of Valid Pension Funds-Related Legal Provisions
2 a	List of Pension Funds which on December 31, 2001 Held the Authorisation to Carry on Undertaking
2 b	List of Pension Funds which on June 30, 2002 Held the Authorisation to Carry on Undertaking
3	Structure of Pension Funds Shareholders
4	Total Assets as at 31 December 2001
5 a	Balance Sheet of Pension Funds
5 b	Profit and Loss Statement of Pension Funds
6	Number of Planholders
7	Planholders Contributions
8	State Contributions to Planholders
9	Average Contributions of Planholders and of State
10	Evaluation of Planholders Financial Means of Pension Funds
11	List of Depositories

Summary of Legal Provisions in the Chronological Orders

40/1964 Coll.,	Civil Code
65/1965 Coll.,	Labour Code
71/1967 Coll.,	Administrative Act
2/1969 Coll.,	Competences Act
513/1991 Coll.,	Commercial Code
552/1991 Coll.,	Government Supervision Act
563/1991 Coll.,	Law of Accounting
21/1992 Coll.,	Banks Act
591/1992 Coll.,	Securities Act
42/1994 Coll.,	State-Contributory Supplementary Pension Insurance Act and the Amendments to Certain Acts related to its Adoption
61/1996 Coll.,	Act on Selected Measures against Legitimization of Proceeds from Criminal Activities and on the Amendment of Related Legislation
15/1998 Coll.,	Securities Commission Act

List of Pension Funds which on 31 December 2001
Held the Authorisation to Carry on Undertaking

No.	Name of Pension Fund	Address
1	Commercial Union Penzijní Fond, a.s.	Londýnská 41/506, 120 21 Praha 1
2	Vojenský otevřený penzijní fond, a.s.	Letenské náměstí 156/1, 170 06 Praha 7
3	Penzijní fond České pojišťovny, a.s.	Truhlářská 9/1106, 110 00 Praha 1
4	Zemský penzijní fond, a.s.	ul. 28. října 45, 702 00 Ostrava
5	Českomoravský penzijní fond, a.s.	Vinohradská 167/3217, 100 00 Praha 10
6	Penzijní fond Komerční banky a.s.	Lucemburská 7/1170, 130 11 Praha 3
7	Winterthur penzijní fond, a.s.	Starobrněnská 8, 602 00 Brno
8	Hornický penzijní fond Ostrava, a.s.	Sokolská třída 26a, 702 00 Ostrava 2
9	Penzijní fond České spořitelny, a.s.	Poláčkova 1976/2, 140 21 Praha 4
10	ING penzijní fond, a.s.	Nádražní 25, 150 00 Praha 5
11	ČSOB Penzijní fond, a.s.	Brigádnická 124, 538 43 Třemošnice
12	ABN AMRO Penzijní fond, a.s.	Olomoucká 40, 618 00 Brno
13	Generali penzijní fond a.s.	Bělehradská 132, 120 84 Praha 2
14	Allianz penzijní fond, a.s.	Francouzská 4, 120 00 Praha 2

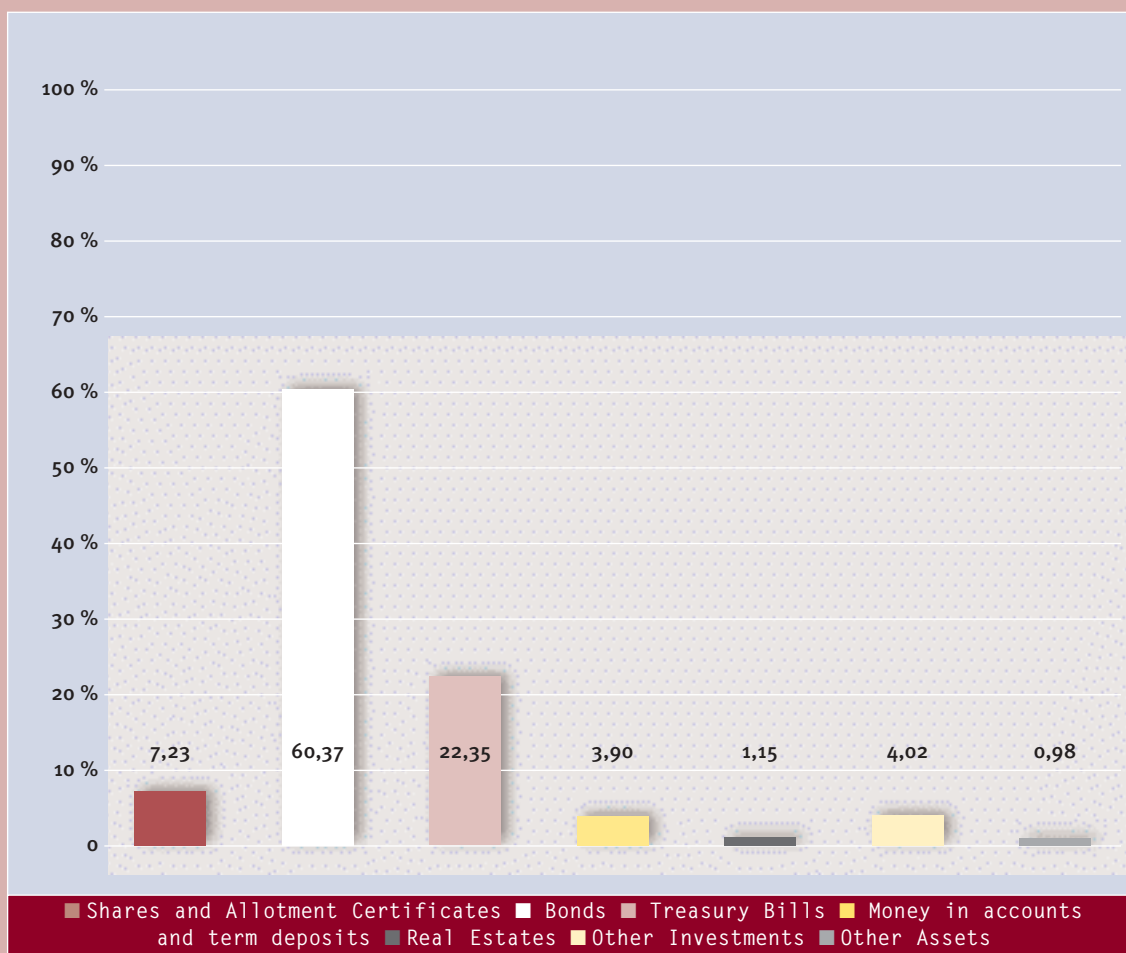
List of Pension Funds which on 30 June 2002
Held the Authorisation to Carry on Undertaking

Annex
No. 2 b

No.	Name of Pension Fund	Address
1	Commercial Union Penzijní Fond, a.s.	Londýnská 41/506, 120 21 Praha 1
2	Vojenský otevřený penzijní fond, a.s.	Letenské náměstí 156/1, 170 06 Praha 7
3	Penzijní fond České pojišťovny, a.s.	Truhlářská 9/1106, 110 00 Praha 1
4	Zemský penzijní fond, a.s.	ul. 28. října 45, 702 00 Ostrava
5	Českomoravský penzijní fond, a.s.	Vinohradská 167/3217, 100 00 Praha 10
6	Penzijní fond Komerční banky a.s.	Lucemburská 7/1170, 130 11 Praha 3
7	CREDIT SUISSE LIFE & PENSIONS PENZIJNI FOND A.S.	Starobrněnská 8, 602 00 Brno
8	Hornický penzijní fond Ostrava, a.s.	Sokolská třída 26a, 702 00 Ostrava 2
9	Penzijní fond České spořitelny, a.s.	Poláčkova 1976/2, 140 21 Praha 4
10	ING penzijní fond, a.s.	Nádražní 25, 150 00 Praha 5
11	ČSOB Penzijní fond, a.s.	Brigádnická 124, 538 43 Třemošnice
12	ABN AMRO Penzijní fond, a.s.	Olomoucká 40, 618 00 Brno
13	Generali penzijní fond a.s.	Bělehradská 132, 120 84 Praha 2
14	Allianz penzijní fond, a.s.	Francouzská 4, 120 00 Praha 2

Structure of Pension Funds Shareholders





	Purchase price [CZK]	Actual price (incl. AIV) [CZK]	Percentage
Shares and Allotment Certificates	4 810 775 924	3 914 173 249	7,23
Bonds	31 577 373 350	32 680 978 485	60,37
Treasury Bills	11 980 588 600	12 100 617 063	22,35
Money in accounts and term deposits	2 112 210 862	2 112 828 587	3,90
Real Estates	723 121 886	624 209 694	1,15
Other Investments	2 179 453 017	2 172 968 571	4,02
Other Assets	531 265 658	531 254 167	0,98
Total	53 914 789 297	54 137 029 816	100,00

Balance Sheet of Pension Funds

Symbol	ASSETS (in thousand CZK) (thousand CZK)	LineNo.	Current Accounting year (thousand CZK)
	TOTAL ASSETS	001	54 955 777
A.	Stock subscriptions receivable	002	0
B.	Fixed assets	003	38 093 443
B.I.	Intangible assets	004	99 543
B.I.1.	Organisation costs	005	0
2.	Capitalised research and development costs	006	332
3.	Software	007	83 279
4.	Intellectual property	008	3 994
5.	Goodwill	009	1 970
6.	Acquisition of intangible assets in progress	010	4 683
7.	Deposits given	011	5 285
B.II.	Tangible assets PP&E	012	931 471
B.II.1.	Land	013	76 678
2.	Buildings	014	538 964
3.	Capital equipment: units and property classes	015	122 524
4.	Orchards and vineyards	016	0
5.	Livestock	017	0
6.	Other PP&E	018	2 977
7.	Acquisition of PP&E in progress	019	15 460
8.	Deposits given (toward PP&E acquisition)	020	0
9.	Adjustments to gained PP&E	021	174 868
B.III.	Investments	022	37 062 429
B.III.1.	Investments in subsidiary	023	0
2.	Investments in affiliates with significant influence	024	0
3.	Other investments	025	11 825 911
4.	Loans to group companies	026	0
5.	Other investments	027	25 236 518
C.	Non-fixed assets	028	15 160 687
C.I.	Inventories	029	5 074
C.I.1.	Raw materials	030	5 074
2.	Work in process (incl. manufactured parts)	031	0
3.	Products	032	0
4.	Livestock	033	0
5.	Merchandise	034	0
6.	Deposits given (toward inventory acquisition)	035	0
C.II.	Long-term receivables	036	5 437
C.II.1.	Long-term trade receivables	037	5 437
2.	Long-term receivables from partners	038	0
3.	Long-term related party receivable (controlling interest)	039	0
4.	Long-term related party receivable (significant interest)	040	0
5.	Other long-term receivables	041	0
C.III.	Current receivables	042	1 116 177
C.III.1.	Accounts receivable (trade receivables)	043	180 383
2.	Receivables from affiliates	044	0
3.	Receivables from social security	045	0
4.	Receivable - taxes	046	299 750
5.	Receivable - deferred taxes	047	2
6.	Related party receivable (controlling interest)	048	0
7.	Related party receivable (significant interest)	049	0
8.	Other current receivables	050	636 042
C.IV.	Current liquid assets	051	14 033 999
C.IV.1.	Cash	052	2 265
2.	Cash in bank	053	1 902 954
3.	Short-term investments	054	12 128 780
D.	Other assets - temporary debit accounts	055	1 701 647
D.I.	Accruals (accrued assets)	056	1 558 767
D.I.1.	Pre-paid expenses	057	1 027 785
2.	Accrued (un-billed) revenue	058	530 745
3.	Exchange rate differences (loss)	059	237
D.II.	Estimated pre-paid items	060	142 880

Symbol	ASSETS (in thousand CZK) (thousand CZK)	LineNo.	Current Accounting year (thousand CZK)
	TOTAL LIABILITIES AND EQUITY	061	54 955 777
A.	Total equity	062	53 609 090
A.I.	Legal capital (statutory equity)	063	1 205 604
A.I.1.	Legal capital (equity at par)	064	1 205 604
	2. Treasury stock	065	0
A.II.	Other equity accounts	066	45 850 125
A.II.1.	Additional paid in capital (in excess of par)	067	159 086
	2. Other equity accounts	068	46 307 686
	3. Adjustments to investments (securities firms only)	069	-608 749
	4. Adjustments to capital investments (discontinued)	070	-7 898
A.III.	Reserves (appropriated retained earnings)	071	4 782 279
A.III.1.	Statutory reserve account	072	331 676
	2. Statutory reserve account (cooperatives)	073	0
	3. Other reserves (other appropriated retained earnings)	074	4 450 603
A.IV.	Retained earnings	075	35 209
A.IV.1.	Retained earnings	076	35 209
	2. Retained earnings deficit	077	0
A.V.	Net income or Net loss for fiscal period	078	1 735 873
B.	Liabilities	079	1 258 172
B.I.	Allowances	080	325 317
B.I.1.	Tax deductible allowances	081	1 000
	2. Exchange rate loss allowances	082	237
	3. Non-tax deductible allowances	083	324 080
B.II.	Long-term liabilities	084	30 011
B.II.1.	Related party liabilities (controlling interest)	085	0
	2. Related party liabilities (significant influence)	086	0
	3. Long-term deposits received	087	0
	4. Bonds (debenture bonds)	088	0
	5. Long-term notes	089	0
	6. Other long-term liabilities	090	30 011
B.III.	Current liabilities	091	902 844
B.III.1.	Account payable (trade payables)	092	115 424
	2. Payables to partners	093	2
	3. Payables to employees	094	10 658
	4. Social security payable	095	6 813
	5. Taxes payable	096	8 096
	6. Deferred taxes payable	097	2 220
	7. Related party payable (controlling interest)	098	0
	8. Related party payable (significant influence)	099	0
	9. Other payables	100	759 631
B.IV.	Bank loans and other credit	101	0
B.IV.1.	Long-term bank loans	102	0
	2. Short-term bank loan	103	0
	3. Other short-term credit (lines of credit)	104	0
C.	Other liabilities-temporary credit accounts	105	88 515
C.I.	Accrued liabilities	106	12 282
C.I.1.	Accrued expenses	107	10 905
	2. Unearned revenue	108	32
	3. Exchange rate differences (gain)	109	1 345
C.II.	Estimated accrued items	110	76 233

Profit and Loss Statement of Pension Funds

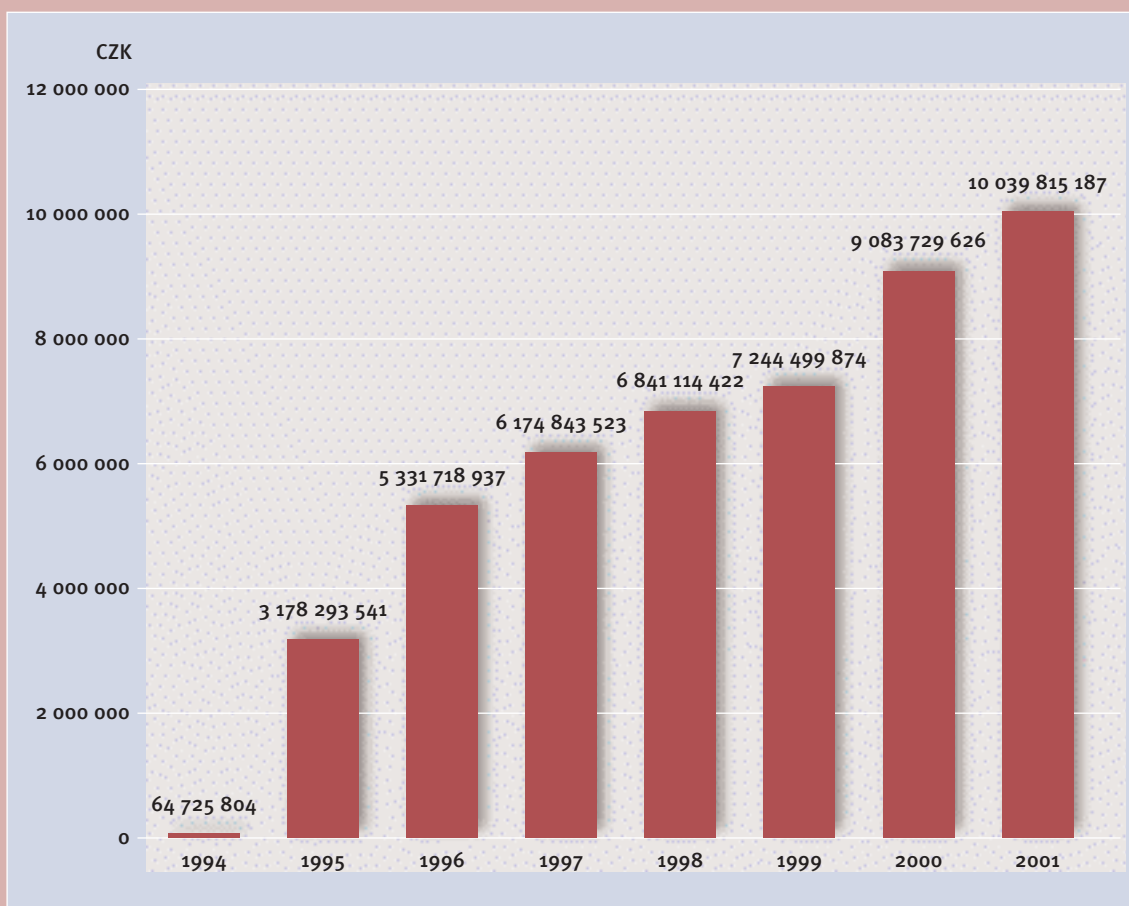
Symbol	Text	LineNo.	Current Accounting year (thousand CZK)
I.	Merchandise revenue	001	0
A.	Cost of merchandise sold	002	0
+	Gross profit	003	0
II.	Internal activities	004	3 390
II.1.	Service and manufactured goods revenue	005	3 390
II.2.	Inventory revenueisation	006	0
II.3.	Self manufactured goods revenue	007	0
B.	Raw materials and services used	008	846 245
B.1.	Raw materials and utilities expense	009	56 246
B.2.	Outside services used	010	789 999
+	Value added	011	-842 855
C.	Payroll	012	327 060
C.1.	Wages and salaries	013	236 362
C.2.	Board member compensation	014	9 165
C.3.	Social security expenses	015	72 999
C.4.	Fringe benefits	016	8 534
D.	Taxes and fees	017	2 026
E.	Amortisation of intangible and depreciation of PP&E	018	114 328
III.	Revenue from sale of fixed assets and raw materials	019	7 996
F.	Book value of disposed fixed assets or raw materials	020	8 773
IV.	Clearing of reserves and accrued revenue	021	3 480
G.	Creation of reserves and accrued expenses	022	35 885
V.	Clearing of adjustments to previously adjusted assets	023	12 595
H.	Adjustments to assets to reflect decline in fair value	024	32 947
VI.	Miscellaneous operating receipts	025	171 923
I.	Miscellaneous operating expenses	026	148 098
VII.	Transfer of operating receipts	027	0
J.	Transfer of operating expenses	028	0
*	Operating income	029	-1 315 978
VIII.	Revenue from sale of securities and direct investments sold	030	221 883 852
K.	Book value of securities and direct	031	221 247 966
IX.	Income from investments	032	2 143 496
IX.1.	Income from securities of, and direct investments in, group companies	033	42 601
IX.2.	Receipts from other securities and direct investments	034	1 109 128
IX.3.	Receipts from other financial investments	035	991 767
X.	Receipts from short-term investments	036	503 380
XI.	Clearing of reserves to financial receipts	037	10 409
L.	Creation of reserves for financial expenses	038	242 767
XII.	Clearing of adjustments to financial receipts	039	243
M.	Clearing of adjustments to financial expenses	040	25 859
XIII.	Interest received	041	240 985
N.	Interest paid	042	381
XIV.	Other financial receipts	043	120 211
O.	Other financial expenses	044	335 541
XV.	Transfer of financial receipts	045	0
P.	Transfer of financial expenses	046	0
*	Income (loss) from financial operations	047	3 050 062
R.	Income tax (on operating income)	048	111
R.1.	payable	049	0
R.2.	deferred	050	111
		051	0
**	Income from operations	052	1 733 973
XVI.	Unusual and/or extraordinary receipts	053	7 226
S.	Unusual and/or extraordinary expenses	054	5 326
T.	Income tax on unusual/extraordinary income	055	0
T.1.	payable	056	0
T.2.	deferred	057	0
*	Unusual income (loss)	058	1 900
U.	Tax deductible income distribution to (J-V) partners	059	0
***	Net income/loss for fiscal period	060	1 735 873
	Net income before taxes	061	1 735 984

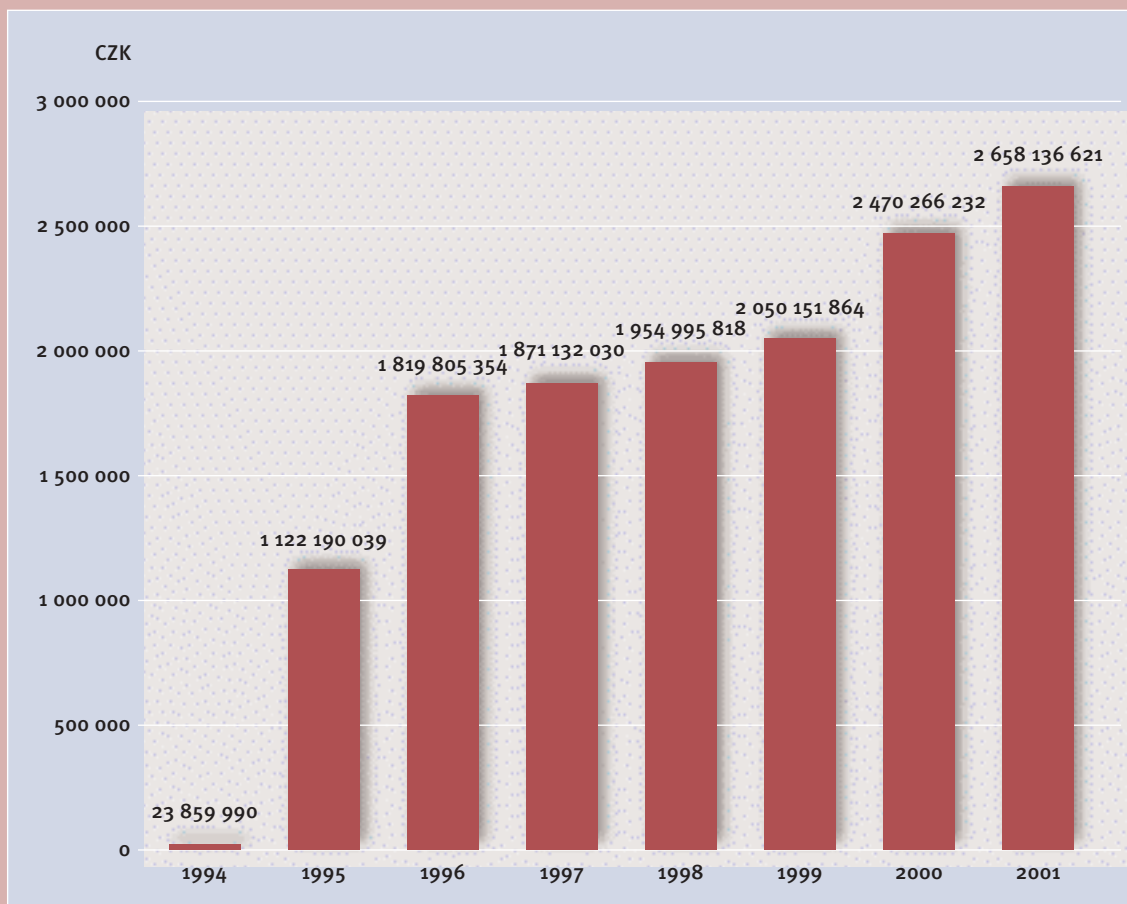


Number of Planholders (Status as at the End of December)

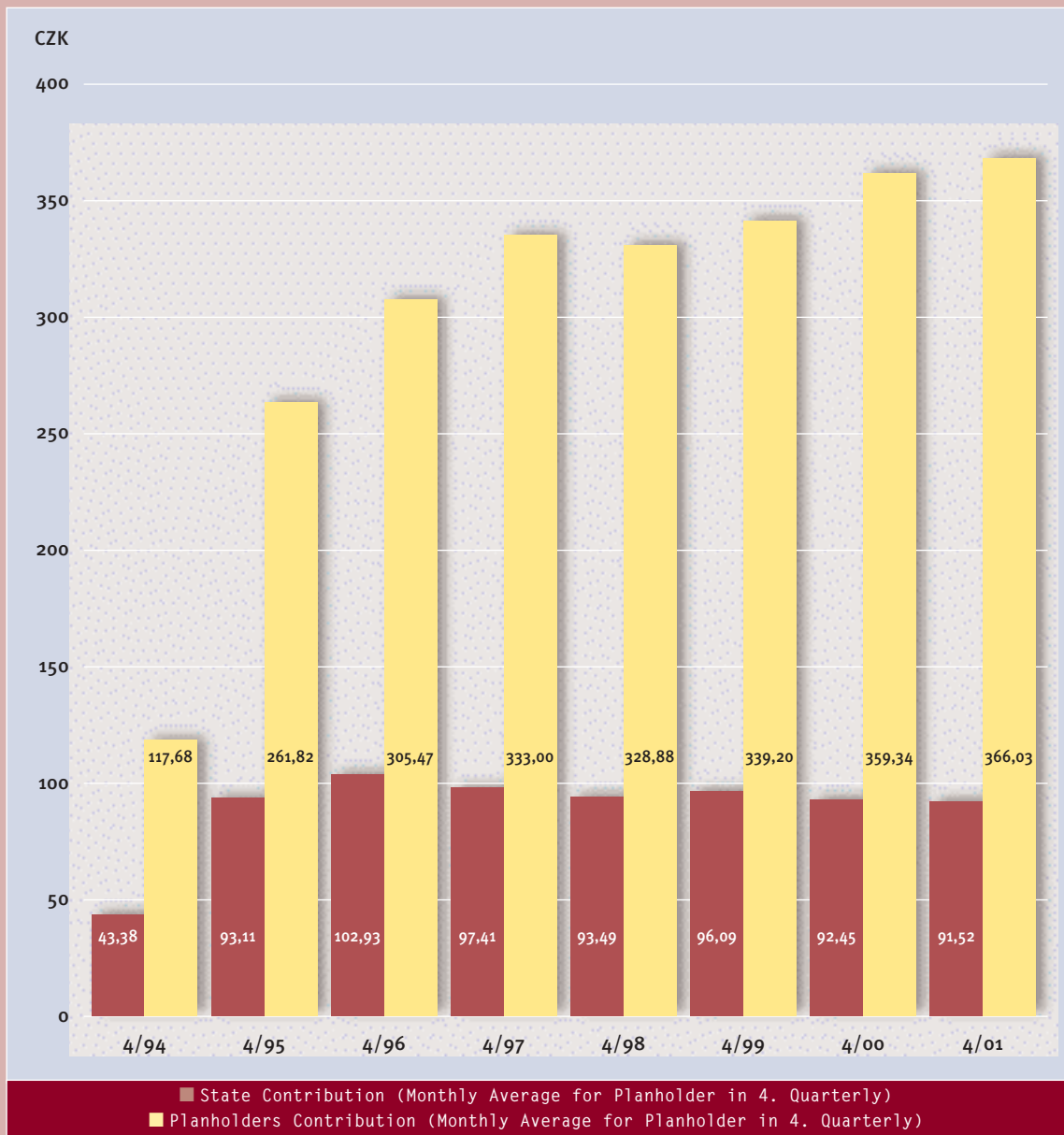


Contributions of Planholders (CZK)





Average Contributions of Planholders and of State



Pension Fund	Year 2001 (%)
Commercial Union Penzijní Fond, a.s.	2,46
Vojenský otevřený penzijní fond, a.s.	4,25
Penzijní fond České pojišťovny, a.s.	3,80
Zemský penzijní fond, a.s.	4,60
Českomoravský penzijní fond, a.s.	3,20
Penzijní fond Komerční banky a.s.	4,40
Winterthur, penzijní fond, a.s.	4,25
Hornický penzijní fond Ostrava, a.s.	2,37
Penzijní fond České spořitelny, a.s.	3,80
ING penzijní fond, a.s.	4,80
ČSOB Penzijní fond, a.s.	3,90
ABN AMRO Penzijní fond, a.s.	4,10
Generali penzijní fond a.s.	4,60
Allianz penzijní fond, a.s.	4,30
Average per Pension Fund	3,92
Official Rate of Inflation	4,70

List of Depositories

Name of Pension Fund	Depository as at 31.12.2001
Commercial Union Penzijní Fond, a.s.	Živnostenská banka, a.s.
Vojenský otevřený penzijní fond, a.s.	Československá obchodní banka, a.s.
Penzijní fond České pojišťovny, a.s.	Československá obchodní banka, a.s.
Zemský penzijní fond, a.s.	Citibank a.s.
Českomoravský penzijní fond, a.s.	Živnostenská banka, a.s.
Penzijní fond Komerční banky a.s.	Česká spořitelna, a.s.
Winterthur, penzijní fond, a.s.	Československá obchodní banka, a.s.
Hornický penzijní fond Ostrava, a.s.	Česká spořitelna, a.s.
Penzijní fond České spořitelny, a.s.	Komerční banka, a.s.
ING penzijní fond, a.s.	Československá obchodní banka, a.s.
Československá obchodní banka, a.s. Penzijní fond, a.s.	Živnostenská banka, a.s.
ABN AMRO Penzijní fond, a.s.	Československá obchodní banka, a.s.
Generali penzijní fond a.s.	HVB Bank Czech Republic a.s.
Allianz penzijní fond, a.s.	Komerční banka, a.s.

