

Annual Report 2018



Penzijní společnost České pojišťovny, a.s.

The largest pension savings provider
in the Czech Republic.



**PENZIJNÍ SPOLEČNOST
ČESKÉ POJIŠŤOVNY**

Penzijní společnost České pojišťovny

Guaranteeing you peace of mind
in your dotage

We manage savings of almost CZK 110 billion
for over 1.1 million customers.

We look after the pension savings schemes
of employees from more than 5,000 companies.

For a good two decades, we have been
the strongest pension company
on the pension savings market
in the Czech Republic.

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Company profile

Company name:	Penzijní společnost České pojišťovny, a.s. (until 31 December 2012 Penzijní fond České pojišťovny, a.s.)
Registered office:	Na Pankráci 1720/123, 140 21 Praha 4
Legal form:	joint-stock company (akciová společnost)
Date of incorporation:	19 September 1994
Registration number:	61858692
Incorporated:	Municipal Court in Prague, Section B, File 2738
Company owner (participating interest):	CP Strategic Investments N.V. (100%)
Share capital:	CZK 50 million

The Company has no organisational units outside the Czech Republic.

Penzijní společnost České pojišťovny is the largest pension savings provider in the Czech Republic. The Company currently has more than 1.1 million customers, and employers make contributions on behalf of 270,000 of them. The Company made a profit of CZK 557 million in 2018. The total volume of customer funds under management in the same period was almost CZK 110 billion.

The Company has long been committed to innovative, high-quality services. Digital services and online access to accounts at www.klientskyportal.cz are provided as a matter of course. All key savings-related factors, including the utilisation of tax breaks and information for customers on any non-payments, are automated. Financial advisers also draw on a wide range of digitised services, including “paperless” contracting, that are integrated into a special portal.

Penzijní společnost České pojišťovny, a.s. works closely with the distribution and branch networks of Česká pojišťovna and Generali. In addition to this cooperation, it nurtures relations with external financial consulting firms and partner banks.

Penzijní společnost České pojišťovny's Range of Funds

Pillar III funds	Savings schemes
Dynamický účastnický fond	Dynamic
Vyvážený účastnický fond	Balanced
Spořicí účastnický fond	Conservative
Povinný konzervativní fond	

Milestones

1994 – The Company is founded.

1996 – Pension fund customer numbers break through the 100,000 mark.

1998 – Company restructuring prompts sharp growth in the fund's economic and sales performance.

1999 – A specialised sales unit focusing exclusively on corporate clients is formed.

2001 – Supplementary pension schemes become part of the integrated product range known as the ČP Program zaměstnaneckých výhod (ČP Employee Benefit Programme).

2002 – The volume of assets exceeds CZK 10 billion.

2003 – A merger with the pension fund ČP penzijní fond (formally Commercial Union Penzijní fond) further accelerates Company growth.

2004 – Penzijní fond České pojišťovny merges with the pension fund Nový ČP penzijní fond (formally ABN AMRO Penzijní fond) and becomes the market leader in customer numbers.

2005 – Customer numbers pass the 800,000 mark and the Company triumphs in its category of the MasterCard Bank of the Year competition for the first time in its history.

2007 – Pension fund customer numbers break through the million mark.

2009 – Company assets exceed CZK 50 billion.

2010 – The Company reports a record CZK 1.15 billion profit.

2011 – In response to newly passed laws, the Company officially starts preparing for the upcoming pension reform.

2012 – At the end of the year, the Company is transformed from Penzijní fond České pojišťovny (a pension fund) into Penzijní společnost České pojišťovny (a pension company), and the Czech National Bank grants it the licences it needs to operate in the new second and third pillars of the pension system.

2013 – The Company enters into a strategic merger with Generali penzijní společnost.

2014 – The Company takes over the customer portfolio of Raiffeisen penzijní společnost.

2015 – In response to newly passed laws, the Company officially starts preparing for sales of supplementary pension savings schemes to customers under the age of 18.

2016 – The second pillar is terminated in response to the passing of legislation scrapping the pension reform. Conversely, a raft of changes are made to the third pillar, including the possibility of taking out savings schemes for children.

2017 – The Company was the first on the market to offer the new Balanced Transfer service, eliminating the risks associated with client transfers from the Transformed Fund.

2018 – The Company earned a prestigious Superbrands award. The Superbrands title is only awarded to brands that pass a multi-round selection process, including a GfK consumer survey.

Key financial figures

Company results

	2018	2017	2016	2015	2014
Profit after tax (CZK thousands)	557,489	532,335	651,898	355,903	367,183
Share capital (CZK thousands)	50,000	50,000	300,000	300,000	300,000

Number of customers (thousands)

Transformed pension fund (Pillar 3)	909	970	1,046	1,122	1,200
Pension funds (Pillar 3)	219	176	130	89	57
Pension funds (Pillar 2)*				42	42
TOTAL	1,128	1,146	1,176	1,253	1,299

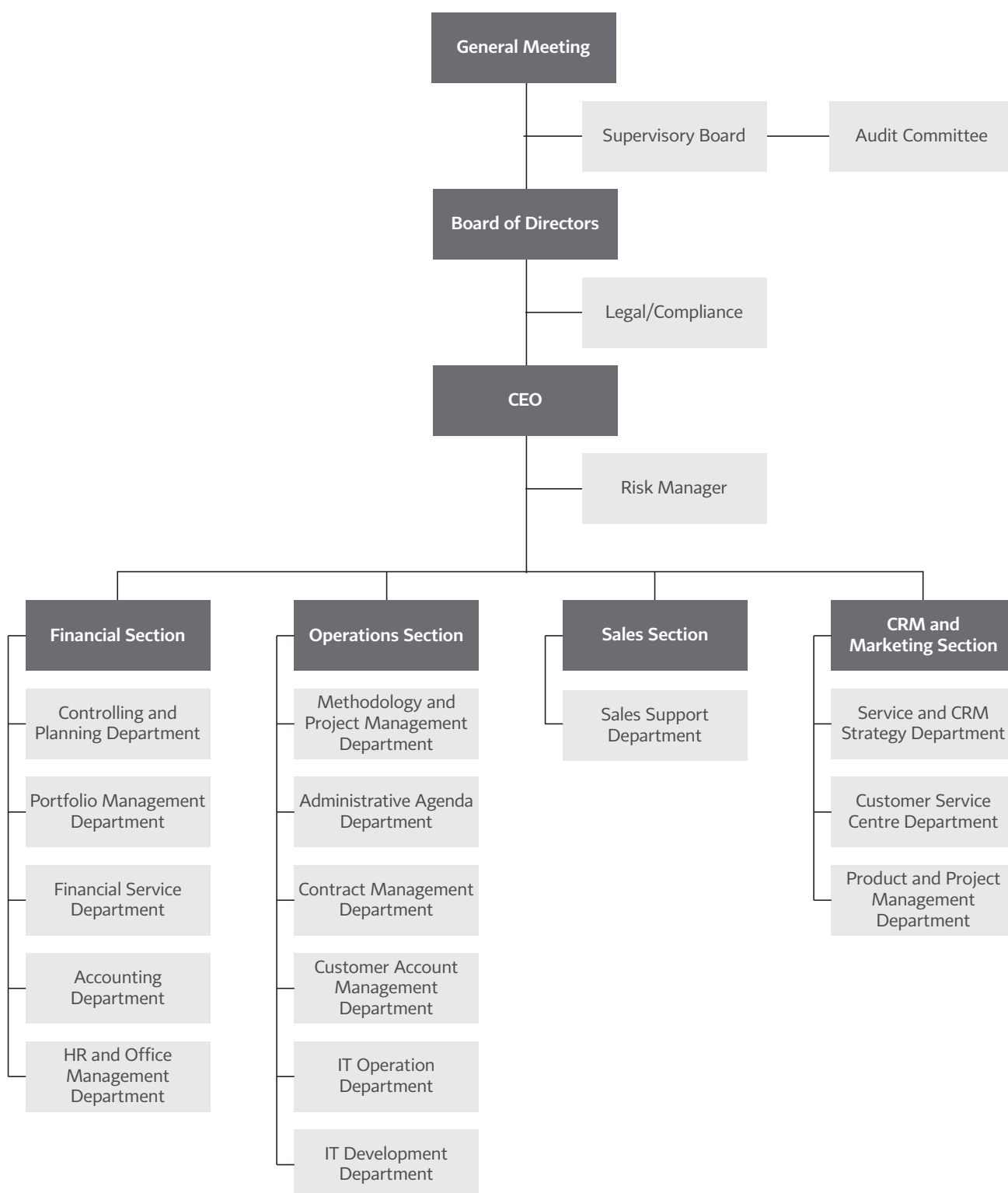
Assets under management (CZK thousands)

Transformed pension fund (Pillar 3)	100,918,734	96,564,822	92,001,410	86,509,494	79,397,541
Pension funds (Pillar 3)	8,902,077	6,273,803	3,893,598	2,282,541	1,129,685
Pension funds (Pillar 2)*				1,202,771	665,691
CELKEM	109,820,811	102,838,625	95,895,008	89,994,805	81,192,917

* Pillar 2 was ended in 2016.

Company organisational structure

as at 31 December 2018



Statutory bodies

Board of Directors



Chairman
Marcel Homolka

Appointment: since 1 June 2015
Born: 1976



Vice-Chairman
Miroslav Chromčík

Appointment: since 1 January 2016
Born: 1975



Member
Miroslav Žbel

Appointment: since 1 March 2015
Born: 1979

Supervisory Board



Chairman
Josef Beneš

Appointment: since 11 January 2016
Born: 1970



Member
Petr Bohumský

Appointment: since 1 February 2015
Born: 1971



Member
Tomáš Vysoudil

Appointment: since 1 July 2015
Born: 1972

Audit Committee

Chairman
Martin Mančík

Appointment: since 2 March 2017
Born: 1975

member
Beáta Petrušová

Appointment: since 10 February 2017
Born: 1968

member
Roman Smetana

Appointment: since 1 January 2016
Born: 1974

Foreword

Ladies and Gentlemen,

We have been witnessing the private pension savings market in the Czech Republic recover in leaps and bounds for the past three years now. This rebound can be attributed not only to the long-term growth of the economy as a whole, but also to the current political stability, as reflected in the public's restored confidence. It is therefore my pleasure to present you with this annual report and to announce that last year, courtesy of all the aforementioned areas, we profited immensely to the benefit of our customers, shareholders and business partners.

The total volume of funds managed by the Company rose by 7% year on year to almost CZK 110 billion. The continuously growing sum of assets under management and unabating cost optimisation were key factors underpinning our profit of CZK 557 million. As the largest pension company both by volume of resources under management and by number of customers, we will continue to place an emphasis on high process efficiency, innovation and investment in companies that respect the principles of sustainable development.

The well-balanced mix of internal distribution, created by the networks of Česká pojišťovna and Generali together with external financial consulting firms, has delivered the planned business results. The biggest growth in new business was reported in the children's savings segment. In the past year, the portfolio of children's contracts expanded by 64%. Our Company holds a dominant 35.6% market share in the children's contracts segment. In fact, children's contracts remain a strategic priority of our acquisition activities in the period ahead. We also focused on explaining the differences and benefits of saving under "old" contracts in the "transformed" fund and in the supplementary pension savings participation funds. In tandem with this, we continued to reach out to existing customers with offers to increase their regular deposits, as they would then benefit from higher state subsidisation.

Last year was very successful for the entire sector. Despite the significant capital market turmoil at the tail end of 2018, the first weeks of the new year showed that the sector as a whole really is very strong, and all of the year-end lapses were quickly wiped out. As a result, all of the Company's portfolios have grown steadily since their establishment. I am convinced that the principles of sustainable development being pursued across the Generali Group, which are also reflected in the investment activity of the funds we manage, will continue to provide clients with high-quality returns on their savings.

We consistently focus on the digitalisation and honing of the service we give to customers and agents. At the end of last year, we introduced a unique innovation: paperless contracting. Financial advisers conclude pension savings contracts with customers without having to print a paper form. This unique process innovation makes the entire sales process easier for agents. The Company has decided to fundamentally digitalise and innovate all its processes. This form of sale, quite unusual on the market, is part of our new strategy.

I would like to mention last year's successful implementation of the measures necessary to satisfy the requirements of the General Data Protection Regulation (GDPR). Since May 2018, the Company has been operating in full compliance with this EU legislation.

The last thing I would like to mention is the renewed political debate on the adjustments to the pension system that are needed. We fully support all government activities aimed at netting more financial resources for the pension system. Personally, I am convinced our pension system can be revived by bolstering third-pillar savings, specifically through the greater involvement of employers and the automatic participation of employees, who would have an opt-out if they so wish.

In conclusion, I would like to thank all of our employees and business partners, as they are the pillars of our success. Our business goals are guided by our ambition to become a lifelong partner for customers and offer them innovative and personalised solutions. Another integral part of the whole Generali Group's strategy is geared towards sustainable business. This has given rise to the Group's global humanitarian initiative known as The Human Safety Net. I am glad that Penzijní společnost České pojišťovny is also involved in this amazing initiative.



A stylized handwritten signature in black ink, consisting of a large 'M' followed by a series of loops and a long horizontal stroke.

Marcel Homolka
Chief Executive Officer, Chairman of the Board of Directors

Company activity report

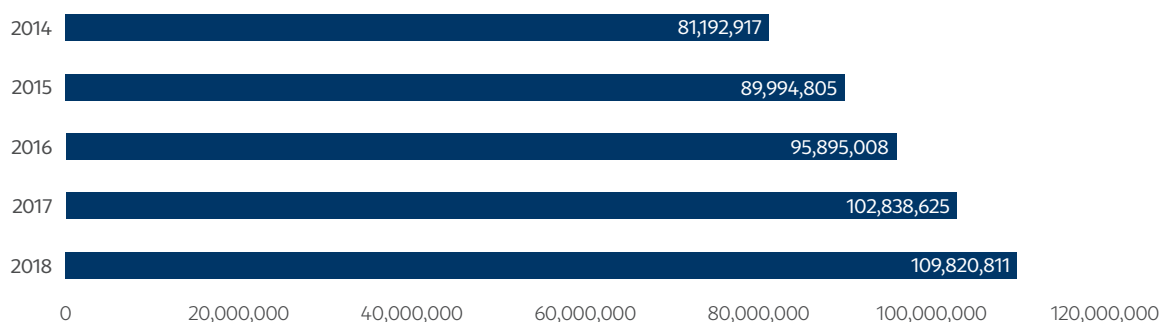
Penzijní společnost České pojišťovny, the largest provider of private pension savings, managed total customer resources of almost CZK 110 billion in 2018. At the end of 2018, the Company had 1.128 million customers on its books, 270,000 of whom also receive employer contributions. The Company has long achieved industry-leading financial results. The Company habitually comes up with product and service innovations that are primarily aimed at digitalisation.

Financial Results

Penzijní společnost České pojišťovny also heads the way in profitability. The Company's profitability reflects the continuous growth in the volume of customer funds under management, which amounted to CZK 109.8 billion at the end of the past year, up 6.8% on the year previous. Total annual cash-in, i.e. customer funds, state subsidisation and employer contributions, came to CZK 14.4 billion last year (a year-on-year rise by 6%). Although most of the savings under management are still in the transformed fund, the share of deposits in the supplementary pension savings participation funds is steadfastly rising. At year-end, the transformed fund accounted for 92% of assets, participation funds now holding 8% of all deposits by volume.

In the management of the investment portfolios of all of the funds managed, the sustainable development approach now integral to the Generali Group's global strategy has started to be consistently applied.

Total assets managed by Penzijní společnost České pojišťovny (CZK thousands)



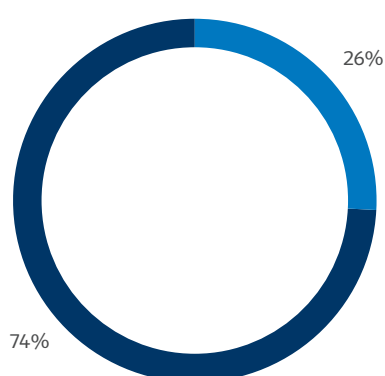
Business Performance

The Company remained on track with its successful distribution strategy. As usual, business was mediated via the branches and consultants of ČP Distribuce, Generali agents, and external financial consulting networks. Last year, the planned number of contracts was fulfilled, while the positive trend in the changing age structure of newly acquired clients continued in favour of the band aged 0–18 years. The share of children's contracts in the total number of new savings products sold was 11.2%, thereby confirming its dominant share (35.6%) in this market segment. The Company ratcheted up its communication with younger clients under the transformed fund in order to inform them of the possibility of switching to participation funds, which can achieve higher potential returns in the longer term.

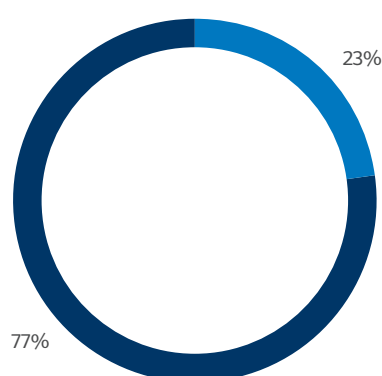
In 2018, the Company continued to run CRM campaigns aimed at increasing regular deposits and the utilisation of tax concessions. In all, 58,000 clients responded positively to the offer, which was distributed by agents and, especially, online, including via active and passive telemarketing.

Company's Market Share in Clients in Each Market Segment

Transformed funds



Participation funds



■ Penzijní společnost České pojišťovny, a.s.
 ■ Other pension companies

Other financial and non-financial information

Events after the balance-sheet date

No significant events occurred between the balance-sheet date (31 December 2018) and the date on which the financial statements were prepared, and the Annual Report provides coherent, balanced and comprehensive information on the performance, activities and economic performance of the Company.

Outlook for the entity's operations

The Company will remain a going concern. There are no circumstances which would limit it or prevent it from continuing its activities in the next accounting period.

Research and development

The Company did not engage in any research and development in 2018.

Information on the acquisition of treasury stock or own shares

In the 2018 reference period, the Company did not acquire or hold any treasury stock or own shares.

Human Resources, CSR and the Green Policy

The Company's emphasis on employee care, corporate social responsibility, and maintaining an environmental approach reflects the importance of these themes across the Generali Group.

Every year, the Company applies and refines its core employee appraisal principles, focusing on positive motivation and the identification and exploitation of the strengths of individuals. Top-rated employees benefit from systemic development support and participate in the Group's talent management programme.

Employees can take their pick of a range of internal and external development programmes, including language lessons, in keeping with the Company's needs and goals. Development also includes selected teambuilding activities.

Besides professional and personal growth, the Company offers employees a whole raft of attractive sports and financial benefits, health care, with an emphasis on disease prevention and physical and mental fitness, and healthy eating. Last year, the benefit system was expanded to include a "cafeteria", where employees can draw on additional benefits and offers of services.

In CSR, the Company's employees were able to continue involving themselves in volunteer projects for up to two working days over the course of the year in accordance with established rules.

The ongoing digitalisation of communication with customers and agents resulted in further reductions in the use of paper and energy. In the autumn, a unique function, unprecedented on the market, was launched in the agent portal – the option to enter into pension savings contracts without having to print any forms. At the end of the year, half a million active users were registered with the Company's customer portal (www.klientskyportal.cz), enabling them to manage their pension accounts online.

Information on Branches or Other Business Units Abroad

The Company has no organisational units outside the Czech Republic.

Supervisory Board report

Report of the Supervisory Board of Penzijní společnost České pojišťovny, a.s. (the “Company”) on the results of its supervisory activity, including reviews of the Company's ordinary financial statements for 2018 and the Report on Related-party Transactions for 2018, and its opinion on the proposal made by the Company's Board of Directors for the distribution of the Company's 2018 profit.

In 2018, the work of the Supervisory Board of Penzijní společnost České pojišťovny, a.s. was carried out in accordance with the provisions of the relevant laws and the Company's Articles of Association. The Company's Supervisory Board oversaw the exercise of the responsibilities incumbent on the Company's Board of Directors and the performance of the Company's business operations.

In 2018, the Company's Supervisory Board convened three ordinary meetings within the limits of its competence and in accordance with the Company's Articles of Association. At its meetings, the Supervisory Board engaged primarily in the supervision and monitoring of the Company's management, its business operations and performance, the investment portfolio balance and returns, and the fulfilment of the Company's 2018 financial and business plans.

The Company's Board of Directors presented the Supervisory Board with the Company's ordinary financial statements for 2018, including the auditor's report, and with a proposal for the distribution of the profit made by the Company in 2018. The Company's Supervisory Board also received, for its consideration, the Report on Related-party Transactions for 2018, drawn up in accordance with Section 82(1) of Act No 90/2012 on companies and cooperatives, as amended (the “Business Corporations Act”), encompassing the accounting period from 1 January 2018 to 31 December 2018, which was also audited. Having assessed the Company's economic performance for 2018, the Company's Supervisory Board hereby submits the following opinion to the General Meeting:

The Company's Supervisory Board has reviewed the Company's annual financial statements for 2018 and the accompanying auditor's report. In line with the audit opinion, it found no impediments. Against this background, the Company's Supervisory Board recommends that the Company's General Meeting approve the Company's annual financial statements for the 2018 accounting period. The Company's Supervisory Board also recommends that the General Meeting decide on the distribution of profit for 2018 according to the proposal submitted by the Company's Board of Directors.

The Company's Supervisory Board also reviewed the Report on Related-party Transactions for 2018, drawn up in accordance with Section 82(1) of Act No 90/2012 on business corporations, as amended, which was also audited, and found no facts therein that would constitute grounds for the Company's Supervisory Board to express a negative opinion on the content thereof.

Prague, 30 April 2019



Josef Beneš
Chairman of the Supervisory Board Report

Financial Statements

Report on Relations between Related Parties

for the year ended 31 December 2018

In accordance with the provisions of Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives, as amended (hereinafter the “Business Corporations Act”), the Board of Directors of Penzijní společnost České pojišťovny, a.s., as the statutory body of the controlled entity, has hereby prepared this Report on Relations of Penzijní společnost České pojišťovny, a.s., with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, for the accounting period from 1 January 2018 to 31 December 2018 (hereinafter the “reporting period”).

I. Company

Penzijní společnost České pojišťovny, a.s., with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, Business registration No. (IČ) 61858692, entered in the Commercial Register maintained by the Municipal Court in Prague, File B 2738 (hereinafter the “Company”), is part of a business group (holding) with the following relations between the Company and a controlling entity and relations between the Company and other entities controlled by the same controlling entity (hereinafter the “related parties”). The accompanying Report on Relations has been prepared pursuant to the provisions of Section 82(1) of the Business Corporations Act. In its role, the Company is primarily involved in the following business activities:

- collection of funds from supplementary pension scheme participants and funds from the state credited to the participants, and handling these funds within the meaning of Act No. 42/1994 Coll., on State-contributory Supplementary Pension Insurance, as amended;
- payment of supplementary pension scheme benefits (pensions);
- collection of participant’s contributions, employer’s contributions and state contributions in accordance with Act No. 427/2011 Coll., on Supplementary Pension Savings, as amended, in order to place the contributions to participation funds, asset management in participation funds and payment of benefits from supplementary pension savings;
- carrying out the activities causing that those interested in supplementary pension savings or a participant have an opportunity to conclude a supplementary pension savings contract with a pension company; and
- concluding supplementary pension savings contracts on behalf and account of a pension company.

II. Structure of relations between Related Parties, role of the Controlled Entity, method and means of control

Both in the previous reporting period and as at the date of this report, the entity directly controlling the Company was CP Strategic Investments N. V. with its registered office in 1101BH Amsterdam, De entree 91, the Netherlands, registered in the Dutch Chamber of Commerce under the registration number 34124690; during the respective reporting period, the registered office of the Company’s sole shareholder changed from 1112XN Diemen, Diemerhof 42, the Netherlands to 1101BH Amsterdam, De entree 91, the Netherlands.

The controlling entity of Penzijní společnost České pojišťovny, a.s., is Generali CEE Holding B.V., with its registered office in De entree 91, 1101BH Amsterdam, the Netherlands, incorporated under the laws of the Netherlands and registered in the Commercial Register under the registration number 34275688, which oversees and manages activities of the Generali Group in Central and Eastern Europe through its subsidiaries (controlled entities). The company operates not only in the Czech Republic, but also in Slovakia, Poland, Austria, Russia, Hungary, Romania, Bulgaria, Serbia, Slovenia, Montenegro and Croatia. At the same time, the Company has been a member of the Generali Group controlled by Assicurazioni Generali S.p.A., with its registered office at Piazza Duca degli Abruzzi 2, Trieste, Italy, registered in the Commercial Register under the registration number 00079760328, which is the parent company of Generali CEE Holding B.V. The Company is a member of the Generali insurance group. As such, it is obligated to follow instructions issued by the controlling entity in executing its management and coordination activities and to implement measures adopted by the supervisory authority IVASS (Istituto per la Vigilanza sulle Assicurazioni) to ensure stable and effective management of the Generali Group. The controlling entities execute control within the Generali Group exclusively through their votes, i.e. by exercising their voting rights at general meetings.

III. Summary of contracts entered into by and between the Company and Related Parties

The following summary includes an overview of agreements concluded by and between the Company and other related parties; these agreements were valid and effective in the reporting period from 1 January 2018 to 31 December 2018 for the whole or part of the period.

- Framework agreement on sharing of costs (for the calculation of incentives and commissions) concluded with Česká pojišťovna a.s., dated 12 April 2017;
- Agreement on processing of personal data, concluded with Česká pojišťovna a.s., dated 1 July 2004, as amended;
- Agreement on the sublease of non-residential premises concluded with Česká pojišťovna a.s., dated 1 October 2012, as amended;
- Mandate contract with Česká pojišťovna a.s., dated 1 December 2012, as amended;
- Insurance contract with Česká pojišťovna a.s., dated 29 December 2014;
- Agreement on the sublease of business premises with Česká pojišťovna a.s. dated 31 March 2017;
- Framework agreement on cost sharing with Česká pojišťovna a.s. dated 1 January 2017, as amended;
- Contract for participation on the GDPR project with Česká pojišťovna a.s., dated 26 May 2017, as amended by Amendment no. 1;
- Contract for participation on the project with Česká pojišťovna a.s., dated 26 May 2017, as amended by Amendment no. 1 dated 18 December 2017;
- Framework agreement on sharing of NON-IT and IT technologies and related operating expenses, concluded with Česká pojišťovna, a.s., dated 1 January 2017;
- CALL CENTRUM sales representation agreement with Česká pojišťovna a.s., dated 22 June 2016;
- Agreement on the provision of access to KPMG Helpline with Česká pojišťovna a.s., dated 2 January 2013;
- Sales representation agreement with Generali Distribuce a.s. (formerly FINHAUS a.s.), dated 1 July 2016, as amended;
- Framework agreement with ČP Distribuce s.r.o. (now ČP Distribuce a.s.) dated 12 April 2017, as amended;
- Contract for the assignment of the sales representation agreement between Česká pojišťovna a.s. and ČP Distribuce s.r.o. (now ČP Distribuce a.s.), including the Company as the intervener, dated 12 April 2017;
- Sales representation agreement with ČP Distribuce s.r.o. (now ČP Distribuce a.s.), dated 1 July 2017;
- Sales representation agreement with Direct Care s.r.o., dated 2 January 2013, as amended;
- Framework agreement on cost sharing with Generali Pojišťovna, a.s., dated 2 January 2013;
- Agreement on performance of obligations arising from Group membership, concluded on 2 January 2017 with the following entities: Česká pojišťovna a. s., Generali CEE Holding B.V. (through Generali CEE Holding B.V. organizační složka), Generali Pojišťovna, a.s., Generali Investments CEE, investiční společnost a.s., FINHAUS, a.s. (now Generali Distribuce a.s.), Česká pojišťovna ZDRAVÍ a.s., Direct Care s.r.o., ČP Distribuce s.r.o. (currently ČP Distribuce a.s.), Generali Shared Services S.C.A.R.L. (through Generali Shared Services Czech Branch, organizační složka), Acredité s.r.o.;
- Agreement on cooperation and provision of services with Acredité s.r.o. dated 1 November 2016;
- Agreement on expert examinations with Acredité s.r.o., dated 26 October 2017;
- Investment management agreement with Generali Investments CEE, investiční společnost a.s., dated 12 February 2018, as amended;
- Agreement with Česká pojišťovna ZDRAVÍ a.s. on free insurance campaign for FINHAUS a.s. (Agreement on cost reimbursement) dated 31 October 2017;
- Agreement with Česká pojišťovna ZDRAVÍ a.s. on free insurance campaign for FINHAUS a.s. (Insurance contract no. 19100978/2017 for group medical assistance insurance dated 31 October 2017, as amended by Amendment no. 1 dated 23 May 2018);
- Confidentiality agreement with Generali Shared Services S.C.A.R.L. (through Generali Shared Services Czech Branch, organizační složka), dated 1 December 2017; and
- Agreement on processing of personal data with Generali CEE Holding B.V., through Generali CEE Holding B.V., organizační složka, dated 25 May 2018;
- Agreement on provision of services with Generali PPF Holding BV (now Generali CEE Holding B.V.), through Generali PPF Holding BV, organizační složka (now Generali CEE Holding B.V., organizační složka), dated 1 January 2009.

The Company did not undertake any legal acts for the benefit or at the request of related parties pertaining to assets exceeding 10% of the Company's equity as stated in its most recent financial statements.

IV. Performance provided and detriment suffered by the controlled entity and method of compensation

All the aforementioned agreements including their amendments (hereinafter the “agreements”) were entered into on an arm’s-length’s basis. Similarly, all performance provided and counter-performance received under the foregoing agreements and agreements entered into in prior years was effected on an arm’s-length basis and the Company suffered no detriment therefrom. No special benefits or drawbacks or additional risks arise for the Company from the foregoing agreements. The Company collaborates on Group projects and policies as a member of the Generali Group. The Company suffered no detriment arising from the Group activities.

V. Final representation

The review of the legal relations put in place between the Company and the related parties indicates that the Company incurred no detriment as a result of contractual arrangements, other legal acts or other measures implemented, made or adopted by the Company during the respective reporting period in the interest, or at the initiative, of individual related parties. This Report on Relations has been prepared by the Board of Directors and will be submitted to the Supervisory Board for review and, as part of the annual report, to the auditor in charge of the financial statements audit. The statutory body declares that the Report has been prepared with due diligence and that all information included in the Report is sufficient, accurate and complete. In line with its statutory obligations, the Company shall issue an annual report and the accompanying Report on Relations of the Company will be an integral part thereof.

VI. Annex

Annexed to this Report on Relations is a structure of the Generali CEE Holding B.V. holding as at 31 December 2018.

In Prague, 15 February 2019

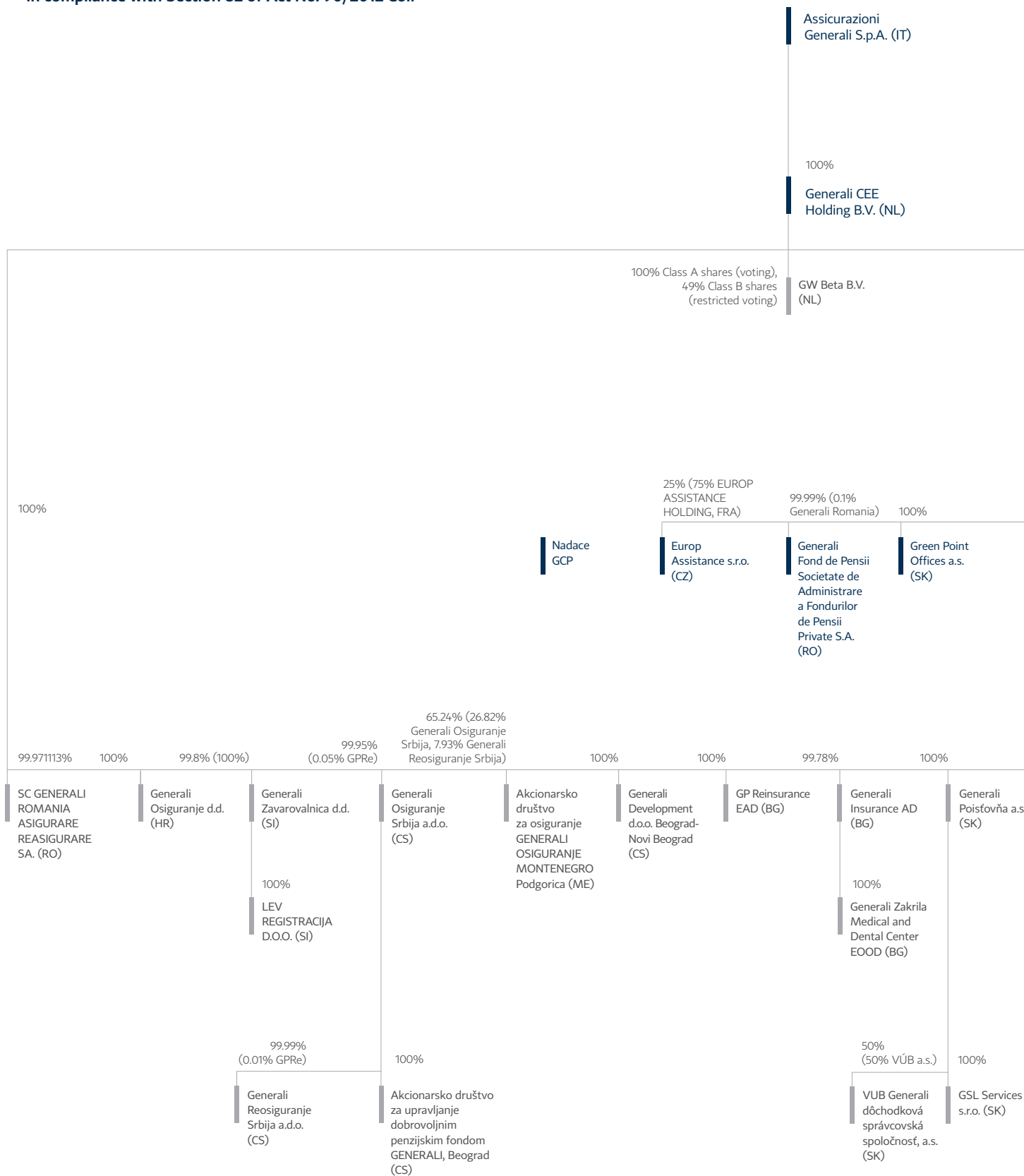


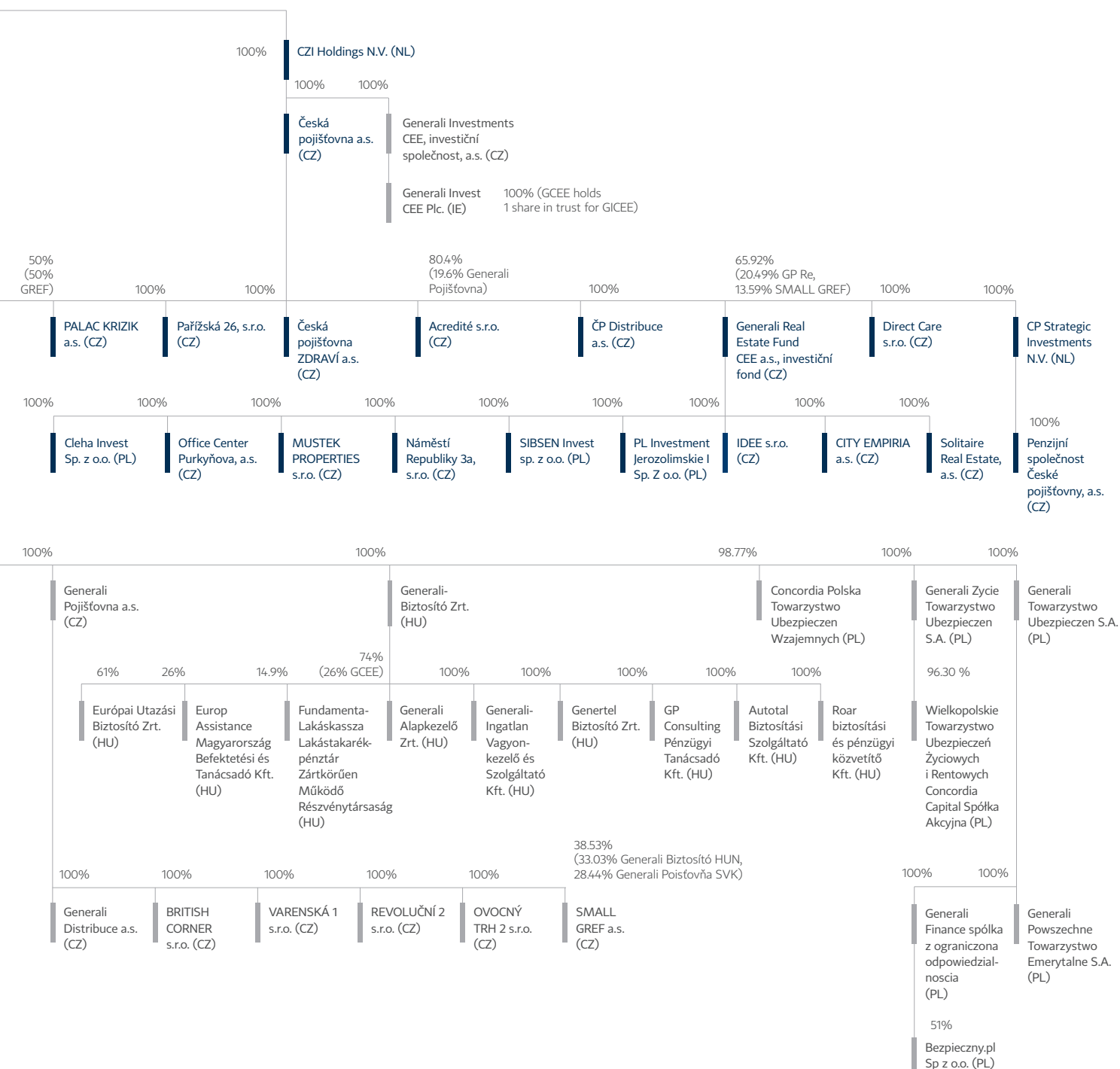
Marcel Homolka
Chairman of the Board of Directors
Penzijní společnost České pojišťovny, a.s.



Miroslav Chromčík
Vice-Chairman of the Board of Directors
Penzijní společnost České pojišťovny, a.s.

Generali CEE Holding B.V. – Group structure as at 31. December 2018
for the purposes of Report on Related-party Transactions of Penzijní společnost České pojišťovny, a. s.
in compliance with Section 82 of Act No. 90/2012 Coll





Penzijní společnost České pojišťovny, a.s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Penzijní společnost České pojišťovny, a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Penzijní společnost České pojišťovny, a.s. (hereinafter also the “Company”) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018 and the income statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Fair Value of Financial Instruments

The Company's portfolio of financial instruments, disclosed in Note 4.1 Securities Available-for-Sale and 18.3 Financial Derivatives to the financial statements, represents a major part of the Company's total assets. These securities Available-for-Sale are initially recognized at cost, which includes direct transaction costs, and subsequently measured at fair value as disclosed in Note 2.7 Securities Available-for-Sale to the financial statements. Financial derivatives are initially recognized on the balance sheet at cost, which includes direct transaction costs, and subsequently remeasured at fair value as disclosed in Note 2.11 Financial Derivatives and Hedging to the financial statements.

The Company assesses the market activity in order to determine the appropriate valuation method for financial instruments at fair value in its investment portfolio.

The fair value of financial instruments traded in an active market (liquid and quoted financial instruments) should be determined using the market observable prices.

A part of the financial instruments portfolio consists of financial instruments which are not traded on active market. Fair values of these securities are not based on quoted market prices, but based on valuation models that use inputs and assumptions that are either market observable or unobservable, as disclosed in Note 2.4 Fair Value of Securities and 2.11 Financial Derivatives and Hedging. Judgements and estimates made by Company management are required to a significant extent to determine the appropriate valuation method (especially based on market activity assessment) as well as the assumptions and inputs for valuation models serving for determining the fair value of these securities available-for-sale and financial derivatives. Due to this fact and due to the significance of financial instruments to the balance sheet this area requires significant audit effort and was assessed as a key matter for our audit.

We assessed the governance and process of the valuation of financial instruments. We tested design and operating effectiveness of the Company's internal controls over the valuation process including selection of the valuation method.

We reviewed the methodology applied by the Company to assess the market activity of financial instruments at fair value in its portfolio. For a selected sample of financial instruments across the whole portfolio we tested that illiquid or non-quoted instruments were correctly identified and valuation method correctly selected.

For a sample of liquid and quoted financial instruments we compared their fair value to the observable market price. With the assistance of valuation specialists, we evaluated the models, inputs and assumptions used by the Company in determining fair values of illiquid or non-quoted financial instruments.

In case of non-observable market inputs we performed an assessment of their reasonableness using an expert judgement. For a sample of these financial instruments we compared the fair values derived from our internal valuation model to the fair values determined by the Company. We also considered the adequacy of the Company's disclosures (2.4 Fair Value of Securities, 2.7 Securities Available-for-Sale, 2.11 Financial Derivatives and Hedging, 4.1 Securities Available-for-Sale and 18.3 Financial Derivatives) related to valuation of securities available-for-sale and financial derivatives, valuation methods and inputs used for fair value determination and compliance of disclosures with accounting principles generally accepted in the Czech Republic.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Company's Board of Directors and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and the Audit committee of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the Decision of the sole shareholder acting in the capacity of the General Meeting of the Company on 9 October 2018 and our uninterrupted engagement has lasted for 7 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009

26 April 2019
Prague, Czech Republic

Penzijní společnost České pojišťovny, a.s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017
Cash on hand		16	26
Due from banks	3	1,025,413	1,530,878
of which: a) repayable on demand		89,881	421,433
b) other receivables		935,532	1,109,445
Debt securities	4	1,295,218	715,432
of which: a) issued by government institutions		949,750	414,083
b) issued by other entities		345,468	301,349
Intangible fixed assets	5	53,592	56,928
Tangible fixed assets	5	3,577	4,243
Other assets	6	208,628	187,123
Prepayments and accrued income	7	106,618	86,598
TOTAL ASSETS		2,693,062	2,581,228
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017
Other liabilities	8	91,162	84,930
Provisions		139,400	33,214
of which: a) for taxes	17	124,130	18,250
b) other provisions		15,270	14,964
Share capital – paid up	9.1	50,000	50,000
Reserve funds and other funds from profit	9.2	7,850	7,850
a) statutory reserve funds and risk funds		0	0
b) other funds from profit		7,850	7,850
Capital funds	9.3	650,248	650,248
Revaluation reserve	9.4	(6,996)	18,742
a) for assets and liabilities		(6,996)	18,742
b) for hedging derivatives		0	0
Retained earnings	9.5	1,203,909	1,203,909
Profit/(Loss) for the period	9.6	557,489	532,335
TOTAL LIABILITIES		2,693,062	2,581,228
OFF-BALANCE-SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Receivables from fixed-term transactions	18.3	556,213	89,552
Assets provided for management by a third party	20.2	2,246,000	1,937,740
Receivables from spot transactions	20.1	0	8,723
Total off-balance sheet assets	20	2,802,213	2,036,015
Off-balance sheet liabilities			
Payables from fixed-term transactions	18.3	563,260	88,889
Payables from spot transactions	20.1	0	8,653
Commitments and guarantees received		0	20,000
Collateral and pledge received	20.1	929,566	1,109,445
Assets received for management from a third party	20.3	126,356,314	123,597,911
Total off-balance sheet liabilities	20	127,849,140	124,824,898

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	31 December 2018	31 December 2017
Interest and similar income	10	28,277	32,849
of which: interest income from debt securities		27,082	31,930
Interest and similar expense	10	(1,486)	(20,106)
of which: interest expense from debt securities		0	(19,551)
Fee and commission income	11	1,017,605	959,532
Fee and commission expenses	12	(145,825)	(132,189)
Gain or loss from financial transactions	13	(2,389)	10,837
Other operating income	14	5,275	11,687
Other operating expenses	15	(4,002)	(1,177)
Administrative expenses	16	(181,402)	(186,233)
of which: a) staff costs		(93,163)	(94,829)
of which: aa) wages and salaries		(72,434)	(73,385)
ab) social security and health insurance		(20,729)	(21,444)
b) other administrative expenses		(88,239)	(91,404)
Write-offs, additions to, and use of, provisions for and allowances against tangible and intangible fixed assets		(19,436)	(21,181)
Write-offs, additions to, and use of, allowances against and provisions for receivables and guarantees		(628)	1,908
Profit on ordinary activities before tax		695,989	655,927
Income tax	17	(138,500)	(123,592)
of which: a) current tax		(133,985)	(18,250)
b) deferred tax		(4,515)	(105,342)
Profit/(Loss) for the period after tax	9.6	557,489	532,335

Statement of Changes in Equity for the year ended 31 December 2018

(in CZK thousands)	Share capital	Reserve funds and other funds from profit	Capital funds	Revaluation reserve	Retained earnings	Profit/(loss) in approval process (1 January)/ Profit for the period (31 December)	Total
Balance at 1 January 2017	300,000	67,850	650,248	43,433	1,059,838	651,898	2,773,267
Revaluation reserve	0	0	0	(24,691)	0	0	(24,691)
Transfers to funds	0	(60,000)	0	0	711,898	(651,898)	0
Use of funds	0	0	0	0	0	0	0
Dividend paid	0	0	0	0	(567,827)	0	(567,827)
Share capital decrease	(250,000)	0	0	0	0	0	(250,000)
Net profit/(loss) for the period	0	0	0	0	0	532,335	532,335
Balance at 31 December 2017	50,000	7,850	650,248	18,742	1,203,909	532,335	2,463,084
Balance at 1 January 2018	50,000	7,850	650,248	18,742	1,203,909	532,335	2,463,084
Revaluation reserve	0	0	0	(25,738)	0	0	(25,738)
Transfers to funds	0	0	0	0	0	0	0
Use of funds	0	0	0	0	0	0	0
Dividend paid	0	0	0	0	0	(532,335)	(532,335)
Share capital decrease	0	0	0	0	0	0	0
Net profit/(loss) for the period	0	0	0	0	0	557,489	557,489
Balance at 31 December 2018	50,000	7,850	650,248	(6,996)	1,203,909	557,489	2,462,500

Financial Statements for the year ended 31 December 2018

1. General Information

Penzijní společnost České pojišťovny, a.s. (the “Company”) was incorporated on 1 January 2013 through transformation of Penzijní fond České pojišťovny, a.s., which was registered in the Commercial Register on 19 September 1994.

The Company’s registered office is located at Prague 4, Na Pankráci 1720/123, Nusle and the business registration number is 618 58 692.

Based on the transformation project approved on 6 September 2012 by the Czech National Bank, Penzijní společnost České pojišťovny, a.s. and Transformovaný fond Penzijní společnosti České pojišťovny, a.s. were incorporated. The incorporation of the companies took effect as of 1 January 2013, which was the effective date stipulated by the transformation project.

The assets of supplementary pension scheme participants were separated from the assets of the joint stock company (pension fund) as at the same date. In accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings, Penzijní společnost České pojišťovny, a.s. allocated the assets and liabilities related to the supplementary pension scheme into Transformovaný fond Penzijní společnosti České pojišťovny, a.s. and, through this fund, began to operate supplementary pension schemes for supplementary pension schemes participants and benefit recipients the liabilities to whom were allocated to the fund.

As at 1 January 2013, the Company merged with Generali penzijní společnost, a.s. (business registration number of the dissolving company was 639 98 475).

In 2013 the Company established four pension funds and four participating funds as follows:

- Důchodový fond státních dluhopisů Penzijní společnosti České pojišťovny, a. s.
- Konzervativní důchodový fond Penzijní společnosti České pojišťovny, a. s.
- Vyvážený důchodový fond Penzijní společnosti České pojišťovny, a. s.
- Dynamický důchodový fond Penzijní společnosti České pojišťovny, a. s.
- Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s.
- Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s.
- Vyvážený účastnický fond Penzijní společnosti České pojišťovny a. s.
- Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s.

On 10 June 2014 the transfer of management of all pension and participating funds took place between Raiffeisen penzijní společnost a.s. and Penzijní společnost České pojišťovny, a.s., being the acquiring company, followed by a subsequent merger of pension and participating funds on 16 June 2014. The transfer of funds was authorized by decision of the Czech National Bank (“ČNB”) dated 23 May 2014 and the subsequent merger of the funds was authorized by the ČNB authorization dated 16 June 2014.

On 1 January 2016 Act No. 376/2015 Coll. on Pension Savings Termination (the “Pension Savings Termination Act”) became effective, as well as the related Act No. 377/2015 Coll., which amends certain acts in connection with adoption of the Pension Savings Termination Act. The Pension Savings Termination Act repeals Act No. 426/2011 Coll. on Retirement Savings, as amended (the “Retirement Savings Act”) with effect from 1 January 2018. Pursuant to Section 10 of the Pension Savings Termination Act, the authorization to establish pension funds terminated on 30 June 2016. Upon the termination of authorization to establish pension funds, the pension funds entered into liquidation on 30 June 2016 and ceased to exist as of 30 November 2016.

The sole shareholder of the Company is CP Strategic Investments N.V., with its registered office at De entree 91, 1101BH Amsterdam, the Netherlands. The information disclosed in the Company’s financial statements is included in the consolidated financial statements of the group Generali CEE Holding B.V., with its registered office at De entree 91, 1101BH Amsterdam, the Netherlands, and Assicurazioni Generali S.p.A., Piazza Duca degli Abruzzi 2, 34132 Trieste, Italy, which is the ultimate parent company and which prepares the consolidated financial statements of the largest group of entities. The consolidated financial statements are available at www.generalicee.com and www.generali.com.

The Company is primarily involved in:

- collection of funds from supplementary pension scheme participants and funds from the state credited to the participants, and handling these funds within the meaning of Act No. 42/1994 Coll. on State-contributory Supplementary Pension Insurance;
- payment of supplementary pension scheme benefits (pensions);
- collection of participant's contributions, employer's contributions and state contributions in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings in order to place the contributions to participation funds, asset management in participation funds and payment of benefits from supplementary pension savings;
- collection and management of savings participants' funds in pension funds and payment of benefits in accordance with Act. No. 426/2011 Coll. on Retirement Savings;
- carrying out the activities causing that those interested in supplementary pension savings or a participant have an opportunity to conclude a supplementary pension savings contract with a pension company;
- concluding supplementary pension savings contracts on behalf and account of a pension company.

The Company's organizational structure is as follows:

- sales and marketing division;
- finance division;
- operations division;
- CRM and marketing division.

The Company's main distribution channels are comprised of advisors and branches of ČP Distribuce, which is subsidiary of Česká pojišťovna, and also advisors and branches of independent network of financial advisors.

The Company's investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The administered funds' custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the "Custodian").

Number of policyholders of administered funds:	2018	2017
Povinný konzervativní fond	5,220	4,397
Spořicí účastnický fond	147,488	128,622
Vyvážený účastnický fond	74,556	54,843
Dynamický účastnický fond	55,190	34,019
Transformovaný fond	908,221	969,713

Amount of benefits paid (in CZK thousands)	2018	2017
Povinný konzervativní fond	57,033	26,250
Spořicí účastnický fond	617,978	187,218
Vyvážený účastnický fond	169,762	112,259
Dynamický účastnický fond	51,264	31,672
Transformovaný fond	6,973,555	7,125,557

Number of benefits paid	2018	2017
Povinný konzervativní fond	991	509
Spořicí účastnický fond	13,147	6,190
Vyvážený účastnický fond	5,375	3,689
Dynamický účastnický fond	2,196	1,426
Transformovaný fond	65,355	76,422

Annual yield (in %)	2018	2017
Povinný konzervativní fond	(0.34)	(0.28)
Spořicí účastnický fond	(1.35)	0.01
Vyvážený účastnický fond	(4.85)	4.13
Dynamický účastnický fond	(9.13)	8.24
Transformovaný fond	1.07	0.84

If need be Transformovaný fond establishes an insurance provision for the payment of future pension claims in the amount of net present value of the expected pension payments computed by an actuary, net of the sum of funds recorded to the benefit of pension beneficiaries as at the provision computation date. Other participating funds do not create a provision for the payment of life-long pensions or pensions with fixed term and fixed pension benefit because these pensions are paid out by an insurance company designated by the client on the basis of signed insurance policy.

Board of Directors, Supervisory Board and Audit Committee

Board of Directors:

Chairman of the Board of Directors:	Marcel Homolka
Vice-chairman of the Board of Directors:	Miroslav Chromčík
Member of the Board of Directors:	Miroslav Žbel

No changes in the Board of Directors occurred in 2018.

Supervisory Board:

Chairman of the Supervisory Board:	Josef Beneš
Member of the Supervisory Board:	Petr Bohumský
Member of the Supervisory Board:	Tomáš Vysoudil

No changes in the Supervisory Board occurred in 2018.

Audit Committee:

Chairman of the Committee:	Martin Mančík
Member of the Committee:	Beáta Petrušová
Member of the Committee:	Roman Smetana

No changes in the Audit Committee occurred in 2018.

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Company comprising the balance sheet, the income statement, statement of changes in equity and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives and available-for-sale financial instruments at fair value, and for the valuation of held-to-maturity financial instruments at amortized cost. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund's ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are recorded at acquisition cost. Depreciation/amortization periods used for each category of tangible and intangible fixed asset are as follows:

Assets	Depreciation/Amortization period
Intangible fixed assets put into use on 1 January 2004	6 years
Valuable rights	6 years
Low-value intangible fixed assets with a cost from CZK 30 thousand to CZK 60 thousand	6 years
Hardware, office equipment	4 years
Passenger cars	3 years
Furniture	6 years
Safes	6 years
Low-value tangible fixed assets with a cost from CZK 20 thousand to CZK 40 thousand	4 years

The Company also records low-value tangible fixed assets with a cost of less than CZK 20 thousand and low-value intangible fixed assets with a cost of less than CZK 30 thousand, which are expensed upon acquisition. The costs of repairs and maintenance of tangible fixed assets are expensed as incurred. Technical improvements on the individual assets are capitalized and depreciated.

2.3. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank ("CNB") exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. All realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions.

2.4. Fair Value of Securities

The fair value of a security is determined by the market bid price quoted by a relevant stock exchange or other active public market. If an active market for financial instruments does not exist, the Company determines the fair value using the valuation methods that include valuation under the arm's length concept, discounted cash flow analysis and other valuation techniques commonly used by market participants. Judgements and estimates made by Company management are required to a significant extent to determine the assumptions and inputs for valuation models serving for determining the fair value of non-liquid securities.

In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.5. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a date on which a spot transaction is settled. Spot transactions are recognized in the off-balance sheet in the period between the trade date and the settlement date and, at the same time, are remeasured in this period in a way pertaining to the valuation category to which they have been assigned.

The following rules apply to derecognition of financial assets and liabilities:

The Company derecognizes a financial asset, or a part thereof, from the balance sheet when it loses control over the contractual rights to the asset or part thereof. The Company loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire, or if the Company waives these rights.

A financial liability, or a part thereof, is extinguished when the obligation specified in the contract is discharged, cancelled or expires, and the entity will no longer report the financial liability or part thereof in the balance sheet. The difference between the carrying amount of a liability, or a part thereof, extinguished or transferred to another entity, and the consideration paid is recognized in profit or loss.

The transaction recognition date can also be the trade date for financial derivatives, the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client's account, the date on which the ownership or rights to another party's assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.6. Securities at Fair Value through Profit or Loss

Securities at fair value through profit or loss fall into two sub-categories: securities held-for-trading, and securities designated at fair value through profit or loss upon initial recognition. Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or if they are part of a portfolio of identified financial instruments that are managed together, thereby generating profits on price fluctuations in the short term. Any security that is a financial asset or liability can be designated at fair value through profit or loss upon initial recognition, except for participating securities and interests that are not publicly traded and their fair value cannot be reliably measured and for securities issued by the Company.

Securities at fair value through profit or loss are initially recognized at cost, including incidental acquisition costs, and subsequently measured at fair value. All related gains and losses are included in gain or loss from financial transactions. Spot purchases and sales are recognized using the settlement date accounting. Term trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

2.7. Securities Available-for-Sale

Available-for-sale securities are securities that the Company designates into this category or that do not meet the terms of any other category. They comprise mainly debt securities held for liquidity management, mutual fund units and shares.

Available-for-sale securities are initially recognized at cost, which includes direct transaction costs, and subsequently measured at fair value.

Any gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until subsequent disposal or impairment, at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement, in Gain or loss from financial transactions.

Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognized in the income statement. Dividends are recorded as other income from shares and mutual funds. Interest is recorded as interest and similar income. Foreign exchange differences on available-for-sale debt securities are recorded in gain or loss from financial transactions. Foreign exchange differences on non-hedged equity securities are recorded in the revaluation reserve in equity.

2.8. Impairment of Securities Available-for-Sale

The Company assesses at each balance sheet date, whether there is objective evidence that a security is impaired. The Company follows an internal directive regulating the procedures for determining impairment of assets measured at fair value recognized in equity. The Company assesses impairment at the individual security level. The following facts or their combinations are considered as evidence of permanent impairment:

- for equity instruments: the market price decreased in the long run and decreased by more than 30% compared to their acquisition cost and it can be reasonably assumed that the status will not change in a foreseeable future;
- for debt instruments: the situation in which an issuer's credit rating is substantially decreased.

Prolonged decrease is defined as the permanent decrease of fair value in the time interval longer than 1 year, against the average acquisition cost determined as at the balance sheet date, while such a decrease has not been influenced e.g. by a significant dividend payment or similar technical decrease of equity.

If the aforementioned objective evidence of security permanent impairment exists, the difference between the acquisition cost of a security and its fair value is derecognized from equity and taken to the income statement at the balance sheet date.

Investments, which are assessed for impairment and meet the required criteria, are subject to the following accounting procedure:

- for losses on impairment of equity instruments the recognized expense is irreversible, losses on impairment of debt securities may be reversed if after their recognition in profit or loss their fair value is increased from objective and by entity identifiable reasons. If the fair value of assets is increased in next fiscal years, the appreciation must be recognized through profit or loss, i.e. the write-off must be directly reversed.

2.9. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

2.10. Transfers between Portfolios of Securities

Transfers of securities between portfolios are subject to the following rules:

- transfers to and from the portfolio of securities at fair value through profit or loss are not allowed;
- transfers from available-for-sale securities to held-to-maturity securities are effected upon the change in the intention or after elapsing two accounting periods, in which it was not allowed to classify any securities as held-to-maturity (see below);
- transfers from held-to-maturity securities to available-for-sale securities are effected if the intention or ability to hold the held-to-maturity securities has changed;
- on the sale or transfer of any securities held-to-maturity, the Fund must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity in the two following accounting periods. The exceptions to this rule are permitted for sales within the last three months before maturity of the security if during the period of possession of these securities the Fund received from the issuer at least 90% of acquisition cost of these securities in addition to accrued coupons, for sales of insignificant part of portfolio, in the case of a significant deterioration in an issuer's creditworthiness, or in the case of changes in tax legislation, legal or regulatory requirements.

2.11. Financial Derivatives and Hedging

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate. The valuation models consider market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

For all derivatives, the fair value is presented in other assets or in other liabilities when the fair value for the Company is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

The Company designates prospectively certain derivatives as a hedge of the fair value of selected assets or liabilities (fair value hedge). Hedge accounting can be used for financial derivatives designated in this way provided the following criteria are met:

- i. the derivative is in compliance with the Company's risk management strategy;
- ii. the formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- iii. the hedge documentation proves that the hedge is highly effective in offsetting the risk in the hedged item at inception of the hedge and throughout the reporting period;
- iv. the hedge is effective on an ongoing basis; and
- v. the hedged item is not a security measured at fair value through the profit or loss.

Changes in the fair value of financial derivatives that qualify as effective fair value hedges are recorded in the income statement. Within a hedge of a foreign currency risk, the changes in fair values are recorded in gain or loss from financial transactions. Valuation differences arising from a hedge of an interest rate risk are recorded as interest and similar expense or interest and similar income, as appropriate. Changes in the fair value of derivatives are recorded along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Certain derivatives, although providing effective financial hedging of opened positions of the Company from the risk management point of view, do not fulfil the criteria of hedge accounting based on applicable Czech Accounting Standards. Therefore these derivatives are accounted for as trading derivatives. Changes in the fair value of these derivatives are also recorded in gain or loss from financial transactions.

2.12. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.13. Receivables and Allowances

Receivables are stated at nominal value less an allowance for doubtful amounts created on the basis of an individual recoverability assessment. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor.

2.14. Income Tax

The corporate income tax expense is calculated in compliance with the respective provisions of Czech tax legislation based on the statutory tax rate and income recognized in the income statement prepared under the Czech accounting standards, increased or decreased by the appropriate permanent and temporary non-deductible expenses and non-taxed revenues. The income tax rate is 19%.

2.15. Value Added Tax

The Company is registered as a value added tax ("VAT") payer. Due to the nature of the Company's business, the Company cannot claim back the input VAT and therefore any input VAT paid is considered part of the related expenses or purchase price of an asset.

2.16. Deferred Tax

A deferred tax liability is recognized on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method.

The approved tax rate for the period in which the Company expects to utilize the asset or realize the liability is used for the deferred taxation calculation.

Deferred tax related to fair value remeasurement of available-for-sale securities, which is recognized directly in equity, is also recognized directly in equity. A deferred tax asset is recognized if there is no doubt that it will be realized in subsequent accounting periods.

2.17. Provisions

Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities. Provisions are recognized in the currency in which settlement is expected to be made.

Additions to provisions are recognized in the income statement in write-offs, additions to, and use of, provisions for and allowances against tangible and intangible fixed assets and in write-offs, additions to, and use of, allowances against and provisions for receivables and guarantees; utilization of provisions is recognized together with expenses or losses, for which the provisions were created in the income statement. Release of provisions in case they are no longer necessary is recognized in the income statement in write-offs, additions to, and use of, provisions for and allowances against tangible and intangible fixed assets and in write-offs, additions to, and use of, allowances against and provisions for receivables and guarantees.

Creation and release of provisions relating to the costs of future payments of salaries and bonuses is recognized in administrative expenses as staff costs. The income tax provision is created at the estimated tax liability of the reporting period and is reported less income tax advances in the financial statements.

2.18. Fee and Commission Income

Fee and commission income is income from fees received for management and appreciation of assets of administered participation funds and transformed fund. The fees are set out in the Statutes of respective funds. Fee and commission income also includes charges paid by administered funds participants for chargeable actions.

2.19. Fee and Commission Expenses

Fee and commission expenses include fee and commission expenses related to maintaining of accounts, performance of payment services, fees for external administration of portfolios of managed funds, placement of financial instruments, and commission expenses related to acquisition of contracts in managed funds.

2.20. Expenses for Commissions to Agents

The volume of commissions paid to agents for negotiating contracts and addenda thereto are calculated on the basis of participants' contributions at the agreed level at maximum. The accrual and matching principles with respect to the development of costs and revenues from concluded contracts amortized over 48 months are observed. A test of recoverability of prepaid commissions to agents is carried out as at the balance sheet date.

2.21. Staff Costs and Supplementary Pension Savings

Staff costs are included in administrative expenses and they also include emoluments of the Board of Directors or the Supervisory Board members, including costs related to creation of provision for future payments of salaries and bonuses.

The Company makes contributions on behalf of its employees to a defined contribution pension scheme and supplementary pension savings scheme. These contributions paid by the Company are expensed as incurred.

The Company makes regular contributions to the state budget to support the national pension scheme.

2.22. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- managed participating funds and transformed fund.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 19, with the exception of accrued expenses related to calculated commissions associated with the acquisition of contracts in the managed funds.

2.23. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

2.24. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

3. Due from Banks

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	89,881	421,433
Cash collateral pledged	5,917	0
Reverse repo agreements	929,615	1,109,445
Total amounts due from banks	1,025,413	1,530,878

4. Securities

All securities held by the Company have been received for trading on the regulated market.

(in CZK thousands)	Debt securities	
	31 December 2018	31 December 2017
Available-for-sale	1,295,218	715,432
Total securities	1,295,218	715,432

4.1. Securities Available-for-Sale

(in CZK thousands)	Debt securities	
	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	892,855	406,869
Foreign stock exchanges	402,363	308,563
Total debt securities including zero-coupon bonds	1,295,218	715,432

5. Intangible and Tangible Fixed Assets

Intangible fixed assets

(in CZK thousands)	Software	Valuable rights	Total
As at 1 January 2018			
Cost	131,359	1,194	132,553
Accumulated amortization	(75,055)	(570)	(75,625)
Net book value	56,304	624	56,928
Year ended 31 December 2018			
Opening net book value	56,304	624	56,928
Additions	13,094	112	13,206
Disposals	0	0	0
Amortization during year	(16,302)	(240)	(16,542)
Closing net book value	53,096	496	53,592
As at 31 December 2018			
Cost	144,454	1,305	145,759
Accumulated amortization	(91,358)	(809)	(92,167)
Net book value	53,096	496	53,592

Tangible fixed assets

(in CZK thousands)	Vehicles	Machinery and equipment	Furniture and fixtures and low-value assets	Total
As at 1 January 2018				
Cost	8,474	617	6,905	15,996
Accumulated depreciation	(5,359)	(590)	(5,804)	(11,753)
Net book value	3,115	27	1,101	4,243
Year ended 31 December 2018				
Opening net book value	3,115	27	1,101	4,243
Additions	2,526	0	497	3,023
Disposals	(768)	(27)	0	(795)
Amortization during year	(2,031)	0	(863)	(2,894)
Closing net book value	2,842	0	735	3,577
As at 31 December 2018				
Cost	6,590	545	7,384	14,519
Accumulated depreciation	(3,748)	(545)	(6,649)	(10,942)
Net book value	2,842	0	735	3,577

6. Other Assets

(in CZK thousands)	31 December 2018	31 December 2017
Receivable from fee for management and appreciation of assets	194,764	174,112
Financial derivatives (Note 18.3)	2,180	663
Other receivables	14,936	26,460
Other cash equivalents	18	18
Total other assets	211,898	201,253
Allowances against impairment of other receivables	(3,270)	(14,130)
Net book value	208,628	187,123

The “Other receivables” item mainly includes granted operating advances, receivables from brokers due to unsettled commission cancellations, which are covered by the created allowance, and receivables from clients due to covering the payments and adjustments of settlement in the operating system and estimated receivables.

7. Prepayments and Accrued Income

The Company recognized prepayments and accrued income of CZK 106,618 thousand (2017: CZK 86,598 thousand), representing prepaid acquisition costs of pension contracts.

As at 31 December 2018 and 2017, the Company carried out a test of recoverability of prepaid commissions to agents. On the basis of the recoverability test, it was determined that prepaid expenses were not impaired.

The recoverable amount was determined on the basis of calculation of a minimum recoverable commission whilst taking into consideration the future estimated developments of the pension system. The calculation of minimum recoverable commission considers estimated cash flows based on an average client age and period of granting entitlement to payment.

A risk discount rate of 6.1% was used in the calculation and was based on the Company's best estimate.

8. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Trade payables	29,753	35,789
of which: payables to TF	16,439	22,766
Payables to employees and from social insurance	6,507	7,677
Financial derivatives (Note 18.3)	9,227	0
Tax liabilities	5,958	6,321
of which: deferred tax liability (Note 17)	3,813	4,396
Payables to policyholders and MF	15,625	12,137
Estimated payables	24,092	23,006
Total other liabilities	91,162	84,930

9. Equity

9.1. Share Capital

CP Strategic Investments N.V., with its registered office at De entree 91, 1101BH Amsterdam, the Netherlands, is the sole shareholder of the Company, holding 50,000,000 shares as at 31 December 2018 (as at 31 December 2017: 50,000,000 shares) with a nominal value of CZK 1 each.

The share capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Municipal Court. Any increase or decrease in the share capital made pursuant to the decision of the General Meeting is recorded through changes in share capital. In 2017, pursuant to decision of the sole shareholder executing the powers of the general meeting, the share capital was decreased from CZK 300,000 thousand to CZK 50,000 thousand due to termination of pension savings scheme in accordance with Act No. 376/2015 Coll. on Pension Savings Termination, as amended; based on this Act, an obligation to maintain the share capital at the original amount extinguished.

9.2. Reserve Funds and Other Funds from Profit

Reserve funds and other funds from profit are comprised of the fund for corporate clients support of CZK 7,850 thousand, which has no specific purpose and is particularly used to support other business activities of the Company.

In 2017, pursuant to the Board of Directors' proposal approved by the sole shareholder, the Company released the statutory reserve fund totaling CZK 60,000 thousand.

9.3. Capital Funds

As at 31 December 2018, the capital fund of CZK 650,248 thousand is comprised of the Company's contribution, the merged company ABN AMRO Penzijní fond, a.s.'s contribution, the merged company Generali penzijní společnost a.s.'s contribution and the monies transferred from the statutory reserve fund.

9.4. Revaluation Reserve

2018 (in CZK thousands)	Debt securities – government	Debt securities – other	Total
Balance at 1 January 2018	14,498	4,244	18,742
of which: deferred tax as at 1 January 2018	(3,401)	(995)	(4,396)
Sale of securities – revaluation reserve reflected in P/L account	0	(9)	(9)
Unrealised revaluation reserve reflected in equity	(20,305)	(10,523)	(30,828)
Deferred tax – 2018 movement	3,098	2,001	5,099
Deferred tax – balance as at 31 December 2018 (Note 17)	(303)	1,005	702
Balance at 31 December 2018	(2,709)	(4,287)	(6,996)

2017 (in CZK thousands)	Debt securities – government	Debt securities – other	Total
Balance at 1 January 2017	35,445	7,988	43,433
of which: deferred tax as at 1 January 2017	(8,314)	(1,874)	(10,188)
Sale of securities – revaluation reserve reflected in P/L account	(9,027)	(5,457)	(14,484)
Unrealised revaluation reserve reflected in equity	(16,833)	835	(15,998)
Deferred tax – 2017 movement	4,913	878	5,791
Deferred tax – balance as at 31 December 2017 (Note 17)	(3,401)	(995)	(4,396)
Balance at 31 December 2017	14,498	4,244	18,742

9.5. Retained earnings

As at 31 December 2018, retained earnings totalled CZK 1,203,909 thousand (31 December 2017: CZK 1,203,909 thousand).

9.6. Profit for the Period

The sole shareholder approved the distribution of profit generated for the 2017 accounting period in the amount of CZK 532,335 thousand; the whole amount was paid out as a dividend in 2018. In 2018, profit for the current period, net of income tax, is CZK 557,489 thousand (2017: CZK 532,335 thousand).

10. Interest and Similar Income and Interest and Similar Expense

(in CZK thousands)	2018	2017
Interest on current accounts and term deposits	307	17
Interest on debt securities	27,082	31,930
Interest on hedging derivatives	(7,433)	0
Interest on reverse repo agreements	8,321	902
Total interest and similar income	28,277	32,849

Interest expense includes interest on repo agreements of CZK 1486 thousand. In 2017, the item included interest on repo agreements of CZK 555 thousand and interest on debt securities of CZK 19,551 thousand.

11. Fee and Commission Income

(in CZK thousands)	2018	2017
Fee for management of assets	899,489	853,979
Fee for appreciation of assets	116,853	100,332
Other income	1,263	5,221
Total fee and commission income	1,017,605	959,532

12. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Commission to agents	43,515	38,711
Bank fees	14,530	13,169
Portfolio management fees (external)	79,490	76,738
Commissions – motivation	8,290	3,571
Total fee and commission expenses	145,825	132,189

13. Gain or Loss from Financial Transactions

(in CZK thousands)	2018	2017
Securities trading	0	12,373
Foreign exchange differences	9,692	(10,293)
Financial derivatives	(12,081)	8,757
Total gain or loss from financial transactions	(2,389)	10,837

As at 31 December 2018, the item “Financial derivatives” includes changes in fair values of derivatives within the economic hedge of foreign currency exposures of portfolio’s certain foreign currency assets.

14. Other Operating Income

(in CZK thousands)	2018	2017
Gains on sale of tangible and intangible assets	1,410	434
Other	3,865	11,253
Total other operating income	5,275	11,687

Item “Other” mainly comprises other operating income, rebilling of expenses, and income on receivables from clients due to covering the payments and adjustments of settlement in the operating system.

15. Other Operating Expenses

(in CZK thousands)	2018	2017
Net book value of tangible and intangible assets sold	768	0
Other	3,234	1,177
Total other operating expenses	4,002	1,177

16. Administrative Expenses

(in CZK thousands)	2018	2017
Staff costs	93,163	94,829
Rent and facility maintenance	10,873	9,980
Tax and legal advisory services, internal audit	11,920	12,775
Audit company fees – statutory audit of FS	2,021	2,474
Audit company fees – non-assurance services	5	78
Postal and telecommunication charges	13,253	15,020
Consumed material	10,214	12,060
Advertising and promotion	2,258	853
Equipment maintenance and software support	23,424	21,006
Employee training	1,469	1,433
Other administrative expenses	12,802	15,725
Total administrative expenses	181,402	186,233

Audit company fees – statutory audit of FS (financial statements) includes the cost of the statutory audit of the Company as well as all the funds managed by the Company (incl. VAT).

Staff costs can be analyzed as follows:

(in CZK thousands)	2018	2017
Bonuses to members of the Board of Directors	9,967	9,399
Bonuses to members of the Supervisory Board	0	0
Salaries, personnel costs and bonuses of senior management	7,553	6,857
Salaries, personnel costs and bonuses of other employees	51,631	54,496
Other social costs	3,283	2,633
Social security and health insurance	20,729	21,444
Total staff costs	93,163	94,829

(in CZK thousands)	2018	2017
Average number of members of the Board of Directors	3	3
Average number of members of the Supervisory Board	3	3
Average number of senior management	3	3
Average number of other employees	91	100

17. Income Taxes

(in CZK thousands)	2018	2017
Profit/(Loss) before tax	695,989	655,927
Items increasing tax base	38,993	27,927
Deductible items	(32,361)	(26,928)
Tax base	702,621	656,926
Tax loss carryforward used	0	(560,876)
Adjusted tax base	702,621	96,050
Provision for income tax (before offset)	(133,498)	(18,250)
Adjustment of the tax paid in previous years	(487)	0
Income tax – current	(133,985)	(18,250)
Income tax – deferred	(4,515)	(105,342)
Total income tax	(138,500)	(123,592)
Profit for the period after tax	557,489	532,335

The calculated income tax provision of CZK 133,498 thousand (2017: CZK 18,250 thousand) was offset against income tax advances of CZK 9,368 thousand (2017: CZK 0 thousand). The total provision for tax was CZK 124,130 thousand (2017: CZK 18,250 thousand).

Deferred tax was calculated on the following temporary differences:

(in CZK thousands)	31 December 2018	31 December 2017
Tangible and intangible fixed assets	(4,574)	0
Provision for bonuses	59	0
Revaluation reserve from available-for-sale securities (Note 9.4)	702	(4,396)
Total deferred tax liability (Note 8)	(3,813)	(4,396)

A tax rate of 19% was used to calculate the 2018 and 2017 deferred tax. The deferred tax calculated from securities revaluation reserve is recorded through equity, other temporary differences of deferred tax are recorded through the income statement.

In 2018, the deferred tax liability of CZK 3,813 thousand includes a deferred tax asset from securities revaluation reserve in the amount of CZK 702 thousand and a deferred tax liability from other temporary differences in the amount of CZK 4,515 thousand. In 2017, the Company recorded a deferred tax liability from securities revaluation reserve, and reversed a deferred tax asset from accumulated loss of CZK 105,342 thousand.

18. Financial Risks

18.1. Strategy in Using Financial Instruments

The Company's investment strategy is to achieve market appreciation of participants' funds subject to a minimum level of investment portfolio market risks. The basic instruments for risk management are limits on investments instruments in the Company's portfolio as defined by the Company's investment strategy.

18.2. Market Risk

The Company takes on exposure to market risks as a consequence of its investment strategy. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	1,025,413	0	0	0	1,025,413
Debt securities	898,817	297,740	0	98,661	1,295,218
Financial derivatives	0	270	1,910	0	2,180
Total financial assets	1,924,230	298,010	1,910	98,661	2,322,811

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	1,530,878	0	0	0	1,530,878
Debt securities	412,788	297,662	0	4,982	715,432
Financial derivatives	0	68	595	0	663
Total financial assets	1,943,666	297,730	595	4,982	2,246,973

Breakdown of revenues by geographic location of markets

2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	19,067	9,210	0	28,277
Income from shares and mutual funds – other	0	0	0	0
Fee and commission income	1,017,605	0	0	1,017,605
Gain or loss from financial transactions	(12,477)	10,088	0	(2,389)
Other operating income	5,275	0	0	5,275

2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	27,311	5,538	0	32,849
Income from shares and mutual funds – other	0	0	0	0
Fee and commission income	959,532	0	0	959,532
Gain or loss from financial transactions	12,605	(1,768)	0	10,837
Other operating income	11,687	0	0	11,687

18.3. Financial Derivatives

The financial instruments held by the Company can be analyzed as follows:

31 December 2018 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive	Negative
Foreign currency derivatives	189,462	187,282	2,180	0
Interest rate derivatives	366,751	375,978	0	(9,227)
Total derivatives	556,213	563,260	2,180	(9,227)

31 December 2017 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive	Negative
Foreign currency derivatives	89,552	88,889	663	0
Interest rate derivatives	0	0	0	0
Total derivatives	89,552	88,889	663	0

18.4. Currency Risk

The Company takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored regularly.

The table below summarizes the Company's exposure to currency risk. The table includes the Company's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Cash on hand	16	0	0	0	16
Due from banks	1,018,245	6,063	1,105	0	1,025,413
Debt securities available-for-sale	1,116,675	60,087	118,456	0	1,295,218
Tangible fixed assets	3,577	0	0	0	3,577
Intangible fixed assets	53,592	0	0	0	53,592
Other assets	200,532	6,186	1,910	0	208,628
Prepayments and accrued income	106,618	0	0	0	106,618
Total	2,499,255	72,336	121,471	0	2,693,062
Liabilities					
Other liabilities	91,162	0	0	0	91,162
Provisions	139,400	0	0	0	139,400
Equity	2,462,500	0	0	0	2,462,500
Total	2,693,062	0	0	0	2,693,062
Net balance sheet assets / liabilities (-)	(193,807)	72,336	121,471	0	0
Net off-balance sheet currency positions	189,462	(68,563)	(118,719)	0	2,180
Net open currency position	(4,345)	3,773	2,752	0	2,180

31 December 2017 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Cash on hand	26	0	0	0	26
Due from banks	1,521,986	99	8,793	0	1,530,878
Debt securities available-for-sale	632,262	43,704	39,466	0	715,432
Tangible fixed assets	4,243	0	0	0	4,243
Intangible fixed assets	56,928	0	0	0	56,928
Other assets	186,459	69	595	0	187,123
Prepayments and accrued income	86,598	0	0	0	86,598
Total	2,488,502	43,872	48,854	0	2,581,228
Liabilities					
Other liabilities	84,930	0	0	0	84,930
Provisions	33,214	0	0	0	33,214
Equity	2,463,084	0	0	0	2,463,084
Total	2,581,228	0	0	0	2,581,228
Net balance sheet assets / liabilities (-)	(92,726)	43,872	48,854	0	0
Net off-balance sheet currency positions	89,552	(42,105)	(46,784)	0	663
Net open currency position	(3,174)	1,767	2,070	0	663

18.5. Interest Rate Risk

The Company is exposed to the effects of fluctuations in market interest rates on its financial positions and cash flows. As a result of such changes, interest margins may increase, decrease or generate losses in the event of unexpected movements. The Board of Directors determines the limits of interest rate risk that are acceptable. These limits are monitored on a regular basis.

The table below summarizes the Company's exposure to interest rate risk. The table includes the Company's interest-bearing assets and liabilities at carrying amounts, categorized by the earlier of the settlement, re-pricing or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Due from banks	89,881	0	0	0	89,881
Reverse repo agreements	929,566	0	0	0	929,566
Debt securities	209,059	185,433	317,488	583,238	1,295,218
Total financial assets	1,228,506	185,433	317,488	583,238	2,314,665

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Due from banks	421,433	0	0	0	421,433
Reverse repo agreements	1,109,445	0	0	0	1,109,445
Debt securities	35,092	0	361,106	319,234	715,432
Total financial assets	1,565,970	0	361,106	319,234	2,246,310

The Company did not have any liabilities exposed to the effects of market interest rate fluctuations as at 31 December 2018 and 2017.

18.6. Liquidity Risk

The Company is exposed to a liquidity risk associated with lack of monies to cover its operating, investment and financial expenses that the Company is obligated to pay. The main income resource is fees for administration of managed funds. In addition to this income, the Company holds sufficient amount of highly liquid assets that can cover all expected expenses in line with its business plan and that represent a sufficient provision for exceptional expenses. The liquidity position is monitored on a daily basis. In 2018, as part of the accuracy improvement of the liquidity risk presentation, prepaid expenses were reclassified from "Within 3 months" to "Not specified" under Other assets. Accordingly, the related comparatives for 2017 have been re-presented.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Cash on hand	16	0	0	0	0	16
Due from banks	1,025,413	0	0	0	0	1,025,413
Debt securities	67,301	85,873	411,363	730,681	0	1,295,218
Other assets	265,797	0	0	0	106,618	372,415
Total assets	1,358,527	85,873	411,363	730,681	106,618	2,693,062
Liabilities						
Other liabilities	81,935	0	0	9,227	0	91,162
Provisions	139,400	0	0	0	0	139,400
Equity	0	0	0	0	2,462,500	2,462,500
Total liabilities	221,335	0	0	9,227	2,462,500	2,693,062
Net assets / liabilities (-)	1,137,192	85,873	411,363	721,454	(2,355,882)	0

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Cash on hand	26	0	0	0	0	26
Due from banks	1,530,878	0	0	0	0	1,530,878
Debt securities	36,267	2,681	358,648	317,836	0	715,432
Other assets – re-presented	248,297	0	0	0	86,598	334,892
Total assets	1,815,465	2,681	358,648	317,836	86,598	2,581,228
Liabilities						
Other liabilities	84,930	0	0	0	0	84,930
Provisions	33,214	0	0	0	0	33,214
Equity	0	0	0	0	2,463,084	2,463,084
Total liabilities	118,144	0	0	0	2,463,084	2,581,228
Net assets / liabilities (-)	1,697,321	2,681	358,648	317,836	(2,376,486)	0

19. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Receivables		
Česká pojišťovna a.s.	8,317	7,661
Company's Funds	194,763	174,112
ČP Distribuce a.s.	394	0
Direct Care s.r.o.	8	0
Payables		
Česká pojišťovna a.s.	9,812	9,815
Generali Investments CEE, investiční společnost, a.s.	6,919	6,648
Generali CEE Holding B.V., organizační složka	25	31
Generali Shared Services Czech Branch, organizační složka	4,198	0
Transformovaný fond Penzijní společnosti České pojišťovny, a. s.	16,439	22,766
Income		
Česká pojišťovna a.s.	141	145
ČP Distribuce a.s.	399	0
Direct Care s.r.o.	8	0
Company's Funds	1,016,342	954,311
Expenses		
Česká pojišťovna a.s.	18,319	27,180
Česká pojišťovna ZDRAVÍ a.s.	0	200
Generali Shared Services Czech Branch, organizační složka	15,376	12,428
Generali Investments CEE, investiční společnost, a.s.	79,552	76,757
Generali CEE Holding B.V., organizační složka	300	375
Generali Distribuce a.s. *)	581	(94)
Direct Care s.r.o.	2,578	1,732
ČP Distribuce a.s.	31,722	17,526

*) Originally FINHAUS a.s. (changed as at 12 November 2018)

These transactions were based on actual cost and profit margin.

The contributions to the pension insurance and supplementary pension saving accounts of the Company's management were made under the standard terms of the Company available to all policyholders.

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

20. Off-balance-sheet Items

20.1. Off-balance Sheet Financial Instruments

(in CZK thousands)	Fair value of underlying receivables/liabilities		Fair value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Term currency instruments				
Term transactions (receivable)	556,213	89,552	2,180	663
Term transactions (payable)	563,260	88,889	0	0

Term currency derivatives were agreed on the interbank market (OTC). As at 31 December 2018, the Company had no liabilities or receivables from spot transactions (as at 31 December 2017, a receivable of CZK 8,723 thousand and a liability of CZK 8,653 thousand were recognized).

Collateral and pledge received in the amount of CZK 929,566 thousand (2017: CZK 1,109,445 thousand) represents the value of securities received as collateral under repo agreements.

20.2. Assets provided for management by a third party

Total assets provided to be managed by a third party were CZK 2,246,000 thousand as at 31 December 2018 (CZK 1,937,740 thousand as at 31 December 2017). These assets are comprised of bank accounts, managed by Generali Investments CEE, investiční společnost, a.s., repo transactions, term deposits, net value of derivative transactions, money market papers and securities.

20.3. Assets Received for Management from a Third Party

As at 31 December 2018, the Company managed the following funds:

- Transformovaný fond Penzijní společnosti České pojišťovny, a. s.
- Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s.
- Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s.
- Vyvážený účastnický fond Penzijní společnosti České pojišťovny a. s.
- Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s.

Total managed assets were CZK 126,356,314 thousand as at 31 December 2018 (CZK 123,597,911 thousand as at 31 December 2017). These assets are comprised of the assets of Transformovaný fond and equity of individual participating funds.

21. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Company for the year ended 31 December 2018.

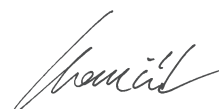
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Penzijní společnost České pojišťovny, a.s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Information on changes in the information recorded in the Commercial Register that occurred in the relevant period**, pursuant to Subsection 1, Letter (a) of Annex 1 to the Decree
In the relevant period, changes in the information recorded in the Commercial Register were as follows:

In the section ‘Statutory Body – Board of Directors’, on 7 April 2018, deleted the information on the Chairman of the Board of Directors as follows:

MARCEL HOMOLKA, born on 9 November 1976
Kryšpínova 527/2, Dolní Měcholupy, 109 00 Prague 10
Position commencement date: 1 June 2015
Appointment to office date: 1 June 2015

In the section ‘Statutory Body – Board of Directors’, on 7 April 2018, entered the information on the Chairman of the Board of Directors as follows:

MARCEL HOMOLKA, born on 9 November 1976
Kryšpínova 527/2, Dolní Měcholupy, 111 01 Prague 10
Position commencement date: 1 June 2015
Appointment to office date: 1 June 2015

In the section ‘Sole shareholder’, on 17 October 2018, deleted the information as follows:

CP Strategic Investments N.V.
1112XN Diemen, Diemerhof 42, the Netherlands
Registration number: 34124690

In the section ‘Sole shareholder’, on 17 October 2018, entered the information as follows:

CP Strategic Investments N.V.
1101BH Amsterdam, De entree 91, the Netherlands
Registration number: 34124690

- b) **Information on the funds which the pension management company managed in the relevant period**, pursuant to Subsection 1, Letter (b) of Annex 1 to the Decree

The pension management company managed the following funds for the whole relevant period:

Transformovaný fond Penzijní společnosti České pojišťovny, a.s.
Povinný konzervativní fond Penzijní společnosti České pojišťovny, a.s.
Spořicí účastnický fond Penzijní společnosti České pojišťovny, a.s.
Vyvážený účastnický fond Penzijní společnosti České pojišťovny, a.s.
Dynamický účastnický fond Penzijní společnosti České pojišťovny, a.s.

- c) **Information on events that had a material impact on the performance of the pension management company, and information on the key factors that affected its financial results**, pursuant to Subsection 1, Letter (c) of Annex 1 to the Decree
No events occurred in the relevant period which would have a material impact on the performance of the pension management company.

- d) **Information on the Board of Directors members, Supervisory Board members and other managing persons of the pension management company, including a brief description of their experience and professional competence, and information on the date of the beginning of the performance of their functions or activities, or the date of the end thereof, pursuant to Subsection 1, Letter (d) of Annex 1 to the Decree**

Board of Directors

Marcel Homolka – Chairman of the Board of Directors, term commenced as of 1 June 2015

Miroslav Chromčík – Vice-chairman of the Board of Directors, term commenced as of 1 July 2015

Miroslav Žbel – member of the Board of Directors, term commenced as of 1 March 2015

Description of experience and professional competence of Board of Directors members:

Marcel Homolka

Education: Technical University of Liberec, Faculty of Economics

Work experience: 2015– Penzijní společnost České pojišťovny, a.s.; Chairman of the Board of Directors, CEO
2013–2015 Penzijní společnost České pojišťovny, a.s.; Operations and IT Director
2009–2013 Generali penzijní fond a.s.; member of the Board of Directors, Executive Director
2008–2009 Penzijní fond České pojišťovny, a.s.; Customer Service Director
2008–2008 Provident Financial s.r.o.; Project Manager

Miroslav Chromčík

Education: University of Economics Prague, Faculty of Finance and Accounting, majored in Finance

Work experience: 2015– Penzijní společnost České pojišťovny, a.s.; Vice-chairman of the Board of Directors, Finance Director
2013–2014 Penzijní společnost České pojišťovny, a.s.; Head of Controlling and Planning
2007–2013 Penzijní fond České pojišťovny, a.s.; Head of Controlling and Planning

Miroslav Žbel

Education: Jan Amos Komenský University

Work experience: 2015– Česká pojišťovna a.s.; Sales Support Director
2017– ČP Distribuce, a.s.; member of the Board of Directors, Chairman of the Board of Directors (since 06/2018)
2016–2017 Finhaus a.s.; member of the Board of Directors
2013–2015 Česká pojišťovna a.s.; Internal Distribution Director
2011–2013 Česká pojišťovna a.s.; Senior Advisor to Deputy CEO for CRM, marketing and products
2011–2011 Česká pojišťovna a.s.; Senior Project Manager
2008–2010 Česká pojišťovna a.s.; Sales Management Director

Supervisory Board

Josef Beneš – Chairman of the Supervisory Board, term commenced as of 1 January 2016

Petr Bohumský – member of the Supervisory Board, term commenced as of 1 February 2015

Tomáš Vysoudil – member of the Supervisory Board, term commenced as of 1 July 2015

Description of experience and professional competence of Supervisory Board members:

Josef Beneš

Education: University of Economics Prague, Faculty of Finance and Accounting, majored in Finance

Columbia University, School of International Affairs and Business School

Work experience: 2016– Generali Investments CEE, investiční společnost, a.s.; CEO and Chairman of the Board of Directors
2015–2016 Generali Investments CEE, a.s.; CEO and Chairman of the Board of Directors
2012–2014 Raiffeisenbank a.s.; Chief Investment Officer
2002–2012 ČSOB Asset Management, a.s.; CEO and Chairman of the Board of Directors

Petr Bohumský

Education: Charles University, Faculty of Mathematics and Physics
University of Pittsburgh, Katz School of Business
Advance Institute Healthcare Management

Work experience: 2013– Česká pojišťovna a.s.; CFO and Vice-chairman of the Board of Directors
2012–2013 Generali PPF Holding B.V.; Reinsurance Director
2008–2013 Generali PPF Holding B.V.; Risk Management Director
2006–2010 Česká pojišťovna a.s.; Risk Management Director

Tomáš Vysoudil

Education: Jan Amos Komenský University

Work experience: 2015– Česká pojišťovna a.s.; member of the Board of Directors
2018– ČP Distribuce a.s.; Chairman of the Supervisory Board (since 06/2018),
Chairman of the Board of Directors (from 01/2018 to 05/2018)
2015– Česká pojišťovna ZDRAVÍ a.s.; member of the Board of Directors
2015– Nadace GCP; Chairman of the Supervisory Board
2016–2018 Generali Distribuce a.s.; Chairman of the Board of Directors, Chairman of the Supervisory Board
(from 06/2018 to 10/2018)
2015–2017 ČP Distribuce s.r.o.; statutory representative
2013–2015 Allianz penzijní společnost, a.s.; member of the Board of Directors
2012–2015 Allianz pojišťovna a.s.; member of the Board of Directors
2012–2015 Allianz nadační fond; Vice-chairman of the Management Board

- e) **Information on portfolio managers of the pension management company and the managed funds in the relevant period, including a brief description of their experience and professional competence, and information on the date of the beginning of the performance of the activities for the managed fund, or the date of the end thereof,** pursuant to Subsection 1, Letter (e) of Annex 1 to the Decree

Michal Toufar, CFA

Education: University of Economics Prague, Faculty of Finance and Accounting
Stockholm School of Economics, Finance
CFA Institute – Chartered Financial Analyst

Work experience: 2016– Generali Investments CEE, investiční společnost, a.s.; Chief Portfolio Manager
and member of the Board of Directors
2015–2016 Generali Investments CEE, a.s.; Chief Portfolio Manager
2004–2015 Generali PPF Asset Management a.s.; Senior Portfolio Manager

Michal Kymlička, CFA

Education: University of Economics Prague, Faculty of Finance and Accounting
CFA Institute – Chartered Financial Analyst

Work experience: 2016– Generali Investments CEE, investiční společnost, a.s.; Portfolio Manager
2015–2016 Generali Investments CEE, a.s.; Portfolio Manager
2010–2015 Generali PPF Asset Management a.s.; Portfolio Manager
2010–2010 Generali PPF Asset Management a.s.; Financial Analyst
2008–2010 Generali PPF Asset Management a.s.; Middle Office Specialist

Tomáš Derner, CFA

Education: University of Economics Prague, Faculty of Finance and Accounting
CFA Institute – Chartered Financial Analyst

Work experience: 2016– Generali Investments CEE, investiční společnost, a.s.; Portfolio Manager
2015–2016 Generali Investments CEE, a.s.; Portfolio Manager
2013–2015 Allianz pojišťovna, a.s., Allianz penzijní společnost, a.s.; Portfolio Manager
2012–2013 Allianz pojišťovna, a.s.; Junior Reinsurance Specialist

- f) **Information on entities, which had qualified shareholdings in the pension management company for the whole relevant period or a part thereof, with a specification of the amount and type of the qualified shareholding in the pension management company, including the period of time for which the entities had qualified shareholdings in the pension management company,** pursuant to Subsection 1, Letter (f) of Annex 1 to the Decree

The sole shareholder of Penzijní společnost České Pojišťovny, a.s. holding a 100% interest is CP Strategic Investments N.V., registration number: 341 24 690, with its registered office at 1101BH Amsterdam, De entree 91, the Netherlands.

- g) **Information on entities in which the pension management company had qualified shareholdings for the whole relevant period or a part thereof, with a specification of the amount and type of the qualified shareholding and profit or loss of each entity, including the period of time for which the pension management company had qualified shareholdings in such entities; if audited financial results of such entities are not available, the pension management company shall report unaudited financial results and shall indicate this fact,** pursuant to Subsection 1, Letter (g) of Annex 1 to the Decree

Penzijní společnost České pojišťovny, a.s. had no qualified shareholding in any entity in the relevant period.

- h) **Information on parties which were related to the pension management company for the whole relevant period or a part thereof, with a specification of the method of relationship and the period of relationship,** pursuant to Subsection 1, Letter (h) of Annex 1 to the Decree

Related parties:

Miroslav Žbel (member of the Board of Directors)

ČP Distribuce a.s. (Business registration No.: 447 95 084) – Chairman of the Board of Directors (from 06/2018)

Josef Beneš (Chairman of the Supervisory Board)

Generali Investments CEE, investiční společnost, a.s. (Business registration No.: 438 73 766) – Chairman of the Board of Directors (for the whole relevant period)

Generali Real Estate Fund CEE (Business registration No.: 247 36 694) – member of the Board of Directors (for the whole relevant period)

ČP Distribuce a.s. (Business registration No.: 447 95 084) – member of the Supervisory Board (from 06/2018)

The Czech Capital Market Association (Business registration No.: 653 99 501) – member of the Executive Committee (for the whole relevant period)

and other company bodies across the Generali CEE Group in the CEE region.

Petr Bohumský (member of the Supervisory Board)

Česká pojišťovna a.s. (Business registration No.: 452 72 956) – Vice-chairman of the Board of Directors (for the whole relevant period)

Generali Pojišťovna a.s. (Business registration No.: 618 59 869) – Vice-chairman of the Board of Directors (for the whole relevant period)

Česká pojišťovna ZDRAVÍ a.s. (Business registration No.: 492 40 749) – member of the Supervisory Board (for the whole relevant period)

Nadace GCP (Business registration No.: 290 18 200) – member of the Supervisory Board (for the whole relevant period)

Europ Assistance s.r.o. (Business registration No.: 252 87 851) – member of the Supervisory Board (for the whole relevant period)

ČP Distribuce a.s. (Business registration No.: 447 95 084) – Vice-chairman of the Board of Directors (from 01/2018 to 05/2018)

and Vice-chairman of the Supervisory Board (from 06/2018)

Generali Distribuce a.s. (Business registration No.: 271 08 562) – member of the Supervisory Board (for the whole relevant period)

Tomáš Vysoudil (member of the Supervisory Board)

Česká pojišťovna a.s. (Business registration No.: 452 72 956) – member of the Board of Directors (for the whole relevant period)

Česká pojišťovna ZDRAVÍ a.s. (Business registration No.: 492 40 749) – member of the Board of Directors (for the whole relevant period)

Nadace GCP (Business registration No.: 290 18 200) – Chairman of the Supervisory Board (for the whole relevant period)

ČP Distribuce a.s. (Business registration No.: 447 95 084) – Chairman of the Board of Directors (from 01/2018 to 05/2018)

and Chairman of the Supervisory Board (from 06/2018)

Generali Distribuce a.s. (Business registration No.: 271 08 562) – Chairman of the Board of Directors (until 06/2018)

and Chairman of the Supervisory Board (from 06/2018 to 10/2018)

- i) **Information on entities that are not reported under article e) to g) and which in the relevant period acted in concert with the pension management company,** pursuant to Subsection 1, Letter (i) of Annex 1 to the Decree

Česká pojišťovna a.s. as a 100% owner of CP Strategic Investments N.V.

j) Information on each securities broker which performed the activities of a securities broker in respect of the funds managed by the pension management company, for the whole relevant period or a part thereof, including the period of time for which they performed such activities, pursuant to Subsection 1, Letter (j) of Annex 1 to the Decree

Entities performing the activities of a security broker for the funds managed by Penzijní společnost České pojišťovny for the whole relevant period were as follows:

PPF banka a.s., Business registration No.: 471 16 129, with its registered office at Evropská 2690/17, 160 41 Prague 6 – Dejvice, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1834;

Česká spořitelna, a.s., Business registration No.: 452 44 782, with its registered office at Olbrachtova 1929/62, 140 00 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1171;

WOOD & Company Financial Services, a.s., Business registration No.: 265 03 808, with its registered office at Náměstí Republiky 1079/1a, 110 00 Prague 1, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 7484;

Raiffeisen Centrobank AG, with its registered office at Tegetthoffstrasse 1, 1015 Vienna, Austria;

Merrill Lynch International Bank Ltd. London, with its registered office at 2 King Edward Street, EC1A1HQ London, United Kingdom;

Patria Finance, a. s., Business registration No.: 264 55 064, with its registered office at Jungmannova 745/24, 110 00 Prague 1, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 7215;

Swiss Capital S.A., with its registered office at Bulevardul Dacia 20, 013714 Bucharest, Rumania, entered in the Commercial under the File No. J40/4107/1996;

Komerční banka, a. s., Business registration No.: 453 17 054, with its registered office at Na Příkopě 969/33, 114 07 Prague 1, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1360;

Concorde Securities Private Limited, with its registered office at 1123 Budapest, Alkotás u. 50, Hungary, entered in the Commercial Register maintained by the Metropolitan Registration Court in Budapest under the File No. 01-10-04-3521.

As of 23 May 2018, the activity was also performed by J&T banka, a.s., Business registration No.: 471 15 378, with its registered office at Pobřežní 297/14, 186 00 Prague 8, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1731.

As of 23 August 2018, the activity was also performed by PKO Bank Polski, with its registered office at Pulawska 15, 02-515 Warsaw, Poland, entered in the District Court for the capital city of Warsaw, 13th Economic Division of the National Court Register under the KRS number 0000026438.

k) Information on judicial or arbitration disputes to which the pension management company was or has been a party in the relevant period, on its own account or on the account of the funds managed by the pension management company, if the value of the dispute exceeds 1% of the value of the assets of the pension management company and the assets of the managed funds to which the dispute pertains, pursuant to Subsection 1, Letter (k) of Annex 1 to the Decree

In the relevant period, the pension management company was not and has not been a party to any judicial or arbitration disputes, on its own account or on the account of the funds managed by the Company, where the value of the dispute exceeds 1% of the value of the assets of the pension management company or of the managed fund to which the dispute pertains.

Annual Report 2018

Transformovaný fond
Penzijní společnosti České pojišťovny, a. s.

Transformovaný fond Penzijní společnosti České pojišťovny, a.s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Fund participants of Transformovaný fond Penzijní společnosti České pojišťovny, a.s.:

Opinion

We have audited the accompanying financial statements of Transformovaný fond Penzijní společnosti České pojišťovny, a.s. (hereinafter also the "Fund") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fund, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors of Penzijní společnost České pojišťovny, a.s., for the Financial Statements

The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors of Penzijní společnost České pojišťovny, a.s., determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of Penzijní společnost České pojišťovny, a.s., either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Penzijní společnost České pojišťovny, a.s.
- Conclude on the appropriateness of the Board of Directors' of Penzijní společnost České pojišťovny, a.s., use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009



Tomáš Přeček
Partner

26 April 2019
Prague, Czech Republic

Transformovaný fond Penzijní společnosti České pojišťovny, a. s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017 – revised
Due from banks	4	17,122,553	20,786,135
of which: a) repayable on demand		642,769	2,675,623
b) other receivables		16,479,784	18,110,512
Debt securities	5	97,254,955	92,919,786
of which: a) issued by government institutions		86,719,341	81,935,315
b) issued by other entities		10,535,614	10,984,471
Shares and mutual funds	5	2,825,223	3,079,289
Other assets	6	325,019	587,763
TOTAL ASSETS		117,527,750	117,372,973
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017 – revised
Amounts owed to banks and cooperative saving banks		12,640,333	14,792,988
of which: other liabilities	7	12,640,333	14,792,988
Other liabilities	8	101,436,997	96,973,232
of which: a) policyholders' funds		100,918,733	96,564,822
b) other		518,264	408,410
Provisions	9	55,814	56,361
of which: a) for pensions and similar liabilities		43,975	43,849
b) other		11,839	12,512
Revaluation reserve – for assets and liabilities	10.1	2,350,723	4,766,775
of which: a) for assets and liabilities		2,350,723	4,766,775
b) for hedging derivatives		0	0
Profit/(Loss) for the period	10.2	1,043,883	783,617
TOTAL LIABILITIES		117,527,750	117,372,973
OFF-BALANCE-SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Receivables from fixed-term transactions	15.3	27,281,345	27,418,720
Assets provided for management by a third party		117,527,750	117,372,974
Receivables from spot transactions		0	119,948
Total off-balance sheet assets		144,809,095	144,911,642
Off-balance sheet liabilities			
Payables from fixed-term transactions	15.3	27,298,539	27,136,571
Payables from spot transactions		0	118,974
Collateral and pledge received		16,289,894	17,987,398
Total off-balance sheet liabilities		43,588,433	45,242,943

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	2018	2017 – revised
Interest and similar income	11	2,130,356	1,720,157
of which: interest income from debt securities		2,159,745	938,479
Interest and similar expense	11	(119,826)	(67,231)
of which: interest income from debt securities		0	0
Income from shares and mutual funds		59,423	62,416
Fee and commission expenses	12	(942,446)	(893,322)
Gain/(Loss) from financial transactions	13	(83,404)	(52,298)
Other operating income		16,386	14,645
Other operating expenses		(17,153)	(12,929)
Additions to, and use of, other provisions	9	547	12,179
Profit/(Loss) on ordinary activities before tax	10.2	1,043,883	783,617
Income tax	14	0	0
Profit/(Loss) for the period after tax	10.2	1,043,883	783,617

Financial Statements for the year ended 31 December 2018

1. General Information

Transformovaný fond Penzijní společnosti České pojišťovny, a.s. (“the Fund”) was incorporated on 1 January 2013 through transformation of Penzijní fond České pojišťovny, a.s., following the Czech National Bank’s decision, dated 6 September 2012, on the authorization to operate supplementary pension schemes via a transformed fund.

The assets of supplementary pension scheme participants were separated from the assets of the joint stock company (former pension fund) as at 1 January 2013. In accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings, Penzijní společnost České pojišťovny, a.s. (the “Company”) allocated the assets and liabilities related to the supplementary pension scheme into Transformovaný fond Penzijní společnosti České pojišťovny, a.s. and, through this fund, began to operate supplementary pension schemes for supplementary pension schemes participants and benefit recipients the liabilities to whom were allocated to the fund.

The Fund is subject to regulatory requirements of Act No. 42/1994 Coll. on State-contributory Supplementary Pension Insurance, and Act No. 427/2011 Coll. on Supplementary Pension Savings.

The monies in the transformed fund are separated from the assets of the administrator, Penzijní společnost České pojišťovny, a.s.

The Company’s investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The Fund’s custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the “Custodian”).

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Fund comprising the balance sheet, the income statement and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives and available-for-sale financial instruments at fair value, and for the valuation of held-to-maturity financial instruments at amortized cost. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund’s ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank (“CNB”) exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. Realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions. Foreign exchange differences on non-hedged equity available-for-sale securities are recorded in equity as part of the revaluation reserve.

2.3. Fair Value of Securities

The fair value of a security is determined by the market mid-price quoted by a relevant stock exchange or other active public market. If an active market for financial instruments does not exist, the Company determines the fair value using the valuation methods that include valuation under the arm’s length concept, discounted cash flow analysis and other valuation techniques commonly used by market participants.

In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.4. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a date on which a spot transaction is settled. Spot transactions are recognized in the off-balance sheet in the period between the trade date and the settlement date and, at the same time, are remeasured in this period in a way pertaining to the valuation category to which they have been assigned.

The following rules apply to derecognition of financial assets and liabilities:

The Fund derecognizes a financial asset, or a part thereof, from the balance sheet when it loses control over the contractual rights to the asset or part thereof. The Fund loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire, or if the Company waives these rights.

A financial liability, or a part of thereof, is extinguished when the obligation specified in the contract is discharged, cancelled or expires, and the entity will no longer report the financial liability or part thereof in the balance sheet. The difference between the carrying amount of a liability, or a part thereof, extinguished or transferred to another entity, and the consideration paid is recognized in profit or loss.

The transaction recognition date can also be the trade date for financial derivatives, the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client's account, the date on which the ownership or rights to another party's assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.5. Securities at Fair Value through Profit or Loss

Securities at fair value through profit or loss (the "FVTPL") fall into two sub-categories: securities held-for-trading, and securities designated at fair value through profit or loss upon initial recognition. Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or if they are part of a portfolio of identified financial instruments that are managed together, thereby generating profits on price fluctuations in the short term. Any security that is a financial asset or liability can be designated at fair value through profit or loss upon initial recognition, except for participating securities and interests that are not publicly traded and their fair value cannot be reliably measured and for securities issued by the Company.

Securities at fair value through profit or loss are initially recognized at cost and subsequently measured at fair value. Acquisition-related transaction costs are not included in the acquisition cost and are paid by the Company. All related gains and losses are included in gain or loss from financial transactions. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

2.6. Securities Available-for-Sale

Available-for-sale securities are securities that the Company designates into this category or that do not meet the terms of any other category. They comprise mainly debt securities held for liquidity management, mutual fund units and shares.

Available-for-sale securities are initially recognized at cost and subsequently measured at fair value. Acquisition-related transaction costs are not included in the acquisition cost and are paid by the Company.

Any gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until subsequent disposal or impairment, at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement, in Gain or loss from financial transactions.

Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognized in the income statement. Dividends are recorded as other income from shares and mutual funds. Interest is recorded as interest and similar income. Foreign exchange differences on available-for-sale debt securities and hedged equity available-for-sale securities are recorded in gain or loss from financial transactions. Foreign exchange differences on non-hedged equity securities are recorded in the revaluation reserve in equity.

2.7. Impairment of Securities Available-for-Sale

The Company assesses at each balance sheet date, whether there is objective evidence that a security is impaired. The Company follows an internal directive regulating the procedures for determining impairment of assets measured at fair value recognized in equity. The Company assesses impairment at the individual security level. The following facts or their combinations are considered as evidence of permanent impairment:

- for equity instruments: the market price decreased in the long run and decreased by more than 30% compared to their acquisition cost and it can be reasonably assumed that the status will not change in a foreseeable future;
- for debt instruments: the situation in which an issuer's credit rating is substantially decreased.

Prolonged decrease is defined as the permanent decrease of fair value in the time interval longer than 1 year, against the average acquisition cost determined as at the balance sheet date, while such a decrease has not been influenced e.g. by a significant dividend payment or similar technical decrease of equity.

If the aforementioned objective evidence of security permanent impairment exists, the difference between the acquisition cost of a security and its fair value is derecognized from equity and taken to the income statement at the balance sheet date.

Investments, which are assessed for impairment and meet the required criteria, are subject to the following accounting procedure:

- for losses on impairment of equity instruments the recognized expense is irreversible, losses on impairment of debt securities may be reversed if after their recognition in profit or loss their fair value is increased from objective and by entity identifiable reasons. If the fair value of assets is increased in next fiscal years, the appreciation must be recognized through profit or loss, i.e. the write-off must be directly reversed.

2.8. Securities Held-to-Maturity

Securities held-to-maturity are securities with a fixed maturity designated by the Company into this category, provided the Company has both the intent and the ability to hold them to maturity in the Fund and the securities are tradable. Held-to-maturity securities are measured upon acquisition at acquisition cost. Acquisition-related transaction costs are not included in the acquisition cost and are paid by the Company. Held-to-maturity securities are then measured at amortized cost. A permanent impairment of debt instruments occur especially in the situation in which a counterparty's credit rating is substantially decreased and other circumstances. The total value of held-to-maturity securities may not exceed 35% of the Fund's assets.

2.9. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

2.10. Transfers between Portfolios of Securities

Transfers of securities between the Fund's portfolios are subject to the following rules:

- transfers to and from the portfolio of securities at fair value through profit or loss are not allowed;
- transfers from available-for-sale securities to held-to-maturity securities are effected upon the change in the intention or after elapsing two accounting periods, in which it was not allowed to classify any securities as held-to-maturity (see below);
- transfers from held-to-maturity securities to available-for-sale securities are effected if the intention or ability to hold the held-to-maturity securities has changed;
- on the sale or transfer of any securities held-to-maturity, the Fund must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity in the two following accounting periods. The exceptions to this rule are permitted for sales within the last three months before maturity of the security if during the period of possession of these securities the Fund received from the issuer at least 90% of acquisition cost of these securities in addition to accrued coupons, for sales of insignificant part of portfolio, in the case of a significant deterioration in an issuer's creditworthiness, or in the case of changes in tax legislation, legal or regulatory requirements.

2.11. Financial Derivatives and Hedging

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate. The valuation models consider market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

For all derivatives, the fair value is presented in other assets or in other liabilities when the fair value for the Fund is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

The Fund designates prospectively certain derivatives as a hedge of the fair value of selected assets or liabilities (fair value hedge).

Hedge accounting can be used for financial derivatives designated in this way provided the following criteria are met:

- a) the derivative is in compliance with the Fund's risk management strategy;
- b) the formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- c) the hedge documentation proves that the hedge is highly effective in offsetting the risk in the hedged item at inception of the hedge and throughout the reporting period;
- d) the hedge is effective on an ongoing basis; and
- e) the hedged item is not a security measured at fair value through the profit or loss.

Within hedge accounting, the Fund uses the fair value hedge of available-for-sale securities.

Changes in the fair value of available-for-sale securities arising from the hedged risk that qualify as effective fair value hedges are recorded in the income statement. Within a hedge of a foreign currency risk, the changes in fair values are recorded in gain or loss from financial transactions. Valuation differences arising from a hedge of an interest rate risk are recorded as interest and similar income. Changes in the fair value of financial derivatives are recorded along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Certain derivatives, although providing effective financial hedging of opened positions of the Fund from the risk management point of view, do not fulfil the criteria of hedge accounting based on applicable Czech Accounting Standards. Therefore these derivatives are accounted for as trading derivatives. Changes in the fair value of these derivatives are also recorded in gain or loss from financial transactions.

2.12. Equity

The Fund has no share capital. The Fund's profit is used to the benefit of participants and persons whose supplementary pension insurance operated by the Fund ceased to exist in the year for which the profit was distributed. Shares in profit to the benefit of participants are distributed in accordance with the principles set in the pension plan.

Revaluation differences arise from changes in the fair values of available-for-sale securities. Upon the sale or impairment of available-for-sale securities, the accumulated profits or losses are taken to the income statement.

The Company's Board of Directors approves the distribution of profits of the Fund. If the Fund's operations end up with a loss, a capital fund or another fund created from the Fund's profit is used to cover the loss. In case the Fund's resources are insufficient to cover the loss, the loss shall be covered by transfer of the Company's assets to the Fund's capital fund. Additionally, the Company's assets are transferred to the capital fund in case when the Fund's liabilities exceed the Fund's assets.

2.13. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.14. Policyholders' Funds

Policyholders' contributions and state contributions, including revenues from these contributions, are recognized at nominal value. These contributions include mainly contributions paid, funds to be paid out and entitlement to state contribution before investing in the portfolio.

2.15. State Contribution

State contribution is accounted for on the cash flow basis, i.e. when the monies are received.

2.16. Fee and Commission Expenses

The fee and commission expenses comprise fee paid to the Company for management and appreciation of assets. The amount of fee is determined as follows:

- a) fee for management should not exceed 0.8% of the Fund's average annual balance sheet total. The Fund's average annual balance sheet total is determined as at 31 December as a simple arithmetic average of the Fund's balance sheet totals for each day of the respective year; and
- b) fee for asset appreciation shall not exceed 10% of the profit (net of the respective fee) reported in the Fund's financial statements. For the purposes of determining the fee for asset appreciation, profit shall be determined as profit before booking the fee for asset appreciation and taxes.

2.17. Income Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.18. Deferred Tax

Due to a zero income tax rate, the deferred tax is not accounted for.

2.19. Provisions

Provisions are recognized when the Fund has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities. Provisions are recognized in the currency in which settlement is expected to be made.

Additions to provisions are recognized in the income statement, utilization of provisions is recognized together with expenses or losses, for which the provisions were created, in the income statement. Release of provisions in case they are no longer necessary is recognized as income.

Provision for Future Pension Payments

If need be the Fund establishes an insurance provision for the payment of future pension claims in the amount of net present value of the expected pension payments computed by an actuary, net of the sum of funds recorded to the benefit of pension beneficiaries as at the provision computation date.

2.20. Off-balance-sheet Items

Assets provided into Company's administration at fair value, foreign currency and interest rate derivatives at fair value and receivables from spot transactions at nominal value represent off-balance sheet assets of the Fund.

The Fund's off-balance sheet liabilities include payables from collateral received within repo transactions at fair value, foreign currency and interest rate derivatives at fair value and payables from spot transactions at nominal value.

The Fund has no assets or liabilities that would not be disclosed in the balance sheet or off-balance sheet accounts.

2.21. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

2.22. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- funds managed by the Company.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 16.

2.23. Use of Estimates

The preparation of financial statements requires Company management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements of the Fund and the reported amounts of revenues and expenses of the Fund during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

2.24. Adjustment of item classification in the balance sheet and income statement

In 2018, the Company adjusted the presentation of items in the balance sheet relating to revaluation reserve. Accordingly, the comparative information for 2017 has also been adjusted. The adjustment does not affect the amount of equity, balance sheet total or profit/loss for 2017.

(in CZK thousands)	31 December 2017 – revised	31 December 2017	Effect of change
Revaluation reserve	4,766,775	4,766,775	0
of which: a) for assets and liabilities	4,766,775	3,806,001	960,774
b) for hedging derivatives	0	960,774	(960,774)

In 2018, the Company adjusted reporting of items in the income statement relating to interest income and expense; interest income on debt securities and interest rate hedging derivatives is reported in net amounts under Interest and similar income. Accordingly, the comparative information for 2017 has also been adjusted. The adjustment does not affect the amount of equity, balance sheet total or profit/loss for 2017.

(in CZK thousands)	31 December 2017 – revised	31 December 2017	Effect of change
Interest and similar income	1,720,157	3,749,734	(2,029,577)
of which: interest income from debt securities	938,479	2,767,395	(1,828,916)
Interest and similar expense	(67,231)	(2,096,808)	2,029,577
of which: interest expense from debt securities	0	(1,828,916)	1,828,916

3. Changes in accounting policies

No changes in accounting methods occurred in 2018 and 2017.

4. Due from Banks

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	642,769	2,675,623
Cash collateral pledged – OTC derivatives	189,890	123,114
Reverse repo agreements	16,289,894	17,987,398
Total amounts due from banks	17,122,553	20,786,135

5. Securities

All securities held by the Fund are listed.

(in CZK thousands)	Debt securities as at		Shares and mutual funds as at	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Available-for-sale	63,407,572	61,339,260	2,825,223	3,079,289
Held-to-maturity	33,847,383	31,580,526	0	0
Total securities	97,254,955	92,919,786	2,825,223	3,079,289

5.1. Securities Available-for-Sale

Debt securities including zero-coupon bonds

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	46,968,673	44,351,077
Foreign stock exchanges	16,438,899	16,988,183
Total debt securities including zero-coupon bonds	63,407,572	61,339,260

Shares and mutual funds

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	275,136	278,144
Foreign stock exchanges	2,550,087	2,801,145
Total shares and mutual funds	2,825,223	3,079,289

5.2. Securities Held-to-Maturity

Debt securities

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	33,847,383	31,580,526
Total debt securities	33,847,383	31,580,526

The fair value of the portfolio was CZK 32,809,358 thousand as at 31 December 2018. The fair value as at 31 December 2017 was CZK 31,359,021 thousand.

6. Other Assets

(in CZK thousands)	31 December 2018	31 December 2017
Receivables from securities transactions	4,402	42,930
Financial derivatives (Note 15.3)	304,178	522,067
Receivables from the Company	16,439	22,766
Total other assets	325,019	587,763

7. Amounts Owed to Banks and Cooperative Saving Banks

(in CZK thousands)	31 December 2018	31 December 2017
Cash collateral received – OTC derivatives	257,602	331,183
Repo agreements	12,382,731	14,461,805
Amounts owed to banks and cooperative saving banks	12,640,333	14,792,988

The Fund has been using foreign currency repo agreements to hedge foreign currency exposures.

The value of assets that have been encumbered as repo agreements hedge is included in Debt securities. In case of non-compliance with the obligations towards the creditor, the hedge would only be realized up to the recognized liability.

(in CZK thousands)	31 December 2018	31 December 2017
Debt securities issued by government institutions	15,697,412	17,972,933
Debt securities issued by other entities	0	775,070
Total encumbered assets	15,697,412	18,748,003

8. Other Liabilities

8.1. Policyholders' Funds

Balance as at	31 December 2018	31 December 2017
Policyholders' funds	100,918,733	96,564,822

Portfolio of policyholders:

	31 December 2018	31 December 2017
Number of policyholders	908,221	969,713

Pension benefit payments:

	2018	2017
Number	65,355	76,422
Amount (in CZK thousands)	6,973,555	7,125,557

8.2. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Payables to MF	10,646	12,694
Financial derivatives (Note 15.3)	321,372	239,918
Fee for management and appreciation of assets (Note 16)	185,835	155,387
Payables to the Company	411	411
Total other liabilities	518,264	408,410

9. Provisions

(in CZK thousands)	Pension provision	Other provision	Total provisions
Balance at 1 January 2017	55,446	13,094	68,540
Use/release	(17,424)	(582)	(18,006)
Additions	5,827	0	5,827
Balance at 31 December 2017	43,849	12,512	56,361
Use/release	(6,498)	(673)	(7,171)
Additions	6,624	0	6,624
Balance at 31 December 2018	43,975	11,839	55,814

For the calculation of pension provision as at 31 December 2018, the following key economic and actuarial assumptions were used:

- The Fund's cost model was derived from the actual administrative, capital and acquisition costs. The annual cost inflation, based on market conditions, was used for this projection.
- For the projection of future income and for the determination of the discount rates, a reference yield curve was used for the test of adequacy of insurance provisions as at 31 December 2018 issued by Česká společnost aktuárů on 3 January 2019. In accordance with the existing procedure, the model expected the participants to be credited with 100% of the annual profit.
- Decrements used to simulate the outflow of participants:
 1. Likelihoods of mortality are based on demographic tables of the Czech Bureau of Statistics 2018, as modified by the tendency of lengthening of life span.
 2. The percentage of participants opting for pension benefits instead of a lump-sum settlement and the percentage likelihood of participants leaving the pension fund (transfer to another pension or participation fund or cancellation) are based on the Company's experience. The simulation works with the current situation and with gradual increases in the percentage of the participants opting for pension benefits.

Other provisions mainly include provisions for bonuses or remuneration to policyholders who are likely to be entitled to claim their payment in the future.

10. Equity

10.1. Revaluation Reserve

As at 31 December 2018 (in CZK thousands)	Shares and mutual funds	Debt securities – government	Debt securities – other	Total
Balance as at 1 January 2018	726,452	3,677,620	362,703	4,766,775
Sale of securities – revaluation reserve reflected in P/L account	(36,178)	(287,715)	10,939	(312,954)
Unrealised revaluation reserve reflected in equity	(378,300)	(1,359,480)	(365,318)	(2,103,098)
Balance as at 31 December 2018	311,974	2,030,425	8,324	2,350,723

As at 31 December 2017 (in CZK thousands)	Shares and mutual funds	Debt securities – government	Debt securities – other	Total
Balance as at 1 January 2017	249,141	4,942,361	311,139	5,502,641
Sale of securities – revaluation reserve reflected in P/L account	(75,336)	(358,154)	(19,785)	(453,275)
Unrealised revaluation reserve reflected in equity	552,648	(906,587)	71,348	(282,591)
Balance as at 31 December 2017	726,452	3,677,620	362,703	4,766,775

In compliance with the valid legislation, revaluation differences are fully recognized in Fund's equity although in the future at least 90 % will be allocated to policyholders as part of the profit distribution when the differences are realized.

10.2. Profit Distribution

(in CZK thousands)	Proposal for 2018	2017
Share in profit – policyholders	1,043,883	783,617
Total profit for the year	1,043,883	783,617
Annual yield	1.1%	0.8%

The Company proposed that 100% of the profit for the current accounting period be allocated in favor of the policyholders. However, the distribution of profit has not yet been approved. The annual yield is calculated on the basis of the methodology approved by the Association of Pension Funds of the Czech Republic.

The annual yield in 2018 is based on the assumption that the proposed distribution of profit shall be approved by the General Meeting of the Company.

Based on the decision of the sole shareholder, the Company management distributed the 2017 profit of CZK 783,617 thousand to policyholders.

11. Interest and Similar Income and Interest and Similar Expense

(in CZK thousands)	2018	2017 – revised
Interest on current accounts	807	285
Interest on term deposits	2,525	125
Interest on debt securities	2,159,745	938,479
Interest on hedging derivatives	(224,252)	739,527
Interest on repo agreements	191,531	41,741
Total interest and similar income	2,130,356	1,720,157

Interest expense on repo agreements was CZK 119,826 thousand (2017: CZK 67,231 thousand) – revised.

12. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Fee for management of assets	(826,459)	(806,254)
Fee for appreciation of assets	(115,987)	(87,068)
Total fee and commission expenses (Note 16)	(942,446)	(893,322)

The cost of the Fund's statutory audit is invoiced directly to the Company.

13. Gain or Loss from Financial Transactions

(in CZK thousands)	2018	2017
Securities	(41,611)	90,457
Foreign exchange differences	71,645	(656,610)
Derivatives	(113,438)	513,855
Total gain or loss from financial transactions	(83,404)	(52,298)

As at 31 December 2018, the item "Derivatives" includes changes in fair values of derivatives within the economic hedge of interest rate and foreign currency exposures of portfolio's certain assets totaling CZK (113,438) thousand. As at 31 December 2017, the changes in fair values within the economic hedge amounted to CZK 513,855 thousand.

14. Income Taxes

The current income tax rate applicable to the funds managed by pension company is 0 %.

Unused tax loss carryforward is CZK 1,361,610 thousand as at 31 December 2018 (2017: CZK 1,361,610 thousand).

15. Financial Risks

15.1. Strategy in Using Financial Instruments

The Fund places its assets in line with investment objectives given in the Fund's Statute. The principal instrument in risk management is investment limits set forth in Act No. 42/1994 Coll. on State-contributory Supplementary Pension Insurance, Fund's Statute and internal regulations of the Company. The asset portfolio's compliance with the investment objectives and limits and the level of other exposures are periodically assessed.

15.2. Market Risk

The Fund takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

The Fund acquires funds from the pension insurance policyholders and invests them in quality assets in compliance with the Fund's Statute.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	17,122,553	0	0	0	17,122,553
Debt securities	81,678,178	12,421,938	384,587	2,770,252	97,254,955
Shares and mutual funds	271,613	1,130,456	833,898	589,256	2,825,223
Financial derivatives	248,070	5,416	50,692	0	304,178
Total financial assets	99,320,414	13,557,810	1,269,177	3,359,508	117,506,909

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	20,786,135	0	0	0	20,786,135
Debt securities	76,802,147	12,638,900	763,402	2,715,337	92,919,786
Shares and mutual funds	248,847	1,827,159	1,003,283	0	3,079,289
Financial derivatives	436,330	21,257	64,480	0	522,067
Total financial assets	98,273,459	14,487,316	1,831,165	2,715,337	117,307,277

Breakdown of revenues by geographic location of markets

31 December 2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	3,273,870	631,475	6,922	3,912,267
Income from shares and mutual funds – other	15,405	43,067	951	59,423
Gain or loss from financial transactions	(319,752)	231,139	5,209	(83,404)
Other operating income	16,386	0	0	16,386

31 December 2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	3,154,418	588,394	6,922	3,749,734
Income from shares and mutual funds – other	14,395	48,021	0	62,416
Gain or loss from financial transactions	810,044	(819,083)	(43,259)	(52,298)
Other operating income	14,645	0	0	14,645

15.3. Financial Derivatives

(in CZK thousands)	31 December 2018	31 December 2017
Currency swaps		
Trading derivatives	12,264	0
Fair value hedging agreements	12,044	41,027
Positive fair value of financial derivatives (Note 6)	24,308	41,027

(in CZK thousands)	31 December 2018	31 December 2017
Currency swaps		
Trading derivatives	0	(3,370)
Fair value hedging agreements	(452)	(2,578)
Negative fair values of financial derivatives (Note 8.2)	(452)	(5,948)

(in CZK thousands)	31 December 2018	31 December 2017
Interest rate swaps		
Fair value hedging derivatives	279,870	481,040
Positive fair value of financial derivatives (Note 6)	279,870	481,040

(in CZK thousands)	31 December 2018	31 December 2017
Interest rate swaps		
Trading derivatives	(11,168)	(15,324)
Fair value hedging derivatives	(309,752)	(218,646)
Negative fair values of financial derivatives (Note 8.2)	(320,920)	(233,970)

The financial instruments held by the Fund can be analyzed as follows:

31 December 2018 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive (Note 6)	Negative (Note 8.2)
Currency swaps	4,877,438	4,853,582	24,308	(452)
Interest swaps	22,403,907	22,444,957	279,870	(320,920)
Total derivatives	27,281,345	27,298,539	304,178	(321,372)

31 December 2017 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive	Negative
Currency swaps	3,009,111	2,974,032	41,027	(5,948)
Interest swaps	24,409,609	24,162,539	481,040	(233,970)
Total derivatives	27,418,720	27,136,571	522,067	(239,918)

15.4. Currency Risk

The Fund takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored regularly. The Fund hedges foreign currency financial instruments in the Fund's portfolio against changes in fair value due to change in foreign exchange rates, using currency derivatives and repo transactions.

The table below summarizes the Fund's exposure to currency risk. The table includes the Fund's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	16,853,786	251,699	13,249	3,819	17,122,553
Debt securities available-for-sale	48,291,909	9,949,398	4,004,573	1,161,692	63,407,572
Securities held-to-maturity	33,847,383	0	0	0	33,847,383
Shares and mutual funds	275,137	988,191	1,435,645	126,250	2,825,223
Other assets	265,151	5,416	54,452	0	325,019
Total	99,533,366	11,194,704	5,507,919	1,291,761	117,527,750
Liabilities					
Amounts owed to banks	180,190	8,800,466	3,379,225	280,452	12,640,333
Policyholders' funds	100,918,733	0	0	0	100,918,733
Other liabilities	437,568	80,255	0	441	518,264
Provisions	55,814	0	0	0	55,814
Equity	3,394,606	0	0	0	3,394,606
Total	104,986,911	8,880,721	3,379,225	280,893	117,527,750
Net balance sheet assets / liabilities (-)	(5,453,545)	2,313,983	2,128,694	1,010,868	0
Net off-balance sheet currency positions (Note 15.3)	4,877,438	(2,517,885)	(2,211,978)	(123,719)	23,856
Net open currency position	(576,107)	(203,902)	(83,284)	887,149	23,856

31 December 2017 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	20,393,065	250,800	134,717	7,553	20,786,135
Debt securities available-for-sale	46,371,968	9,881,887	3,782,410	1,302,995	61,339,260
Securities held-to-maturity	31,580,526	0	0	0	31,580,526
Shares and mutual funds	278,144	1,075,553	1,654,607	70,985	3,079,289
Other assets	461,882	21,257	104,624	0	587,763
Total	99,085,585	11,229,497	5,676,358	1,381,533	117,372,973
Liabilities					
Amounts owed to banks	194,800	9,986,269	4,152,900	459,019	14,792,988
Policyholders' funds	96,564,822	0	0	0	96,564,822
Other liabilities	339,081	57,365	10,989	975	408,410
Provisions	56,361	0	0	0	56,361
Equity	5,550,392	0	0	0	5,550,392
Total	102,705,456	10,043,634	4,163,889	459,994	117,372,973
Net balance sheet assets / liabilities (-)	(3,619,871)	1,185,863	1,512,469	921,539	0
Net off-balance sheet currency positions (Note 15.3)	2,580,279	(1,108,022)	(1,370,307)	(66,871)	35,079
Net open currency position	(1,039,592)	77,841	142,162	854,668	35,079

15.5. Interest Rate Risk

The Fund takes on exposure resulting from fluctuations in market interest rates to its financial position and cash flows. The Board of Directors determines the limits of interest rate risk that are acceptable. These limits are monitored on a regular basis. The Fund hedges fix rate bonds in the available-for-sale securities portfolio against changes in fair value due to change in risk-free interest rate, using interest rate swaps.

The table below summarizes the Fund's exposure to interest rate risk. The table includes the Fund's interest-bearing assets and liabilities at carrying amounts, categorized by the earlier of the settlement, re-pricing or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	642,769	0	0	0	642,769
Reverse repo agreements	16,289,894	0	0	0	16,289,894
Debt securities	1,683,448	25,995,345	31,154,899	38,421,263	97,254,955
Total financial assets	18,616,111	25,995,345	31,154,899	38,421,263	114,187,618
Liabilities					
Amounts owed to banks	12,640,333	0	0	0	12,640,333
Total amounts owed to banks	12,640,333	0	0	0	12,640,333

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	2,675,623	0	0	0	2,675,623
Reverse repo agreements	17,987,398	0	0	0	17,987,398
Debt securities	1,974,476	16,472,766	35,238,927	39,233,617	92,919,786
Total financial assets	22,637,497	16,472,766	35,238,927	39,233,617	113,582,807
Liabilities					
Amounts owed to banks	14,792,988	0	0	0	14,792,988
Total amounts owed to banks	14,792,988	0	0	0	14,792,988

The Fund did not have any liabilities exposed to the effects of market interest rate fluctuations as at 31 December 2018.

15.6. Liquidity Risk

The Fund is exposed to liquidity risk as a consequence of calls on available cash resources related to pension liabilities, one-off settlements, severance payments and transfers of the policyholders' funds to other pension funds.

The Fund regularly assesses the liquidity risk, mainly by monitoring the changes in the inflow and outflow of the participants' funds. The Fund, in line with its liquidity risk strategy, holds part of the assets in highly liquid financial instruments such as government treasury bills and similar government bonds.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	17,122,553	0	0	0	0	17,122,553
Debt securities	565,955	10,035,858	30,193,478	56,459,664	0	97,254,955
Shares and mutual funds	0	0	0	0	2,825,223	2,825,223
Other assets	45,148	5,783	30,648	243,440	0	325,019
Total assets	17,733,656	10,041,641	30,224,126	56,703,104	2,825,223	117,527,750
Liabilities						
Amounts owed to banks	12,640,333	0	0	0	0	12,640,333
Payables to clients	38,722,518	2,613,795	12,655,209	46,927,211	0	100,918,733
Other liabilities	197,344	16,968	48,724	255,228	0	518,264
Provisions	0	55,814	0	0	0	55,814
Equity	0	0	0	0	3,394,606	3,394,606
Total liabilities	51,560,195	2,686,577	12,703,933	47,182,439	3,394,606	117,527,750
Net assets / liabilities (-)	(33,826,539)	7,355,064	17,520,193	9,520,665	(569,383)	0

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	20,786,135	0	0	0	0	20,786,135
Debt securities	913,453	1,972,532	36,303,085	53,730,716	0	92,919,786
Shares and mutual funds	0	0	0	0	3,079,289	3,079,289
Other assets	106,723	2,448	27,714	450,878	0	587,763
Total assets	21,806,311	1,974,980	36,330,799	54,181,594	3,079,289	117,372,973
Liabilities						
Amounts owed to banks	14,792,988	0	0	0	0	14,792,988
Payables to clients	36,433,907	2,684,502	11,858,160	45,588,253	0	96,564,822
Other liabilities	174,440	5,713	80,246	148,011	0	408,410
Provisions	0	56,361	0	0	0	56,361
Equity	0	0	0	0	5,550,392	5,550,392
Total liabilities	51,401,335	2,746,576	11,938,406	45,736,264	5,550,392	117,372,973
Net assets / liabilities (-)	(29,595,024)	(771,596)	24,392,393	8,445,330	(2,471,103)	0

16. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Penzijní společnost České pojišťovny, a.s.		
Receivables from the Company (Note 6)	16,439	22,766
Payables – fee for management, fee for appreciation (Note 8.2)	185,835	155,387
Expenses – fee for management, fee for appreciation (Note 12)	(942,446)	(893,322)

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

17. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Fund for the year ended 31 December 2018.

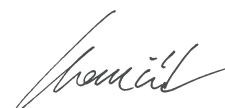
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Transformovaný fond Penzijní společnosti České pojišťovny, a.s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Name of the Transformed Fund**, pursuant to Subsection 2, Letter (a) of Annex 1 to the Decree
Transformovaný fond Penzijní společnosti České pojišťovny, a.s.
- b) **Information on the pension management company that manages the Transformed Fund, or information on each pension management companies that managed the Transformed Fund in the relevant period, and information on the period of time for which each pension management company managed the Transformed Fund**, pursuant to Subsection 2, Letter (b) of Annex 1 to the Decree
For the entire relevant period, the Transformed Fund was managed by Penzijní společnost České pojišťovny, a.s., business registration number (IČ): 618 58 692, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 2738.
- c) **Information on portfolio managers of the Transformed Fund in the relevant period, and information on the period of time for which they performed the activities of a portfolio manager**, pursuant to Subsection 2, Letter (c) of Annex 1 to the Decree
All assets of the Transformed Fund were entrusted to the management of Generali Investments CEE, investiční společnost, a.s., business registration number (IČ): 438 73 766, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1031. In the relevant period, the activities of the portfolio manager were performed by Michal Kymlička, CFA.
- d) **Information on each depositary of the Transformed Fund in the relevant period, and information on the period of time for which they performed the activities of a depositary**, pursuant to Subsection 2, Letter (d) of Annex 1 to the Decree
The Transformed Fund's depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- e) **Information on each entity entrusted with the custody or safekeeping of the Transformed Fund's assets, provided that more than 1% of the value of the Fund's assets have been in custody or safekeeping of the entity**, pursuant to Subsection 2, Letter (e) of Annex 1 to the Decree
In the relevant period, the custody or safekeeping of the Fund's assets was performed by UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- f) **Comprehensive identification of the Transformed Fund's assets, if their value exceeds 1% of the value of the Fund's assets as at the date of the valuation performed for the purposes of this Report, with a specification of the total acquisition price and the fair value at the end of the relevant period**, pursuant to Subsection 2, Letter (f) of Annex 1 to the Decree

Name	ISIN	Acquisition price (CZK thousand)	Fair value (CZK thousand)
Repo agreements	Reverse repo agreements	16,300,000	16,289,894
CZ GB L-10 11/27	CZ0001004105	11,411,386	11,609,312
CZ GB 4.20 12/36	CZ0001001796	9,066,672	8,714,228
CZ GB 2.50 08/28	CZ0001003859	8,329,022	8,021,765
CZ GB 3.75 09/20	CZ0001001317	7,120,533	6,773,032
CZ GB 5.00 04/19	CZ0001002471	7,619,535	6,624,515
CZ GB 0.95 05/30	CZ0001004477	6,316,735	6,069,936
CZ GB 5.70 05/24	CZ0001002547	6,499,723	5,790,997
CZ GB L+65 04/23	CZ0001003123	4,944,860	4,975,283
CZ GB 3.85 09/21	CZ0001002851	4,861,701	4,682,555
CZ GB 4.70 09/22	CZ0001001945	4,427,667	3,998,106
CZ GB 2.0 10/33	CZ0001005243	3,237,930	3,247,542
CZ GB 2.4 09/25	CZ0001004253	2,749,625	2,551,861
CZ GB 2.75 07/29	CZ0001005375	2,315,558	2,371,336
CZ GB 1.5 10/19	CZ0001003834	1,342,125	1,353,735

- g) **Information on judicial or arbitration disputes relating to the Fund's assets or to any claim of the Transformed Fund's participants, if the value of the dispute exceeds 1% of the value of the Transformed Fund's assets in the relevant period,** pursuant to Subsection 2, Letter (g) of Annex 1 to the Decree
The Participation Fund has not been a party to any judicial or arbitration disputes, where the value subject to the dispute exceeds 1% of the value of the Fund's assets in the relevant period.
- h) **Information on the Transformed Fund's total equity and equity per unit as at 31 December of the relevant period and for the last three reporting periods,** pursuant to Subsection 2, Letter (h) of Annex 1 to the Decree
This information is not subject to disclosure for the Transformed Fund.
- i) **Information on the development of the value of a pension unit in the relevant period, which is expressed in a graphic form,** pursuant to Subsection 2, Letter (i) of Annex 1 to the Decree
This information is not subject to disclosure for the Transformed Fund.
- j) **Information on the composition of and changes in the Fund's assets,** pursuant to Subsection 2, Letter (j) of Annex 1 to the Decree

ASSETS (in CZK thousand)	31 December 2016	31 December 2017	31 December 2018
Due from banks and cooperative savings banks	2,364,848	20,786,135	17,122,553
a) repayable on demand	357,657	2,675,623	642,769
b) other receivables	2,007,191	18,110,512	16,479,784
Debt securities	94,076,648	92,919,786	97,254,955
a) issued by government organizations	82,555,062	81,935,315	86,719,341
b) issued by other entities	11,521,586	10,984,471	10,535,614
Shares, participating certificates and other interests	3,041,595	3,079,289	2,825,223
Other assets	123,775	587,763	325,019
TOTAL	99,606,866	117,372,973	117,527,750

- k) **Information on the consideration paid to the pension management company for managing the assets of the Transformed Fund,** pursuant to Subsection 2, Letter (k) of Annex 1 to the Decree
The consideration paid for to the pension management company for managing the assets of the Transformed Fund amounted to 0.8% of the average annual value of the Transformed Fund's balance sum, and 10% of the Transformed Fund's profits at the end of the relevant period.
- l) **Information on quantitative restrictions and methods selected for risk assessment related to the techniques and instruments for effective asset management in the Transformed Fund,** pursuant to Subsection 2, Letter (l) of Annex 1 to the Decree
The pension management company uses derivative instruments and repo agreements for efficient management of assets in the Transformed Fund. These instruments are primarily used to manage currency and interest rate risks. In order to reduce the risks arising from the use of financial derivatives which the Transformed Fund is to settle by means of the provision of funds, the Transformed Fund holds cash or a highly liquid asset. To maintain a low risk while efficiently managing the assets, the Transformed Fund invests funds acquired from repo agreements into highly liquid assets only. Information on the used financial derivatives, repo agreements and valuation methods are included in the notes to the financial statements.

Pursuant to Section 21(2) of Act No. 563/1991 Coll., on Accounting, Penzijní společnost České pojišťovny, a.s. discloses information on the projected development of the entity:

Assets administered by the Transformed Fund continue to grow even though the number of clients has been declining due to the impossibility for new clients to join the Fund. In the coming period, we expect this trend to continue and to maintain the stable development of the Fund's assets.

Annual Report 2018

Povinný konzervativní fond
Penzijní společnosti České pojišťovny a. s.

Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Fund participants of Povinný konzervativní fond Penzijní společnosti České pojišťovny, a. s.:

Opinion

We have audited the accompanying financial statements of Povinný konzervativní fond Penzijní společnosti České pojišťovny, a.s. (hereinafter also the "Fund") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fund, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors of Penzijní společnost České pojišťovny, a.s., for the Financial Statements

The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors of Penzijní společnost České pojišťovny, a.s., determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Penzijní společnost České pojišťovny, a.s. is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of Penzijní společnost České pojišťovny, a.s., either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Penzijní společnost České pojišťovny, a.s.
- Conclude on the appropriateness of the Board of Directors' of Penzijní společnost České pojišťovny, a.s., use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009

26 April 2019
Prague, Czech Republic

Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017
Due from banks	3	202,705	162,588
of which: a) repayable on demand		53,815	22,675
b) other receivables		148,890	139,913
Debt securities	4	122,445	81,753
of which: a) issued by government institutions		119,202	73,380
b) issued by other entities		3,243	8,373
TOTAL ASSETS		325,150	244,341
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017
Other liabilities	5	2,479	6,478
Capital funds	6	322,322	236,928
Retained earnings	6	935	1,399
Profit/(Loss) for the period	6	(586)	(464)
TOTAL LIABILITIES		325,150	244,341
OFF-BALANCE SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Assets provided for management by a third party		322,671	237,863
Total off-balance sheet assets		322,671	237,863
Off-balance sheet liabilities			
Collateral and pledge received		148,890	139,913
Total off-balance sheet liabilities		148,890	139,913

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	2018	2017
Interest and similar income	7	2,979	793
of which: interest income from debt securities		1,336	655
Interest and similar expense		(225)	(94)
of which: interest expense from debt securities		0	0
Fee and commission expenses	8	(1,126)	(793)
Gain/(Loss) from financial transactions	9	(2,214)	(370)
Profit/(Loss) on ordinary activities before tax	6	(586)	(464)
Income tax	10	0	0
Profit/(Loss) for the period after tax	6	(586)	(464)

Financial Statements for the year ended 31 December 2018

1. General Information

Povinný konzervativní fond Penzijní společnosti České pojišťovny, a.s. (the “Fund”) was established by Penzijní společnost České pojišťovny, a.s. (the “Company”), following the Czech National Bank’s decision dated 20 December 2012. This decision on the authorization to establish the Fund became effective on 1 January 2013.

The Fund is subject to regulatory requirements of Act No. 427/2011 Coll. on Supplementary Pension Savings, which is valid from 1 January 2013, as amended.

The Company’s investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The Fund’s custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the “Custodian”).

On 16 June 2014, following the Czech National Bank’s authorization, Povinný konzervativní účastnický fond Raiffeisen penzijní společnosti a.s. (the “RPS Fund”) was incorporated into the Fund.

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Fund comprising the balance sheet, the income statement and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund’s ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a trade date (date on which a spot contract is executed) provided that the period between the trade date and the settlement date does not exceed a period typical for the relevant type of transaction.

The transaction recognition date can also be the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client’s account, the date on which the ownership or rights to another party’s assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.3. Securities and Their Fair Value

In accordance with the Fund’s strategy, all securities are classified as securities at fair value through profit or loss.

Securities at fair value through profit or loss are initially recognized at cost and subsequently measured at fair value. All related gains and losses are included in gain or loss from financial transactions. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

The fair value of a security is determined by the market mid-price quoted by a relevant stock exchange or other active public market. In other cases, the fair value of a security is determined as net present value of the cash flows adjusted for credit and other relevant risks.

In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.4. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank ("CNB") exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. All realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions.

2.5. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

Repo agreements do not include concurrent spot purchases and sales of securities provided that their settlement is made in the same day.

2.6. Financial Derivatives

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate.

All derivatives are presented in other assets or in other liabilities when their fair value for the Fund is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

Due to fact that all securities are classified as securities at fair value through profit or loss, the Fund uses the financial derivatives only to hedge foreign currency and interest rate exposures.

2.7. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.8. Fee and Commission Expenses

The fee and commission expenses comprise fee paid to the Company for management and appreciation of assets. The amount of fee is determined as follows:

- fee for management should not exceed 0.4% of the Fund's average annual equity. The Fund's average annual equity is determined as at 31 December as a simple arithmetic average of the Fund's equity values for each day of the respective year; and
- fee for asset appreciation shall not exceed 10% of the difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the prior years since the establishment of the Fund, multiplied by the average number of pension units in the relevant period.

2.9. Payables to Policyholders

Policyholders' contributions and state contributions, including revenues from these contributions, are recognized at nominal value. These contributions include mainly contributions to be invested, funds to be paid out and entitlement to state contribution before investing in the portfolio. The invested funds are posted to capital funds, which are included in equity.

2.10. Capital Funds

The credited price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are credited to the pension savings scheme participants for the selling price set on a weekly basis. Capital funds also include gains or losses arising from the revaluation of pension units as at the date on which the pension units were credited or deducted.

2.11. Provision for Pension Payments

The Fund does not create a provision for the payment of life-long pensions or pensions with fixed term and fixed pension benefit because these pensions are paid out by an insurance company designated by the client on the basis of signed insurance policy.

2.12. Income Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.13. Deferred Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.14. Off-balance Sheet Assets and Liabilities

The Fund's off-balance sheet accounts include assets provided into Company's administration and payables from collateral received within repo transactions.

The Fund has no assets or liabilities that would not be disclosed in the balance sheet or off-balance sheet accounts.

2.15. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

2.16. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- funds managed by the Company.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 12.

3. Due from Banks

The Fund places funding, which is not currently being used in transactions with securities or in settlement of payables to policyholders, within reverse repo agreements or on term deposits with banks. Balances on current accounts are repayable on demand.

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	53,815	22,675
Reverse repo agreements	148,890	139,913
Total amounts due from banks	202,705	162,588

4. Securities

All securities held by the Fund are listed.

Securities at fair value through profit or loss:

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	122,445	76,740
Foreign stock exchanges	0	5,013
Total debt securities	122,445	81,753

5. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Payables to policyholders	2,357	6,391
Fee for management and appreciation of assets (Note 12)	122	87
Total other liabilities	2,479	6,478

6. Capital Funds and Other Equity Components

The Fund has no share capital. The price of the Fund's unit is determined on the basis of the Fund's equity and the number of units while the unit price (NAV/unit) is determined by dividing the Fund's equity by the relevant number of units.

	31 December 2018	31 December 2017
Capital funds (in CZK thousands)	322,322	236,928
Retained earnings (in CZK thousands)	935	1,399
Profit/(Loss) for the period (in CZK thousands)	(586)	(464)
Equity (in CZK thousands)	322,671	237,863
Number of units	311,581,891.7624	228,919,300.5759
NAV/unit	1.0356	1.0391
Annual yield (p.a.)	(0.34%)	(0.28%)

In 2018, the Fund reported a loss of CZK 586 thousand. The loss for the current year will be settled by the Company after the financial statements have been approved.

The loss for 2017 totaling CZK 464 thousand was compensated from retained earnings.

Number of policyholders:

(pieces)	31 December 2018	31 December 2017
Number of policyholders	5,220	4,397

Pension benefit payments:

	2018	2017
Amount (in CZK thousands)	57,033	26,250
Number of pension benefits	991	509

7. Interest and Similar Income

(in CZK thousands)	2018	2017
Interest on debt securities	1,336	655
Other interest income	1,643	138
Total interest and similar income	2,979	793

8. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Fee for management of assets (Note 12)	(1,126)	(793)
Total fee and commission expenses	(1,126)	(793)

The cost of the Fund's statutory audit is invoiced directly to the Company.

9. Gain or Loss from Financial Transactions

(in CZK thousands)	2018	2017
Securities	(2,214)	(368)
Foreign exchange differences	0	(2)
Total gain or loss from financial transactions	(2,214)	(370)

As at 31 December 2018 and 2017, the Fund did not have any derivatives.

10. Income Taxes

In the period under review the applicable income tax rate has been 0%. The tax expense is zero, accordingly.

11. Financial Risks

11.1. Strategy in Using Financial Instruments

The Fund places its assets in line with investment objectives given in the Fund's Statute. The principal instrument in risk management is investment limits set forth in Act No. 427/2011 Coll. on Supplementary Pension Savings, Fund's Statute and internal regulations of the Company. The asset portfolio's compliance with the investment objectives and limits and the level of other exposures are periodically assessed.

11.2. Market Risk

The Fund takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	202,705	0	0	0	202,705
Debt securities	122,445	0	0	0	122,445
Total financial assets	325,150	0	0	0	325,150

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	162,588	0	0	0	162,588
Debt securities	76,740	3,008	2,005	0	81,753
Total financial assets	239,328	3,008	2,005	0	244,341

Breakdown of revenues by geographic location of markets

2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	2,974	5	0	2,979
Gain or loss from financial transactions	(2,211)	(3)	0	(2,214)

2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	747	46	0	793
Gain or loss from financial transactions	(331)	(39)	0	(370)

11.3. Currency Risk

The Fund takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to currency risk. The tables include the Fund's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	Total
Assets			
Due from banks	202,676	29	202,705
Debt securities	122,445	0	122,445
Total	325,121	29	325,150
Liabilities			
Other liabilities	2,479	0	2,479
Equity	322,671	0	322,671
Total	325,150	0	325,150
Net balance sheet assets / liabilities (-)	(29)	29	0
Net open currency position	(29)	29	0

31 December 2017 (in CZK thousands)	CZK	EUR	Total
Assets			
Due from banks	162,560	28	162,588
Debt securities	81,753	0	81,753
Total	244,313	28	244,341
Liabilities			
Other liabilities	6,478	0	6,478
Equity	237,863	0	237,863
Total	244,341	0	244,341
Net balance sheet assets / liabilities (-)	(28)	28	0
Net off-balance sheet currency positions	0	0	0
Net open currency position	(28)	28	0

11.4. Interest Rate Risk

The Fund takes on exposure resulting from fluctuations in market interest rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to interest rate risk. The tables include the Fund's interest-bearing assets at carrying amounts, categorized by the earlier of the settlement, interest rate change or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current and savings accounts	53,815	0	0	0	53,815
Reverse repo agreements	148,890	0	0	0	148,890
Debt securities	0	93,093	23,106	6,246	122,445
Total assets	202,705	93,093	23,106	6,246	325,150

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	22,675	0	0	0	22,675
Reverse repo agreements	139,913	0	0	0	139,913
Debt securities	5,517	68,553	7,586	97	81,753
Total assets	168,105	68,553	7,586	97	244,341

The Fund did not have any liabilities exposed to the effects of market interest rate fluctuations as at 31 December 2018 and 2017.

11.5. Credit Risk

The Fund places part of its assets in debt instruments carrying the risk of debtor losing the ability to meet its liabilities. The Fund only makes investments in securities whose rating or the rating of issuer corresponds to a grade required by Act No. 427/2011 Coll., on Supplementary Pension Savings, and the Fund's Statute. Debt securities held by the Fund are received for trading on the regulated markets.

11.6. Liquidity Risk

The Fund is exposed to liquidity risk as a consequence of calls on available cash resources related to pension benefit payments, transfers of resources between other funds managed by the Company upon savings strategy change and transfers of the policyholders' funds to another pension management company. Liquidity risk, to which the Fund is exposed, is not significant as all assets are immediately convertible into cash before the expected purchases of the Fund's units can be effected.

The tables below summarize the Fund's assets and liabilities categorized by appropriate maturities range based on remaining maturity:

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	202,705	0	0	0	0	202,705
Debt securities	38	577	42,102	79,728	0	122,445
Total financial assets	202,743	577	42,102	79,728	0	325,150
Liabilities						
Other liabilities	2,479	0	0	0	0	2,479
Net liquidity exposure	200,264	577	42,102	79,728	0	325,671

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	162,588	0	0	0	0	162,588
Debt securities	5,517	312	7,456	68,468	0	81,753
Total financial assets	168,105	312	7,456	68,468	0	244,341
Liabilities						
Other liabilities	6,478	0	0	0	0	6,478
Net liquidity exposure	161,627	312	7,456	68,468	0	237,863

12. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Penzijní společnost České pojišťovny, a.s.		
Payables – fee for management, fee for appreciation (Note 5)	122	87
Expenses – fee for management, fee for appreciation (Note 8)	(1,126)	(793)

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

13. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Fund for the year ended 31 December 2018.

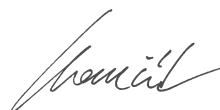
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Name of the Participation Fund**, pursuant to Subsection 2, Letter (a) of Annex 1 to the Decree
Povinný konzervativní fond Penzijní společnosti České pojišťovny a. s.
- b) **Information on the pension management company that manages the Participation Fund, or information on each pension management company that managed the Participation Fund in the relevant period, and information on the period of time for which each pension management company managed the Participation Fund**, pursuant to Subsection 2, Letter (b) of Annex 1 to the Decree
For the entire relevant period, the Participation Fund was managed by Penzijní společnost České pojišťovny, a.s., business registration number (IČ): 618 58 692, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 2738.
- c) **Information on portfolio managers of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a portfolio manager**, pursuant to Subsection 2, Letter (c) of Annex 1 to the Decree
All assets of the Participation Fund were entrusted to the management of Generali Investments CEE, investiční společnost, a.s., business registration number (IČ): 438 73 766, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1031. In the relevant period, the activities of the portfolio manager were performed by Michal Kymlička, CFA.
- d) **Information on each depositary of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a depositary**, pursuant to Subsection 2, Letter (d) of Annex 1 to the Decree
The Participation Fund's depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- e) **Information on each entity entrusted with the custody or safekeeping of the Participation Fund's assets, provided that more than 1% of the value of the Fund's assets have been in custody or safekeeping of the entity**, pursuant to Subsection 2, Letter (e) of Annex 1 to the Decree
The Participation Fund's depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- f) **Comprehensive identification of the Participation Fund's assets, if their value exceeds 1% of the value of the Fund's assets as at the date of the valuation performed for the purposes of this Report, with a specification of the total acquisition price and the fair value at the end of the relevant period**, pursuant to Subsection 2, Letter (f) of Annex 1 to the Decree

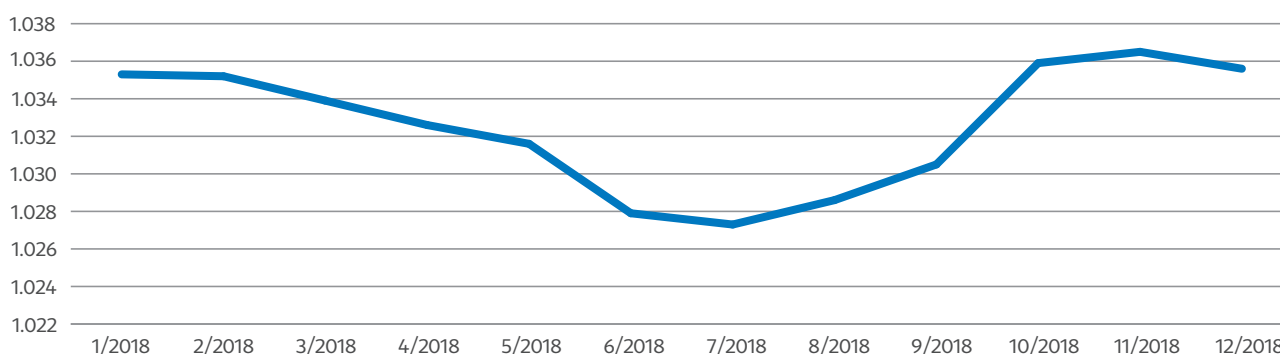
Name	ISIN	Acquisition price (CZK thousand)	Fair value (CZK thousand)
Current accounts	BU	53,817	53,815
Repo agreements	Reverse repo agreements	149,000	148,890
CZ GB L-10 11/27	CZ0001004105	73,507	73,687
CZ GB L+65 04/23	CZ0001003123	19,613	19,406
CZ GB 0.45 10/23	CZ0001004600	10,179	9,992
CZ GB 2.4 09/25	CZ0001004253	6,389	6,246
CZ GB 0.75 02/21	CZ0001005367	5,927	5,937
CZ GB 4.70 09/22	CZ0001001945	4,571	3,934

- g) **Information on judicial or arbitration disputes relating to the Fund's assets or to any claim of the Participation Fund's participants, if the value of the dispute exceeds 1% of the value of the Participation Fund's assets in the relevant period**, pursuant to Subsection 2, Letter (g) of Annex 1 to the Decree
The Participation Fund has not been a party to any judicial or arbitration disputes, where the value subject to the dispute exceeds 1% of the value of the Fund's assets in the relevant period.

h) Information on the Participation Fund's total equity and equity per unit as at 31 December of the relevant period and for the last three reporting periods, pursuant to Subsection 2, Letter (h) of Annex 1 to the Decree

Date	Equity (CZK thousand)	Equity per unit
31/12/2016	153,611	1.0420
31/12/2017	237,863	1.0391
31/12/2018	322,671	1.0356

i) Information on the development of the value of a pension unit in the relevant period, which is expressed in a graphic form, pursuant to Subsection 2, Letter (i) of Annex 1 to the Decree



j) Information on the composition of and changes in the Fund's assets, pursuant to Subsection 2, Letter (j) of Annex 1 to the Decree

ASSETS (in CZK thousand)	31 December 2016	31 December 2017	31 December 2018
Due from banks and cooperative savings banks	70,905	162,588	202,705
a) repayable on demand	10,902	22,675	53,815
b) other receivables	60,003	139,913	148,890
Debt securities	87,608	81,753	122,445
a) issued by government organizations	81,383	73,380	119,202
b) issued by other entities	6,225	8,373	3,243
Shares, participating certificates and other interests	0	0	0
Other assets	36	0	0
TOTAL	158,549	244,341	325,150

k) Information on the consideration paid to the pension management company for managing the assets of the Participation Fund, pursuant to Subsection 2, Letter (k) of Annex 1 to the Decree

The consideration paid to the pension management company for managing the assets of the Participation Fund amounted to 0.4% of the average annual value of the Participation Fund's equity at the end of the relevant period, and 10% of the positive difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the years prior to the relevant period since the establishment of the Participation Fund, multiplied by the average number of pension units in the relevant period.

l) Information on quantitative restrictions and methods selected for risk assessment related to the techniques and instruments for effective asset management in the Participation Fund, pursuant to Subsection 2, Letter (l) of Annex 1 to the Decree

The pension management company uses derivative instruments and repo agreements for efficient management of assets in the Participation Fund. These instruments are primarily used to manage currency and interest rate risks. In order to reduce the risks arising from the use of financial derivatives which are to be settled by the Participation Fund by means of the provision of funds, the Participation Fund holds cash or a highly liquid asset. The open position of all derivatives calculated using the standard liability method does not exceed 80% of the Fund's equity. The sum of the positive fair values agreed on with the counterparty, which is a regulated bank, does not exceed 10% of the assets of the Participation Fund. To maintain a low risk while efficiently managing the assets, the Participation Fund invests funds acquired from repo agreements into highly liquid assets only. Information on the used financial derivatives, repo agreements and valuation methods are included in the notes to the financial statements.

Pursuant to Section 21(2) of Act No. 563/1991 Coll., on Accounting, Penzijní společnost České pojišťovny, a.s. discloses information on the projected development of the entity:

Increased interest in supplementary pension savings programs will boost dynamic growth in the number of clients and the volume of administered assets in the coming period.

Annual Report 2018

Spořicí účastnický fond
Penzijní společnosti České pojišťovny a. s.

Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Fund participants of Spořicí účastnický fond Penzijní společnosti České pojišťovny, a. s.:

Opinion

We have audited the accompanying financial statements of Spořicí účastnický fond Penzijní společnosti České pojišťovny, a.s. (hereinafter also the "Fund") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fund, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors of Penzijní společnost České pojišťovny, a.s., for the Financial Statements

The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors of Penzijní společnost České pojišťovny, a.s., determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of Penzijní společnost České pojišťovny, a.s., either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Penzijní společnost České pojišťovny, a.s.
- Conclude on the appropriateness of the Board of Directors' of Penzijní společnost České pojišťovny, a.s., use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009

26 April 2019
Prague, Czech Republic

Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017
Due from banks	3	3,064,339	3,527,960
of which: a) repayable on demand		624,949	419,591
b) other receivables		2,439,390	3,108,369
Debt securities	4	4,355,953	2,119,207
of which: a) issued by government institutions		2,412,891	903,557
b) issued by other entities		1,943,062	1,215,650
Other assets	5	2,792	834
TOTAL ASSETS		7,423,084	5,648,001
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017
Amounts owed to banks and cooperative saving banks	6	1,273,442	1,125,354
of which: other liabilities		1,273,442	1,125,354
Other liabilities	7	74,228	68,717
Capital funds	8	6,099,975	4,405,584
Retained earnings	8	48,347	48,784
Profit/(Loss) for the period	8	(72,908)	(438)
TOTAL LIABILITIES		7,423,084	5,648,001
OFF-BALANCE SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Receivables from fixed-term transactions	13.3	2,090,726	0
Assets provided for management by a third party		6,075,414	4,453,930
Total off-balance sheet assets		8,166,140	4,453,930
Off-balance sheet liabilities			
Payables from fixed-term transactions	13.3	2,117,830	0
Collateral and pledge received		2,418,365	3,108,369
Total off-balance sheet liabilities		4,536,195	3,108,369

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	2018	2017
Interest and similar income	9	104,763	44,121
of which: interest income from debt securities		74,146	39,656
Interest and similar expense		(13,515)	(4,453)
of which: interest expense from debt securities		1	(6)
Fee and commission expenses	10	(52,943)	(38,066)
Gain/(Loss) from financial transactions	11	(111,213)	(2,040)
Profit/(Loss) on ordinary activities before tax	8	(72,908)	(438)
Income tax	12	0	0
Profit/(Loss) for the period after tax	8	(72,908)	(438)

Financial Statements for the year ended 31 December 2018

1. General Information

Spořicí účastnický fond Penzijní společnosti České pojišťovny, a. s. (the “Fund”) was established by Penzijní společnost České pojišťovny, a.s. (the “Company”), following the Czech National Bank’s decision dated 20 December 2012. This decision on the authorization to establish the Fund became effective on 1 January 2013.

The Fund is subject to regulatory requirements of Act No. 427/2011 Coll. on Supplementary Pension Savings, which is valid from 1 January 2013, as amended.

The Company’s investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The Fund’s custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the “Custodian”).

On 16 June 2014, following the Czech National Bank’s authorization, Chráněný účastnický fond Raiffeisen penzijní společnosti a.s. (the “RPS Fund”) was incorporated into the Fund.

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Fund comprising the balance sheet, the income statement and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund’s ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a trade date (date on which a spot contract is executed) provided that the period between the trade date and the settlement date does not exceed a period typical for the relevant type of transaction.

The transaction recognition date can also be the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client’s account, the date on which the ownership or rights to another party’s assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.3. Securities and Their Fair Value

In accordance with the Fund's strategy, all securities are classified as securities at fair value through profit or loss.

Securities at fair value through profit or loss are initially recognized at cost and subsequently measured at fair value. All related gains and losses are included in gain or loss from financial transactions. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

The fair value of a security is determined by the market mid-price quoted by a relevant stock exchange or other active public market. In other cases, the fair value of a security is determined as net present value of the cash flows adjusted for credit and other relevant risks.

In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.4. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank ("CNB") exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. All realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions.

2.5. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

Repo agreements do not include concurrent spot purchases and sales of securities provided that their settlement is made in the same day.

2.6. Financial Derivatives

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate.

All derivatives are presented in other assets or in other liabilities when their fair value for the Fund is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

Due to fact that all securities are classified as securities at fair value through profit or loss, the Fund uses the financial derivatives to hedge foreign currency and interest rate exposures.

2.7. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.8. Fee and Commission Expenses

The fee and commission expenses comprise fee paid to the Company for management and appreciation of assets. The amount of fee is determined as follows:

- a) fee for management should not exceed 1% of the Fund's average annual equity. The Fund's average annual equity is determined as at 31 December as a simple arithmetic average of the Fund's equity values for each day of the respective year; and
- b) fee for asset appreciation shall not exceed 15% of the difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the prior years since the establishment of the Fund, multiplied by the average number of pension units in the relevant period.

2.9. Payables to Policyholders

Policyholders' contributions and state contributions, including revenues from these contributions, are recognized at nominal value. These contributions include mainly contributions to be invested, funds to be paid out and entitlement to state contribution before investing in the portfolio. The invested funds are posted to capital funds, which are included in equity.

2.10. Capital Funds

The credited price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are credited to the pension savings scheme participants for the selling price set on a weekly basis. Capital funds also include gains or losses arising from the revaluation of pension units as at the date on which the pension units were credited or deducted.

2.11. Provision for Pension Payments

The Fund does not create a provision for the payment of life-long pensions or pensions with fixed term and fixed pension benefit because these pensions are paid out by an insurance company designated by the client on the basis of signed insurance policy.

2.12. Income Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.13. Deferred Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.14. Off-balance Sheet Assets and Liabilities

The Fund's off-balance sheet accounts include assets provided into Company's administration, payables from collateral received within repo transactions and foreign currency derivatives at nominal value.

The Fund has no assets or liabilities that would not be disclosed in the balance sheet or off-balance sheet accounts.

2.15. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

2.16. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- funds managed by the Company.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 14.

3. Due from Banks

The Fund places funding, which is not currently being used in transactions with securities or in settlement of payables to policyholders, within reverse repo agreements or on term deposits with banks. Balances on current accounts are repayable on demand.

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	624,949	419,591
Cash collateral pledged	21,025	0
Reverse repo agreements	2,418,365	3,108,369
Total amounts due from banks	3,064,339	3,527,960

4. Securities

All securities held by the Fund are listed.

Securities at fair value through profit or loss:

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	2,139,871	642,250
Foreign stock exchanges	2,216,082	1,476,957
Total debt securities	4,355,953	2,119,207

5. Other Assets

(in CZK thousands)	31 December 2018	31 December 2017
Receivables from securities transactions	40	834
Financial derivatives (Note 13.3)	2,752	0
Total other assets	2,792	834

6. Amounts Owed to Banks and Cooperative Saving Banks

(in CZK thousands)	31 December 2018	31 December 2017
Repo agreements	1,273,442	1,125,354
Amounts owed to banks and cooperative saving banks	1,273,442	1,125,354

The Fund has been using foreign currency repo agreements to hedge foreign currency exposures.

The value of assets that have been encumbered as repo agreements hedge is included in Debt securities. In case of non-compliance with the obligations towards the creditor, the hedge would only be realized up to the recognized liability.

(in CZK thousands)	31 December 2018	31 December 2017
Debt securities issued by government institutions	1,221,304	872,122
Debt securities issued by other entities	603,552	818,747
Total encumbered assets	1,824,856	1,690,869

7. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Payables to policyholders	38,626	18,984
Liabilities from securities transactions	0	43,617
Financial derivatives (Note 13.3)	29,857	0
Fee for management and appreciation of assets (Note 14)	5,745	6,116
Total other liabilities	74,228	68,717

Liabilities from securities transactions include purchases of securities already traded but not yet settled.

8. Capital Funds and Other Equity Components

The Fund has no share capital. The price of the Fund's unit is determined on the basis of the Fund's equity and the number of units while the unit price (NAV/unit) is determined by dividing the Fund's equity by the relevant number of units.

(in CZK thousands)	31 December 2018	31 December 2017
Capital funds (in CZK thousands)	6,099,975	4,405,584
Retained earnings (in CZK thousands)	48,347	48,784
Profit/(Loss) for the period (in CZK thousands)	(72,908)	(438)
Equity (in CZK thousands)	6,075,414	4,453,930
Number of units	5,727,790,174.2909	4,142,194,103.5012
NAV/unit	1.0607	1.0752
Annual yield (p.a.)	(1.35%)	0.01%

In 2018, the Fund reported a loss of CZK 72,908 thousand. The loss for the current year will be settled by the Company after the financial statements have been approved.

The loss for 2017 totaling CZK 438 thousand was compensated from retained earnings.

Number of policyholders:

(pieces)	31 December 2018	31 December 2017
Number of policyholders	14,7488	128,622

Pension benefit payments:

	2018	2017
Amount (in CZK thousands)	617,978	187,218
Number of pension benefits	13,147	6,190

9. Interest and Similar Income

(in CZK thousands)	2018	2017
Interest on debt securities	74,146	39,656
Other interest income	30,617	4,465
Total interest and similar income	104,763	44,121

10. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Fee for management of assets (Note 14)	(52,943)	(36,008)
Fee for appreciation of assets	0	(2,058)
Total fee and commission expenses	(52,943)	(38,066)

The cost of the Fund's statutory audit is invoiced directly to the Company.

11. Gain or Loss from Financial Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Securities	(85,503)	3,012
Foreign exchange differences	(1,179)	(11,506)
Derivatives	(24,531)	6,454
Total gain or loss from financial transactions	(111,213)	(2,040)

As at 31 December 2018, the item "Derivatives" includes changes in fair values of derivatives within the economic hedge of foreign currency and interest rate exposures of portfolio's certain foreign currency assets totaling CZK (24,531) thousand. As at 31 December 2017, the changes in fair values within the economic hedge of foreign currency exposures amounted to CZK 6,454 thousand.

12. Income Taxes

In the period under review the applicable income tax rate has been 0%. The tax expense is zero, accordingly.

13. Financial Risks

13.1. Strategy in Using Financial Instruments

The Fund places its assets in line with investment objectives given in the Fund's Statute. The principal instrument in risk management is investment limits set forth in Act No. 427/2011 Coll. on Supplementary Pension Savings, Fund's Statute and internal regulations of the Company. The asset portfolio's compliance with the investment objectives and limits and the level of other exposures are periodically assessed.

13.2. Market Risk

The Fund takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	3,064,339	0	0	0	3,064,339
Debt securities	2,297,241	1,370,259	160,048	528,405	4,355,953
Financial derivatives	8	2,740	4	0	2,752
Total financial assets	5,361,588	1,372,999	160,052	528,405	7,423,044

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	3,527,960	0	0	0	3,527,960
Debt securities	795,336	1,129,721	34,541	159,609	2,119,207
Total financial assets	4,323,296	1,129,721	34,541	159,609	5,647,167

Breakdown of revenues by geographic location of markets

2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	54,944	48,845	974	104,763
Gain or loss from financial transactions	(59,304)	(52,682)	773	(111,213)

2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	11,420	31,727	974	44,121
Gain or loss from financial transactions	48,664	(45,422)	(5,282)	(2,040)

13.3. Financial Derivatives

The Fund uses the financial derivatives for effective management of the assets. These instruments are primarily used to manage currency and interest rate risks. Counterparties to the financial derivative contracts are in particular banks subject to regulation, with their registered office in the territory of the Czech Republic or another EU state.

The tables below summarize derivative transactions categorized by type of hedged risk:

31 December 2018 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive (Note 5)	Negative (Note 7)
Foreign currency derivatives	490,504	487,774	2,752	(22)
Interest rate derivatives	1,600,222	1,630,056	0	(29,835)
Total derivatives	2,090,726	2,117,830	2,752	(29,857)

As at 31 December 2017, the Fund did not recognize any derivatives.

13.4. Currency Risk

The Fund takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to currency risk. The tables include the Fund's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	3,038,698	25,364	90	187	3,064,339
Debt securities	2,631,182	1,222,151	502,620	0	4,355,953
Other assets	48	2,740	4	0	2,792
Total	5,669,928	1,250,255	502,714	187	7,423,084
Liabilities					
Amounts owed to banks	0	772,141	501,301	0	1,273,442
Other liabilities	71,091	3,137	0	0	74,228
Equity	6,075,414	0	0	0	6,075,414
Total	6,146,505	775,278	501,301	0	7,423,084
Net balance sheet assets / liabilities (-)	(476,577)	474,977	1,413	187	0
Net off-balance sheet currency positions (Note 13.3)	489,155	(487,774)	1,349	0	2,730
Net open currency position	12,578	(12,797)	2,762	187	2,730

31 December 2017 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	3,479,572	3,133	45,113	142	3,527,960
Debt securities	969,668	853,048	285,207	11,284	2,119,207
Other assets	42	0	792	0	834
Total	4,449,282	856,181	331,112	11,426	5,648,001
Liabilities					
Amounts owed to banks	0	834,382	280,242	10,730	1,125,354
Other liabilities	68,717	0	0	0	68,717
Equity	4,453,930	0	0	0	4,453,930
Total	4,522,647	834,382	280,242	10,730	5,648,001
Net balance sheet assets / liabilities (-)	(73,365)	21,799	50,870	696	0
Net off-balance sheet currency positions	0	0	0	0	0
Net open currency position	(73,365)	21,799	50,870	696	0

13.5. Interest Rate Risk

The Fund takes on exposure resulting from fluctuations in market interest rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to interest rate risk. The tables include the Fund's interest-bearing assets and liabilities at carrying amounts, categorized by the earlier of the settlement, interest rate change or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current and savings accounts	624,949	0	0	0	624,949
Reverse repo agreements	2,418,365	0	0	0	2,418,365
Debt securities	578,130	577,115	1,638,221	1,562,487	4,355,953
Total financial assets	3,621,444	577,115	1,638,221	1,562,487	7,399,267
Liabilities					
Amounts owed to banks	1,273,442	0	0	0	1,273,442
Total liabilities	1,273,442	0	0	0	1,273,442

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	419,591	0	0	0	419,591
Reverse repo agreements	3,108,369	0	0	0	3,108,369
Debt securities	221,002	528,390	968,517	401,298	2,119,207
Total financial assets	3,748,962	528,390	968,517	401,298	5,647,167
Liabilities					
Amounts owed to banks	1,125,354	0	0	0	1,125,354
Total liabilities	1,125,354	0	0	0	1,125,354

13.6. Credit Risk

The Fund places part of its assets in debt instruments carrying the risk of debtor losing the ability to meet its liabilities. The Fund only makes investments in securities whose rating or the rating of issuer corresponds to a grade required by Act No. 427/2011 Coll., on Supplementary Pension Savings, and the Fund's Statute. Debt securities held by the Fund are received for trading on the regulated markets.

13.7. Liquidity Risk

The Fund is exposed to liquidity risk as a consequence of calls on available cash resources related to pension benefit payments, transfers of resources between other funds managed by the Company upon savings strategy change and transfers of the policyholders' funds to another pension management company. Liquidity risk, to which the Fund is exposed, is not significant as all assets are immediately convertible into cash before the expected purchases of the Fund's units can be effected.

The tables below summarize the Fund's assets and liabilities categorized by appropriate maturities range based on remaining maturity:

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	3,064,339	0	0	0	0	3,064,339
Debt securities	27,798	73,249	1,921,633	2,333,273	0	4,355,953
Other assets	2,792	0	0	0	0	2,792
Total financial assets	3,094,929	73,249	1,921,633	2,333,273	0	7,423,084
Liabilities						
Amounts owed to banks	1,273,442	0	0	0	0	1,273,442
Other liabilities	44,394	0	3,115	26,719	0	74,228
Total liabilities	1,317,836	0	3,115	26,719	0	1,347,670
Net liquidity exposure	1,777,093	73,249	1,918,518	2,306,554	0	6,075,414

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	3,527,960	0	0	0	0	3,527,960
Debt securities	24,269	15,691	1,010,304	1,068,943	0	2,119,207
Other assets	834	0	0	0	0	834
Total financial assets	3,553,063	15,691	1,010,304	1,068,943	0	5,648,001
Liabilities						
Amounts owed to banks	1,125,354	0	0	0	0	1,125,354
Other liabilities	68,717	0	0	0	0	68,717
Total liabilities	1,194,071	0	0	0	0	1,194,071
Net liquidity exposure	2,358,992	15,691	1,010,304	1,068,943	0	4,453,930

14. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Penzijní společnost České pojišťovny, a.s.		
Payables – fee for management, fee for appreciation (Note 7)	5,745	6,116
Expenses – fee for management, fee for appreciation (Note 10)	(52,943)	(38,066)

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

15. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Fund for the year ended 31 December 2018.

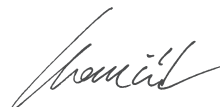
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Name of the Participation Fund**, pursuant to Subsection 2, Letter (a) of Annex 1 to the Decree
Spořicí účastnický fond Penzijní společnosti České pojišťovny a. s.
- b) **Information on the pension management company that manages the Participation Fund, or information on each pension management company that managed the Participation Fund in the relevant period, and information on the period of time for which each pension management company managed the Participation Fund**, pursuant to Subsection 2, Letter (b) of Annex 1 to the Decree
For the entire relevant period, the Participation Fund was managed by Penzijní společnost České pojišťovny, a.s., business registration number (IČ): 618 58 692, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 2738.
- c) **Information on portfolio managers of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a portfolio manager**, pursuant to Subsection 2, Letter (c) of Annex 1 to the Decree
All assets of the Participation Fund were entrusted to the management of Generali Investments CEE, investiční společnost, a.s., business registration number (IČ): 438 73 766, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1031. In the relevant period, the activities of the portfolio manager were performed by Michal Kymlička, CFA.
- d) **Information on each depositary of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a depositary**, pursuant to Subsection 2, Letter (d) of Annex 1 to the Decree
The Participation Fund’s depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- e) **Information on each entity entrusted with the custody or safekeeping of the Participation Fund’s assets, provided that more than 1% of the value of the Fund’s assets have been in custody or safekeeping of the entity**, pursuant to Subsection 2, Letter (e) of Annex 1 to the Decree
In the relevant period, the custody or safekeeping of the Fund’s assets was performed by UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- f) **Comprehensive identification of the Participation Fund’s assets, if their value exceeds 1% of the value of the Fund’s assets as at the date of the valuation performed for the purposes of this Report, with a specification of the total acquisition price and the fair value at the end of the relevant period**, pursuant to Subsection 2, Letter (f) of Annex 1 to the Decree

Name	ISIN	Acquisition price (CZK thousand)	Fair value (CZK thousand)
Current accounts	BU	624,974	624,949
Repo agreements	Reverse repo agreements	2,420,000	2,418,365
CZ GB 1.0 06/26	CZ0001004469	385,320	387,227
CZ GB L-10 11/27	CZ0001004105	356,603	362,435
CZ GB 2.50 08/28	CZ0001003859	352,217	354,865
CZ GB 0.95 05/30	CZ0001004477	351,265	353,859
CZ GB L+65 04/23	CZ0001003123	217,975	214,680
CZ GB 24 09/25	CZ0001004253	189,430	186,345
CZ GB 0.45 10/23	CZ0001004600	143,475	141,391
CZ GB 2.75 07/29	CZ0001005375	104,864	109,384
MOL 2.625 04/23	XS1401114811	105,927	104,745
PKO FIN 4.63 09/22	XS0783934085	87,016	88,125
CETIN FIN 1.25 12/23	XS1529936335	84,151	80,571
BNP PARIBAS L+110 03/25	XS1799097073	80,250	79,848
BANK OF AMERICA L+70 04/24	XS1811433983	77,028	75,031

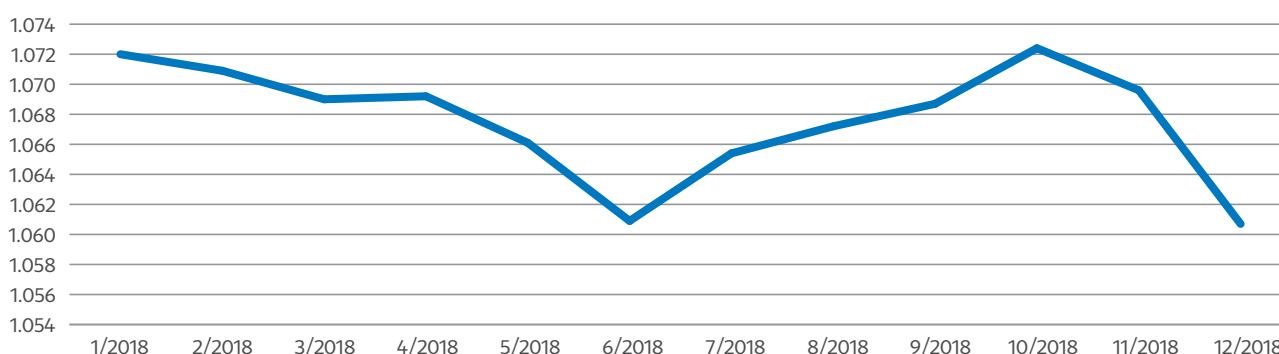
- g) **Information on judicial or arbitration disputes relating to the Fund's assets or to any claim of the Participation Fund's participants, if the value of the dispute exceeds 1% of the value of the Participation Fund's assets in the relevant period,** pursuant to Subsection 2, Letter (g) of Annex 1 to the Decree

The Participation Fund has not been a party to any judicial or arbitration disputes, where the value subject to the dispute exceeds 1% of the value of the Fund's assets in the relevant period.

- h) **Information on the Participation Fund's total equity and equity per unit as at 31 December of the relevant period and for the last three reporting periods,** pursuant to Subsection 2, Letter (h) of Annex 1 to the Decree

Date	Equity (CZK thousand)	Equity per unit
31/12/2016	2,867,399	1.0751
31/12/2017	4,453,930	1.0752
31/12/2018	6,075,414	1.0607

- i) **Information on the development of the value of a pension unit in the relevant period, which is expressed in a graphic form,** pursuant to Subsection 2, Letter (i) of Annex 1 to the Decree



- j) **Information on the composition of and changes in the Fund's assets,** pursuant to Subsection 2, Letter (j) of Annex 1 to the Decree

ASSETS (in CZK thousand)	31 December 2016	31 December 2017	31 December 2018
Due from banks and cooperative savings banks	789,206	3,527,960	3,064,339
a) repayable on demand	89,206	419,591	624,949
b) other receivables	700,000	3,108,369	2,439,390
Debt securities	2,101,446	2,119,207	4,355,953
a) issued by government organizations	992,543	903,557	2,412,891
b) issued by other entities	1,108,903	1,215,650	1,943,062
Shares, participating certificates and other interests	0	0	0
Other assets	782	834	2,792
TOTAL	2,891,434	5,648,001	7,423,084

- k) **Information on the consideration paid to the pension management company for managing the assets of the Participation Fund,** pursuant to Subsection 2, Letter (k) of Annex 1 to the Decree

The consideration paid to the pension management company for managing the assets of the Participation Fund amounted to 1.0% of the average annual value of the Participation Fund's equity at the end of the relevant period, and 15% of the positive difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the years prior to the relevant period since the establishment of the Participation Fund, multiplied by the average number of pension units in the relevant period.

- l) **Information on quantitative restrictions and methods selected for risk assessment related to the techniques and instruments for effective asset management in the Participation Fund,** pursuant to Subsection 2, Letter (l) of Annex 1 to the Decree

The pension management company uses derivative instruments and repo agreements for efficient management of assets in the Participation Fund. These instruments are primarily used to manage currency and interest rate risks. In order to reduce the risks arising from the use of financial derivatives which are to be settled by the Participation Fund by means of the provision of funds, the Participation Fund holds cash or a highly liquid asset. The open position of all derivatives calculated using the standard liability method does not exceed 80% of the Fund's equity. The sum of the positive fair values agreed on with the counterparty, which is a regulated bank, does not exceed 10% of the assets of the Participation Fund. To maintain a low risk while efficiently managing the assets, the Participation Fund invests funds acquired from repo agreements into highly liquid assets only. Information on the used financial derivatives, repo agreements and valuation methods are included in the notes to the financial statements.

Pursuant to Section 21(2) of Act No. 563/1991 Coll., on Accounting, Penzijní společnost České pojišťovny, a.s. discloses information on the projected development of the entity:

Increased interest in supplementary pension savings programs will boost dynamic growth in the number of clients and the volume of administered assets in the coming period.

Annual Report 2018

Vyvážený účastnický fond
Penzijní společnosti České pojišťovny a. s.

Vyvážení účastnický fond Penzijní společnosti České pojišťovny a. s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Fund participants of Vyvážení účastnický fond Penzijní společnosti České pojišťovny, a. s.:

Opinion

We have audited the accompanying financial statements of Vyvážení účastnický fond Penzijní společnosti České pojišťovny, a.s. (hereinafter also the "Fund") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fund, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors of Penzijní společnost České pojišťovny, a.s., for the Financial Statements

The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors of Penzijní společnost České pojišťovny, a.s., determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of Penzijní společnost České pojišťovny, a.s., either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Penzijní společnost České pojišťovny, a.s.
- Conclude on the appropriateness of the Board of Directors' of Penzijní společnost České pojišťovny, a.s., use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009

26 April 2019
Prague, Czech Republic

Vyvážení účastnický fond Penzijní společnosti České pojišťovny a. s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017
Due from banks	3	657,972	524,037
of which: a) repayable on demand		197,960	99,081
b) other receivables		460,012	424,956
Debt securities	4	598,548	353,598
of which: a) issued by government institutions		226,842	87,572
b) issued by other entities		371,706	266,026
Shares and mutual funds	4	546,102	356,070
Other assets	5	5,925	2,762
TOTAL ASSETS		1,808,547	1,236,467
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017
Amounts owed to banks and cooperative saving banks	6	172,131	162,956
of which: other liabilities		172,131	162,956
Other liabilities	7	27,820	24,774
Capital funds	8	1,630,568	997,307
Retained earnings	8	51,431	21,794
Profit/(Loss) for the period	8	(73,403)	29,636
TOTAL LIABILITIES		1,808,547	1,236,467
OFF-BALANCE SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Receivables from fixed-term transactions	13.3	913,490	330,792
Assets provided for management by a third party		1,608,596	1,048,737
Total off-balance sheet assets		2,522,086	1,379,529
Off-balance sheet liabilities			
Payables from fixed-term transactions	13.3	911,339	328,996
Collateral and pledge received		459,755	424,701
Total off-balance sheet liabilities		1,371,094	753,697

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	2018	2017
Interest and similar income	9	19,460	8,880
of which: interest income from debt securities		13,911	8,269
Interest and similar expense		(3,049)	(1,097)
of which: interest expense from debt securities		0	0
Income from shares and mutual funds		8,651	5,687
of which: other income from shares and mutual funds		8,651	5,687
Fee and commission expenses	10	(12,869)	(13,844)
Gain/(Loss) from financial transactions	11	(85,596)	30,010
Profit/(Loss) on ordinary activities before tax	8	(73,403)	29,636
Income tax	12	0	0
Profit/(Loss) for the period after tax	8	(73,403)	29,636

Financial Statements for the year ended 31 December 2018

1. General Information

Vyvážení účastnický fond Penzijní společnosti České pojišťovny, a.s. (the “Fund”) was established by Penzijní společnost České pojišťovny, a.s. (the “Company”), following the Czech National Bank's decision dated 20 December 2012. This decision on the authorization to establish the Fund became effective on 1 January 2013.

The Fund is subject to regulatory requirements of Act No. 427/2011 Coll. on Supplementary Pension Savings, which is valid from 1 January 2013, as amended.

The Company's investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The Fund's custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the “Custodian”).

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Fund comprising the balance sheet, the income statement and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund's ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a trade date (date on which a spot contract is executed) provided that the period between the trade date and the settlement date does not exceed a period typical for the relevant type of transaction.

The transaction recognition date can also be the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client's account, the date on which the ownership or rights to another party's assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.3. Securities and Their Fair Value

In accordance with the Fund's strategy, all securities are classified as securities at fair value through profit or loss.

Securities at fair value through profit or loss are initially recognized at cost and subsequently measured at fair value. All related gains and losses are included in gain or loss from financial transactions. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

The fair value of a security is determined by the market mid-price quoted by a relevant stock exchange or other active public market. In other cases, the fair value of a security is determined as net present value of the cash flows adjusted for credit and other relevant risks. In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.4. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank ("CNB") exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. All realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions.

2.5. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

Repo agreements do not include concurrent spot purchases and sales of securities provided that their settlement is made in the same day.

2.6. Financial Derivatives

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate.

All derivatives are presented in other assets or in other liabilities when their fair value for the Fund is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

Due to fact that all securities are classified as securities at fair value through profit or loss, the Fund uses the financial derivatives to hedge foreign currency and interest rate exposures.

2.7. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.8. Fee and Commission Expenses

The fee and commission expenses comprise fee paid to the Company for management and appreciation of assets. The amount of fee is determined as follows:

- a) fee for management should not exceed 1% of the Fund's average annual equity. The Fund's average annual equity is determined as at 31 December as a simple arithmetic average of the Fund's equity values for each day of the respective year; and
- b) fee for asset appreciation shall not exceed 15% of the difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the prior years since the establishment of the Fund, multiplied by the average number of pension units in the relevant period.

2.9. Payables to Policyholders

Policyholders' contributions and state contributions, including revenues from these contributions, are recognized at nominal value. These contributions include mainly contributions to be invested, funds to be paid out and entitlement to state contribution before investing in the portfolio. The invested funds are posted to capital funds, which are included in equity.

2.10. Capital Funds

The credited price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are credited to the pension savings scheme participants for the selling price set on a weekly basis. Capital funds also include gains or losses arising from the revaluation of pension units as at the date on which the pension units were credited or deducted.

2.11. Provision for Pension Payments

The Fund does not create a provision for the payment of life-long pensions or pensions with fixed term and fixed pension benefit because these pensions are paid out by an insurance company designated by the client on the basis of signed insurance policy.

2.12. Income Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.13. Deferred Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.14. Off-balance Sheet Assets and Liabilities

The Fund's off-balance sheet accounts include assets provided into Company's administration, payables from collateral received within repo transactions and foreign currency derivatives at nominal value.

The Fund has no assets or liabilities that would not be disclosed in the balance sheet or off-balance sheet accounts.

2.15. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

2.16. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- funds managed by the Company.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 14.

3. Due from Banks

The Fund places funding, which is not currently being used in transactions with securities or in settlement of payables to policyholders, within reverse repo agreements or on term deposits with banks. Balances on current accounts are repayable on demand.

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	197,960	99,081
Cash collateral pledged	257	255
Reverse repo agreements	459,755	424,701
Total amounts due from banks	657,972	524,037

4. Securities

All securities held by the Fund are listed.

Securities at fair value through profit or loss:

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	216,323	82,375
Foreign stock exchanges	382,225	271,223
Total debt securities	598,548	353,598

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	26,968	14,192
Foreign stock exchanges	519,134	341,878
Total shares and mutual funds	546,102	356,070

5. Other Assets

(in CZK thousands)	31 December 2018	31 December 2017
Receivables from securities transactions	362	916
Financial derivatives (Note 13.3)	5,563	1,846
Total other assets	5,925	2,762

6. Amounts Owed to Banks and Cooperative Saving Banks

(in CZK thousands)	31 December 2018	31 December 2017
Cash collateral received – OTC derivatives	2,058	766
Repo agreements	170,073	162,190
Amounts owed to banks and cooperative saving banks	172,131	162,956

The Fund has been using mainly foreign currency repo agreements to hedge foreign currency exposures.

The value of assets that have been encumbered as repo agreements hedge is included in Debt securities. In case of non-compliance with the obligations towards the creditor, the hedge would only be realized up to the recognized liability.

(in CZK thousands)	31 December 2018	31 December 2017
Debt securities issued by government institutions	107,190	71,740
Debt securities issued by other entities	136,791	180,132
Total encumbered assets	243,981	251,872

7. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Payables to policyholders	22,811	17,657
Financial derivatives (Note 13.3)	3,412	50
Fee for management and appreciation of assets (Note 14)	1,597	7,067
Total other liabilities	27,820	24,774

8. Capital Funds and Other Equity Components

The Fund has no share capital. The price of the Fund's unit is determined on the basis of the Fund's equity and the number of units while the unit price (NAV/unit) is determined by dividing the Fund's equity by the relevant number of units.

	31 December 2018	31 December 2017
Capital funds (in CZK thousands)	1,630,568	997,307
Retained earnings (in CZK thousands)	51,431	21,794
Profit/(Loss) for the period (in CZK thousands)	(73,403)	29,636
Equity (in CZK thousands)	1,608,596	1,048,737
Number of units	1,470,241,813.9305	912,117,474.2079
NAV/unit	1.0940	1.1498
Annual yield (p.a.)	(4.85%)	4.13%

In 2018, the Fund reported a loss of CZK 73,403 thousand. The loss for the current year will be settled by the Company after the financial statements have been approved.

The profit for 2017 totaling CZK 29,636 thousand was allocated to retained earnings.

Number of policyholders:

(pieces)	31 December 2018	31 December 2017
Number of policyholders	74,556	54,843

Pension benefit payments:

	2018	2017
Amount (in CZK thousands)	169,762	112,259
Number of pension benefits	5,375	3,689

9. Interest and Similar Income

(in CZK thousands)	2018	2017
Interest on debt securities	13,911	8,269
Other interest income	5,549	611
Total interest and similar income	19,460	8,880

10. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Fee for management of assets (Note 14)	(12,699)	(7,681)
Fee for appreciation of assets (Note 14)	(141)	(6,163)
Other	(29)	0
Total fee and commission expenses	(12,869)	(13,844)

The cost of the Fund's statutory audit is invoiced directly to the Company.

11. Gain or Loss from Financial Transactions

(in CZK thousands)	2018	2017
Securities	(87,539)	37,292
Foreign exchange differences	10,131	(28,933)
Derivatives	(8,188)	21,651
Total gain or loss from financial transactions	(85,596)	30,010

As at 31 December 2018, the item "Derivatives" includes changes in fair values of derivatives within the economic hedge of foreign currency and interest rate exposures of portfolio's certain foreign currency assets totaling CZK (8,188) thousand. As at 31 December 2017, the changes in fair values within the economic hedge of foreign currency exposures amounted to CZK 21,651 thousand.

12. Income Taxes

In the period under review the applicable income tax rate has been 0%. The tax expense is zero, accordingly.

13. Financial Risks

13.1. Strategy in Using Financial Instruments

The Fund places its assets in line with investment objectives given in the Fund's Statute. The principal instrument in risk management is investment limits set forth in Act No. 427/2011 Coll. on Supplementary Pension Savings, Fund's Statute and internal regulations of the Company. The asset portfolio's compliance with the investment objectives and limits and the level of other exposures are periodically assessed.

13.2. Market Risk

The Fund takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	657,972	0	0	0	657,972
Debt securities	228,381	227,169	2,981	140,017	598,548
Shares and mutual funds	23,573	303,062	108,923	110,544	546,102
Financial derivatives	0	2,975	2,588	0	5,563
Total financial assets	909,926	533,206	114,492	250,561	1,808,185

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	524,037	0	0	0	524,037
Debt securities	93,986	201,089	6,320	52,203	353,598
Shares and mutual funds	10,875	206,879	69,087	69,229	356,070
Financial derivatives	0	1,101	745	0	1,846
Total financial assets	628,898	409,069	76,152	121,432	1,235,551

Breakdown of revenues by geographic location of markets

2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	8,561	10,760	139	19,460
Income from shares and mutual funds – other	771	7,880	0	8,651
Gain or loss from financial transactions	(15,946)	(69,760)	110	(85,596)

2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	1,869	6,872	139	8,880
Income from shares and mutual funds – other	42	5,645	0	5,687
Gain or loss from financial transactions	29,668	1,097	(755)	30,010

13.3. Financial Derivatives

The Fund uses the financial derivatives for effective management of the assets. These instruments are primarily used to manage currency and interest rate risks. Counterparties to the financial derivative contracts are in particular banks subject to regulation, with their registered office in the territory of the Czech Republic or another EU state.

The tables below summarize derivative transactions categorized by type of hedged risk:

31 December 2018 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive (Note 5)	Negative (Note 7)
Foreign currency derivatives	813,167	807,604	5,563	0
Interest rate derivatives	100,323	103,735	0	(3,412)
Total derivatives	913,490	911,339	5,563	(3,412)

31 December 2017 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive	Negative
Foreign currency derivatives	330,792	328,996	1,846	(50)
Total derivatives	330,792	328,996	1,846	(50)

13.4. Currency Risk

The Fund takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to currency risk. The tables include the Fund's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	650,593	4,792	1,189	1,398	657,972
Debt securities	308,752	189,257	100,539	0	598,548
Shares and mutual funds	26,968	265,068	221,902	32,164	546,102
Other assets	0	2,912	2,939	74	5,925
Total	986,313	462,029	326,569	33,636	1,808,547
Liabilities					
Amounts owed to banks	0	112,169	59,962	0	172,131
Other liabilities	27,820	0	0	0	27,820
Equity	1,608,596	0	0	0	1,608,596
Total	1,636,416	112,169	59,962	0	1,808,547
Net balance sheet assets / liabilities (-)	(650,103)	349,860	266,607	33,636	0
Net off-balance sheet currency positions (Note 13.3)	813,167	(548,051)	(254,379)	(5,174)	5,563
Net open currency position	163,064	(198,191)	12,228	28,462	5,563

31 December 2017 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	521,692	1,811	288	246	524,037
Debt securities	134,565	160,903	48,990	9,140	353,598
Shares and mutual funds	14,192	201,619	138,316	1,943	356,070
Other assets	0	1,545	1,204	13	2,762
Total	670,449	365,878	188,798	11,342	1,236,467
Liabilities					
Amounts owed to banks	0	91,837	71,119	0	162,956
Other liabilities	24,724	50	0	0	24,774
Equity	1,048,737	0	0	0	1,048,737
Total	1,073,461	91,887	71,119	0	1,236,467
Net balance sheet assets / liabilities (-)	(403,012)	273,991	117,679	11,342	0
Net off-balance sheet currency positions (Note 13.3)	330,792	(283,884)	(42,522)	(2,590)	1,796
Net open currency position	(72,220)	(9,893)	75,157	8,752	1,796

13.5. Interest Rate Risk

The Fund takes on exposure resulting from fluctuations in market interest rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to interest rate risk. The tables include the Fund's interest-bearing assets and liabilities at carrying amounts, categorized by the earlier of the settlement, interest rate change or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current and savings accounts	197,960	0	0	0	197,960
Reverse repo agreements	459,755	0	0	0	459,755
Debt securities	82,827	97,361	282,554	135,806	598,548
Total financial assets	740,542	97,361	282,554	135,806	1,256,263
Liabilities					
Amounts owed to banks	172,131	0	0	0	172,131
Total liabilities	172,131	0	0	0	172,131

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	99,081	0	0	0	99,081
Reverse repo agreements	424,701	0	0	0	424,701
Debt securities	37,199	44,055	208,506	63,838	353,598
Total financial assets	560,981	44,055	208,506	63,838	877,380
Liabilities					
Amounts owed to banks	162,956	0	0	0	162,956
Total liabilities	162,956	0	0	0	162,956

13.6. Credit Risk

The Fund places part of its assets in debt instruments carrying the risk of debtor losing the ability to meet its liabilities. The Fund only makes investments in securities whose rating or the rating of issuer corresponds to a grade required by Act No. 427/2011 Coll., on Supplementary Pension Savings, and the Fund's Statute. Debt securities held by the Fund are received for trading on the regulated markets.

13.7. Liquidity Risk

The Fund is exposed to liquidity risk as a consequence of calls on available cash resources related to pension benefit payments, transfers of resources between other funds managed by the Company upon savings strategy change and transfers of the policyholders' funds to another pension management company. Liquidity risk, to which the Fund is exposed, is not significant as all assets are immediately convertible into cash before the expected purchases of the Fund's units can be effected.

The tables below summarize the Fund's assets and liabilities categorized by appropriate maturities range based on remaining maturity:

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	657,972	0	0	0	0	657,972
Debt securities	1,269	42,332	316,261	238,686	0	598,548
Shares and mutual funds	0	0	0	0	546,102	546,102
Other assets	5,925	0	0	0	0	5,925
Total assets	665,166	42,332	316,261	238,686	546,102	1,808,547
Liabilities						
Amounts owed to banks	172,131	0	0	0	0	172,131
Other liabilities	24,408	0	0	3,412	0	27,820
Total liabilities	196,539	0	0	3,412	0	199,951
Net liquidity exposure	468,627	42,332	316,261	235,274	546,102	1,608,596

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	524,037	0	0	0	0	524,037
Debt securities	3,574	13,066	197,609	139,349	0	353,598
Shares and mutual funds	0	0	0	0	356,070	356,070
Other assets	2,762	0	0	0	0	2,762
Total assets	530,373	13,066	197,609	139,349	356,070	1,236,467
Liabilities						
Amounts owed to banks	162,956	0	0	0	0	162,956
Other liabilities	24,774	0	0	0	0	24,774
Total liabilities	187,730	0	0	0	0	187,730
Net liquidity exposure	342,643	13,066	197,609	139,349	356,070	1,048,737

14. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Penzijní společnost České pojišťovny, a.s.		
Payables – fee for management, fee for appreciation (Note 7)	1,597	7,067
Expenses – fee for management, fee for appreciation (Note 10)	(12,840)	(13,844)

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

15. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Fund for the year ended 31 December 2018.

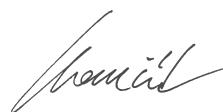
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Vyvážení účastnický fond Penzijní společnosti České pojišťovny a. s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Name of the Participation Fund**, pursuant to Subsection 2, Letter (a) of Annex 1 to the Decree
Vyvážení účastnický fond Penzijní společnosti České pojišťovny a. s.
- b) **Information on the pension management company that manages the Participation Fund, or information on each pension management company that managed the Participation Fund in the relevant period, and information on the period of time for which each pension management company managed the Participation Fund**, pursuant to Subsection 2, Letter (b) of Annex 1 to the Decree
For the entire relevant period, the Participation Fund was managed by Penzijní společnost České pojišťovny, a.s., business registration number (IČ): 618 58 692, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 2738.
- c) **Information on portfolio managers of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a portfolio manager**, pursuant to Subsection 2, Letter (c) of Annex 1 to the Decree
All assets of the Participation Fund were entrusted to the management of Generali Investments CEE, investiční společnost, a.s., business registration number (IČ): 438 73 766, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1031. In the relevant period, the activities of the portfolio manager were performed by Tomáš Derner, CFA.
- d) **Information on each depositary of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a depositary**, pursuant to Subsection 2, Letter (d) of Annex 1 to the Decree
The Participation Fund’s depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- e) **Information on each entity entrusted with the custody or safekeeping of the Participation Fund’s assets, provided that more than 1% of the value of the Fund’s assets have been in custody or safekeeping of the entity**, pursuant to Subsection 2, Letter (e) of Annex 1 to the Decree
In the relevant period, the custody or safekeeping of the Fund’s assets was performed by UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- f) **Comprehensive identification of the Participation Fund’s assets, if their value exceeds 1% of the value of the Fund’s assets as at the date of the valuation performed for the purposes of this Report, with a specification of the total acquisition price and the fair value at the end of the relevant period**, pursuant to Subsection 2, Letter (f) of Annex 1 to the Decree

Name	ISIN	Acquisition price (CZK thousand)	Fair value (CZK thousand)
Current accounts	BU	198,011	197,960
Repo agreements	Reverse repo agreements	460,000	459,755
EU STOXX50 ISHARES ETF	DE0005933956	79,295	68,737
S&P 500 VANGUARD ETF	IE00B3XXRP09	67,080	67,599
CZ GB 2.75 07/29	CZ0001005375	52,432	54,692
MSCI EM iShares ETF	IE00BKM4GZ66	55,511	54,468
EU STOXX600 ISHARES ETF	DE0002635307	55,442	48,785
DAX ISHARES ETF	DE0005933931	53,020	45,093
CZ GB 0.95 05/30	CZ0001004477	43,535	44,232
CZ GB L-10 11/27	CZ0001004105	36,522	36,926
MSCI EM ISHARES ETF	US46434G1031	30,273	29,713
EU STOXX50 DB-X ETF	LU0274211217	31,001	27,575
FTSE EM VANGUARD ETF	US9220428588	28,396	26,363
EU STOXX50 DEKA ETF	DE000ETFL029	29,564	25,165
EU STOXX50 AMUNDI ETF	LU1681047236	20,314	20,373
CZ GB L+65 04/23	CZ0001003123	18,646	18,613

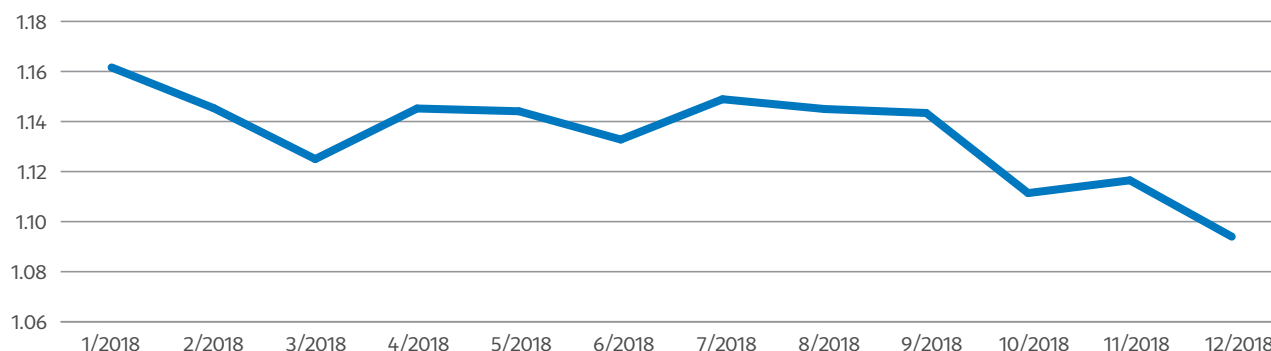
- g) **Information on judicial or arbitration disputes relating to the Fund's assets or to any claim of the Participation Fund's participants, if the value of the dispute exceeds 1% of the value of the Participation Fund's assets in the relevant period,** pursuant to Subsection 2, Letter (g) of Annex 1 to the Decree

The Participation Fund has not been a party to any judicial or arbitration disputes, where the value subject to the dispute exceeds 1% of the value of the Fund's assets in the relevant period.

- h) **Information on the Participation Fund's total equity and equity per unit as at 31 December of the relevant period and for the last three reporting periods,** pursuant to Subsection 2, Letter (h) of Annex 1 to the Decree

Date	Equity (CZK thousand)	Equity per unit
31/12/2016	607,748	1.1042
31/12/2017	1,048,737	1.1498
31/12/2018	1,608,596	1.0940

- i) **Information on the development of the value of a pension unit in the relevant period, which is expressed in a graphic form,** pursuant to Subsection 2, Letter (i) of Annex 1 to the Decree



- j) **Information on the composition of and changes in the Fund's assets,** pursuant to Subsection 2, Letter (j) of Annex 1 to the Decree

ASSETS (in CZK thousand)	31 December 2016	31 December 2017	31 December 2018
Due from banks and cooperative savings banks	126,631	524,037	657,972
a) repayable on demand	34,199	99,081	197,960
b) other receivables	92,432	424,956	460,012
Debt securities	299,838	353,598	598,548
a) issued by government organizations	94,396	87,572	226,842
b) issued by other entities	205,442	266,026	371,706
Shares, participating certificates and other interests	193,212	356,070	546,102
Other assets	589	2,762	5,925
TOTAL	620,270	1,236,467	1,808,547

- k) **Information on the consideration paid to the pension management company for managing the assets of the Participation Fund,** pursuant to Subsection 2, Letter (k) of Annex 1 to the Decree

The consideration paid to the pension management company for managing the assets of the Participation Fund amounted to 1.0% of the average annual value of the Participation Fund's equity at the end of the relevant period, and 15% of the positive difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the years prior to the relevant period since the establishment of the Participation Fund, multiplied by the average number of pension units in the relevant period.

- l) **Information on quantitative restrictions and methods selected for risk assessment related to the techniques and instruments for effective asset management in the Participation Fund,** pursuant to Subsection 2, Letter (l) of Annex 1 to the Decree

The pension management company uses derivative instruments and repo agreements for efficient management of assets in the Participation Fund. These instruments are primarily used to manage currency and interest rate risks. In order to reduce the risks arising from the use of financial derivatives which are to be settled by the Participation Fund by means of the provision of funds, the Participation Fund holds cash or a highly liquid asset. The open position of all derivatives calculated using the standard liability method does not exceed 80% of the Fund's equity. The sum of the positive fair values agreed on with the counterparty, which is a regulated bank, does not exceed 10% of the assets of the Participation Fund. To maintain a low risk while efficiently managing the assets, the Participation Fund invests funds acquired from repo agreements into highly liquid assets only. Information on the used financial derivatives, repo agreements and valuation methods are included in the notes to the financial statements..

Pursuant to Section 21(2) of Act No. 563/1991 Coll., on Accounting, Penzijní společnost České pojišťovny, a.s. discloses information on the projected development of the entity:

Increased interest in supplementary pension savings programs will boost dynamic growth in the number of clients and the volume of administered assets in the coming period.

Annual Report 2018

Dynamický účastnický fond
Penzijní společnosti České pojišťovny a. s.

Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s. – Independent auditor's report



(Translation of a report originally issued in Czech – see Note 2.1 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Fund participants of Dynamický účastnický fond Penzijní společnosti České pojišťovny, a. s.:

Opinion

We have audited the accompanying financial statements of Dynamický účastnický fond Penzijní společnosti České pojišťovny, a.s. (hereinafter also the "Fund") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fund, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors of Penzijní společnost České pojišťovny, a.s., for the Financial Statements

The Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors of Penzijní společnost České pojišťovny, a.s., determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Penzijní společnost České pojišťovny, a.s., is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of Penzijní společnost České pojišťovny, a.s., either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Penzijní společnost České pojišťovny, a.s.
- Conclude on the appropriateness of the Board of Directors' of Penzijní společnost České pojišťovny, a.s., use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Penzijní společnost České pojišťovny, a.s., regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401



Roman Hauptfleisch, Auditor
License No. 2009

26 April 2019
Prague, Czech Republic

Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s. – Financial Statements for the year ended 31 December 2018

Balance Sheet as at 31 December 2018

ASSETS (in CZK thousands)	Note	31 December 2018	31 December 2017
Due from banks	3	157,540	116,408
of which: a) repayable on demand		72,330	44,219
b) other receivables		85,210	72,189
Debt securities	4	116,115	102,701
of which: a) issued by government institutions		22,671	17,688
b) issued by other entities		93,444	85,013
Shares and mutual funds	4	607,575	329,064
Other assets	5	5,342	2,248
TOTAL ASSETS		886,572	550,421
LIABILITIES (in CZK thousands)	Note	31 December 2018	31 December 2017
Amounts owed to banks and cooperative saving banks	6	53,505	54,679
of which: other liabilities		53,505	54,679
Other liabilities	7	11,183	11,334
Capital funds	8	859,053	447,728
Retained earnings	8	36,680	12,672
Profit/(Loss) for the period	8	(73,849)	24,008
TOTAL LIABILITIES		886,572	550,421
OFF-BALANCE SHEET ITEMS (in CZK thousands)	Note	31 December 2018	31 December 2017
Off-balance sheet assets			
Receivables from fixed-term transactions	13.3	716,740	241,949
Assets provided for management by a third party		821,884	484,408
Total off-balance sheet assets		1,538,624	726,357
Off-balance sheet liabilities			
Payables from fixed-term transactions	13.3	711,662	240,084
Collateral and pledge received		84,953	71,934
Total off-balance sheet liabilities		796,615	312,018

Income Statement for the year ended 31 December 2018

(in CZK thousands)	Note	2018	2017
Interest and similar income	9	5,008	2,618
of which: interest income from debt securities		3,881	2,475
Interest and similar expense		(1,034)	(286)
of which: interest expense from debt securities		0	0
Income from shares and mutual funds		8,976	4,295
of which: other income from shares and mutual funds		8,976	4,295
Fee and commission expenses	10	(7,082)	(8,318)
Gain/(Loss) from financial transactions	11	(79,717)	25,699
Profit/(Loss) on ordinary activities before tax	8	(73,849)	24,008
Income tax	12	0	0
Profit/(Loss) for the period after tax	8	(73,849)	24,008

Financial Statements for the year ended 31 December 2018

1. General Information

Dynamický účastnický fond Penzijní společnosti České pojišťovny a.s. (the “Fund”) was established by Penzijní společnost České pojišťovny, a.s. (the “Company”), following the Czech National Bank’s decision dated 20 December 2012. This decision on the authorization to establish the Fund became effective on 1 January 2013.

The Fund is subject to regulatory requirements of Act No. 427/2011 Coll. on Supplementary Pension Savings, which is valid from 1 January 2013, as amended.

The Company’s investment portfolio is managed by Generali Investments CEE, investiční společnost, a.s.

The Fund’s custodian is UniCredit Bank Czech Republic and Slovakia, a.s. (the “Custodian”).

On 16 June 2014, following the Czech National Bank’s authorization, Růstový účastnický fond Raiffeisen penzijní společnosti a.s. (the “RPS Fund”) was incorporated into the Fund.

2. Accounting Policies

2.1. Basis of Preparation

The financial statements of the Fund comprising the balance sheet, the income statement and the accompanying notes have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, the Czech Ministry of Finance decrees and Czech accounting standards for financial institutions. The financial statements have been prepared under the historical cost convention as modified for the valuation of financial instruments at fair value through profit or loss and the valuation of derivatives. The financial statements are based on assumption that the Fund will continue as a going concern and that there are no circumstances that would restrict, or prevent, the Fund’s ability to continue as a going concern in foreseeable future.

The amounts included in the financial statements are rounded to CZK thousands unless stated otherwise.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

The financial statements have been prepared in Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2.2. Transaction Recognition Date

The following rules apply to recognition of financial assets and liabilities:

The transaction recognition date for purchase and sale of financial assets is a trade date (date on which a spot contract is executed) provided that the period between the trade date and the settlement date does not exceed a period typical for the relevant type of transaction.

The transaction recognition date can also be the date of payment or acceptance of cash in circulation, the date of purchase or sale of foreign exchange, foreign currency, the date of payment to or collection from a client’s account, the date on which the ownership or rights to another party’s assets were acquired or disposed of, the date on which a receivable or payable arose, was changed or terminated, the date on which assets moved within the entity and on which other facts that are the subject of accounting occurred or on which the necessary documentation supporting those facts is available or which result from internal conditions of the entity or from special regulations.

2.3. Securities and Their Fair Value

In accordance with the Fund's strategy, all securities are classified as securities at fair value through profit or loss.

Securities at fair value through profit or loss are initially recognized at cost and subsequently measured at fair value. All related gains and losses are included in gain or loss from financial transactions. Interest earned on securities at fair value through profit or loss is reported as interest and similar income.

The fair value of a security is determined by the market mid-price quoted by a relevant stock exchange or other active public market. In other cases, the fair value of a security is determined as net present value of the cash flows adjusted for credit and other relevant risks.

In its models designed for determining the fair value of securities, the Company maximizes using the observable market data, while minimizing non-observable inputs. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. As at the balance sheet date, the Company management has reviewed its models to ensure that they appropriately reflect the current market conditions, including the relative liquidity of the market and credit spreads.

2.4. Foreign Currency

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the Czech National Bank ("CNB") exchange rate prevailing as at the transaction date. Monetary financial assets and liabilities denominated in foreign currencies are translated into Czech crowns at the exchange rate as published by the Czech National Bank as at the balance sheet date. All realized and unrealized exchange rate gains and losses arising from monetary items are recognized in gain or loss from financial transactions.

2.5. Repo Agreements

Repo agreement is the sale of financial assets, other than cash, for cash or other form of payment with corresponding future liability to buy back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The sold financial assets remain recorded in the balance sheet and the received cash is recorded in amounts owed to banks and cooperative saving banks in the balance sheet. Reverse repo agreement is the purchase of financial assets, other than cash, for cash or other form of payment with corresponding future liability to sell back these financial assets at a later date for an amount equaling the original amount, or other form of payment, and interest. The purchased financial assets are not recorded in the balance sheet and are only recorded in the off-balance sheet; the provided cash is recorded in amounts due from banks and cooperative saving banks in the balance sheet. Repo (reverse repo) agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo agreement, i.e. providing a loan collateralised by transfer of financial assets;
- loan of securities hedged with transfer of cash or other form of payment and borrowing of securities hedged with transfer of cash or other form of payment;
- sale of securities with simultaneous arrangement to buy securities back (sell-buy) and purchase of securities with simultaneous arrangement to sell securities back (buy-sell).

Repo agreements do not include concurrent spot purchases and sales of securities provided that their settlement is made in the same day.

2.6. Financial Derivatives

Financial derivatives are initially recognized on the balance sheet at cost and subsequently remeasured at fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate.

All derivatives are presented in other assets or in other liabilities when their fair value for the Fund is positive or negative, respectively.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a financial instrument with the same terms as the embedded derivative would as separate instrument meet the definition of a derivative, and the host contract is not carried at fair value through profit or loss, or is measured at fair value with changes in fair value recognized in the balance sheet.

Changes in the fair value of financial derivatives held-for-trading are included in gain or loss from financial transactions.

Due to fact that all securities are classified as securities at fair value through profit or loss, the Fund uses the financial derivatives only to hedge foreign currency and interest rate exposures.

2.7. Interest Income and Expenses, Dividend Income

Interest income and expenses are recognized for all interest bearing instruments on an accruals basis.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date).

2.8. Fee and Commission Expenses

The fee and commission expenses comprise fee paid to the Company for management and appreciation of assets. The amount of fee is determined as follows:

- a) fee for management should not exceed 1% of the Fund's average annual equity. The Fund's average annual equity is determined as at 31 December as a simple arithmetic average of the Fund's equity values for each day of the respective year; and
- b) fee for asset appreciation shall not exceed 15% of the difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the prior years since the establishment of the Fund, multiplied by the average number of pension units in the relevant period.

2.9. Payables to Policyholders

Policyholders' contributions and state contributions, including revenues from these contributions, are recognized at nominal value. These contributions include mainly contributions to be invested, funds to be paid out and entitlement to state contribution before investing in the portfolio. The invested funds are posted to capital funds, which are included in equity.

2.10. Capital Funds

The credited price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are credited to the pension savings scheme participants for the selling price set on a weekly basis. Capital funds also include gains or losses arising from the revaluation of pension units as at the date on which the pension units were credited or deducted.

2.11. Provision for Pension Payments

The Fund does not create a provision for the payment of life-long pensions or pensions with fixed term and fixed pension benefit because these pensions are paid out by an insurance company designated by the client on the basis of signed insurance policy.

2.12. Income Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.13. Deferred Tax

According to the current Act No. 586/1992 Coll. on Income Taxes, the applicable tax rate has been 0%.

2.14. Off-balance Sheet Assets and Liabilities

The Fund's off-balance sheet accounts include assets provided into Company's administration, payables from collateral received within repo transactions and foreign currency derivatives at nominal value.

The Fund has no assets or liabilities that would not be disclosed in the balance sheet or off-balance sheet accounts.

2.15. Subsequent Events

The effect of events that occurred between the balance sheet date and the financial statements date is reflected in the financial statements if these events provide additional evidence of conditions that existed at the balance sheet date.

If, between the balance sheet date and the financial statements date, significant events occurred that are indicative of conditions that arose after the balance sheet date, the effect of these events is not recognized in the financial statements but disclosed in the notes to the financial statements.

2.16. Related Parties

Related parties are defined as follows:

- statutory body members and senior management of the Company who are responsible based on employment or other contracts for executive management functions defined in the Company's statute ("senior management of the Company");
- relatives (direct family members) of members of the Board of Directors, Supervisory Board, Audit Committee, senior management and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment;
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the entities controlled by them and the senior management of these entities; and
- funds managed by the Company.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 14.

3. Due from Banks

The Fund places funding, which is not currently being used in transactions with securities or in settlement of payables to policyholders, within reverse repo agreements or on term deposits with banks. Balances on current accounts are repayable on demand.

(in CZK thousands)	31 December 2018	31 December 2017
Current accounts with banks	72,330	44,219
Cash collateral pledged	257	255
Reverse repo agreements	84,953	71,934
Total amounts due from banks	157,540	116,408

4. Securities

All securities held by the Fund are listed.

Securities at fair value through profit or loss:

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	33,258	28,551
Foreign stock exchanges	82,857	74,150
Total debt securities	116,115	102,701

(in CZK thousands)	31 December 2018	31 December 2017
Traded on the primary or secondary PSE market	28,038	18,279
Foreign stock exchanges	579,537	310,785
Total shares and mutual funds	607,575	329,064

5. Other Assets

(in CZK thousands)	31 December 2018	31 December 2017
Receivables from securities transactions	264	337
Financial derivatives (Note 13.3)	5,078	1,911
Total other assets	5,342	2,248

6. Amounts Owed to Banks and Cooperative Saving Banks

(in CZK thousands)	31 December 2018	31 December 2017
Cash collateral received – OTC derivatives	1,029	1,277
Repo agreements	52,476	53,402
Amounts owed to banks and cooperative saving banks	53,505	54,679

The Fund has been using foreign currency repo agreements to hedge foreign currency exposures.

The value of assets that have been encumbered as repo agreements hedge is included in Debt securities. In case of non-compliance with the obligations towards the creditor, the hedge would only be realized up to the recognized liability.

(in CZK thousands)	31 December 2018	31 December 2017
Debt securities issued by government institutions	12,457	12,850
Debt securities issued by other entities	68,685	71,360
Total encumbered assets	81,142	84,210

7. Other Liabilities

(in CZK thousands)	31 December 2018	31 December 2017
Payables to policyholders	9,719	5,833
Financial derivatives (Note 13.3)	0	46
Fee for management and appreciation of assets (Note 14)	1,464	5,455
Total other liabilities	11,183	11,334

8. Capital Funds and Other Equity Components

The Fund has no share capital. The price of the Fund's unit is determined on the basis of the Fund's equity and the number of units while the unit price (NAV/unit) is determined by dividing the Fund's equity by the relevant number of units.

	31 December 2018	31 December 2017
Capital funds (in CZK thousands)	859,053	447,728
Retained earnings (in CZK thousands)	36,680	12,672
Profit/(Loss) for the period (in CZK thousands)	(73,849)	24,008
Equity (in CZK thousands)	821,884	484,408
Number of units	747,416,041.7060	400,404,256.2057
NAV/unit	1.0994	1.2099
Annual yield (p.a.)	(9.13%)	8.24%

In 2018, the Fund reported a loss of CZK 73,849 thousand. The loss for the current year will be settled by the Company after the financial statements have been approved.

The profit for 2017 totaling CZK 24,008 thousand was allocated to retained earnings.

Number of policyholders:

(pieces)	31 December 2018	31 December 2017
Number of policyholders	55,190	34,019

Pension benefit payments:

	2018	2017
Amount (in CZK thousands)	51,264	31,672
Number of pension benefits	2,196	1,426

9. Interest and Similar Income

(in CZK thousands)	2018	2017
Interest on debt securities	3,881	2,475
Other interest income	1,127	143
Total interest and similar income	5,008	2,618

10. Fee and Commission Expenses

(in CZK thousands)	2018	2017
Fee for management of assets (Note 14)	(6,261)	(3,243)
Fee for appreciation of assets (Note 14)	(725)	(5,042)
Other	(96)	(33)
Total fee and commission expenses	(7,082)	(8,318)

The cost of the Fund's statutory audit is invoiced directly to the Company.

11. Gain or Loss from Financial Transactions

(in CZK thousands)	2018	2017
Securities	(82,651)	33,597
Foreign exchange differences	16,387	(25,093)
Derivatives	(13,453)	17,195
Total gain or loss from financial transactions	(79,717)	25,699

As at 31 December 2018 and 2017, the item "Derivatives" includes changes in fair values of derivatives within the economic hedge of foreign currency exposures of portfolio's certain foreign currency assets totaling CZK (13,453) thousand and CZK 17,195 thousand, respectively.

12. Income Taxes

In the period under review the applicable income tax rate has been 0%. The tax expense is zero, accordingly.

13. Financial Risks

13.1. Strategy in Using Financial Instruments

The Fund places its assets in line with investment objectives given in the Fund's Statute. The principal instrument in risk management is investment limits set forth in Act No. 427/2011 Coll. on Supplementary Pension Savings, Fund's Statute and internal regulations of the Company. The asset portfolio's compliance with the investment objectives and limits and the level of other exposures are periodically assessed.

13.2. Market Risk

The Fund takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

Geographical segmentation of financial assets

31 December 2018 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	157,540	0	0	0	157,540
Debt securities	38,812	44,196	0	33,107	116,115
Shares and mutual funds	24,701	285,840	178,710	118,324	607,575
Financial derivatives	0	2,265	2,813	0	5,078
Total financial assets	221,053	332,301	181,523	151,431	886,308

31 December 2017 (in CZK thousands)	Czech Republic	European Union excl. Czech Republic	USA	Other	Total
Financial assets					
Due from banks	116,408	0	0	0	116,408
Debt securities	33,889	48,402	0	20,410	102,701
Shares and mutual funds	15,359	161,432	98,751	53,522	329,064
Financial derivatives	0	635	1,276	0	1,911
Total financial assets	165,656	210,469	100,027	73,932	550,084

Breakdown of revenues by geographic location of markets

2018 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	1,891	3,117	0	5,008
Income from shares and mutual funds – other	975	8,001	0	8,976
Gain or loss from financial transactions	(19,181)	(60,536)	0	(79,717)

2017 (in CZK thousands)	Czech Republic	OECD excl. Czech Republic	Other	Total
Interest and similar income	576	2,042	0	2,618
Income from shares and mutual funds – other	454	3,841	0	4,295
Gain or loss from financial transactions	20,681	5,018	0	25,699

13.3. Financial Derivatives

The Fund uses the financial derivatives for effective management of the assets. These instruments are primarily used to manage currency and interest rate risks. Counterparties to the financial derivative contracts are in particular banks subject to regulation, with their registered office in the territory of the Czech Republic or another EU state.

The tables below summarize derivative transactions categorized by type of hedged risk:

31 December 2018 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive (Note 5)	Negative (Note 7)
Foreign currency derivatives	716,740	711,662	5,078	0
Total derivatives	716,740	711,662	5,078	0

31 December 2017 (in CZK thousands)	Nominal value		Fair value	
	Assets	Liabilities	Positive	Negative
Foreign currency derivatives	241,949	240,084	1,911	(46)
Total derivatives	241,949	240,084	1,911	(46)

13.4. Currency Risk

The Fund takes on exposure resulting from fluctuations in the foreign currency exchange rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to currency risk. The tables include the Fund's assets and liabilities at carrying amounts, categorized by currency.

31 December 2018 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	153,270	2,038	644	1,588	157,540
Debt securities	40,313	42,819	32,983	0	116,115
Shares and mutual funds	28,038	252,512	294,226	32,799	607,575
Other assets	0	2,198	3,077	67	5,342
Total	221,621	299,567	330,930	34,454	886,572
Liabilities					
Amounts owed to banks	0	27,663	25,842	0	53,505
Other liabilities	11,183	0	0	0	11,183
Equity	821,884	0	0	0	821,884
Total	833,067	27,663	25,842	0	886,572
Net balance sheet assets / liabilities (-)	(611,446)	271,904	305,088	34,454	0
Net off-balance sheet currency positions (Note 13.3)	716,740	(407,826)	(298,086)	(5,750)	5,078
Net open currency position	105,294	(135,922)	7,002	28,704	5,078

31 December 2017 (in CZK thousands)	CZK	EUR	USD	Other	Total
Assets					
Due from banks	115,804	285	229	90	116,408
Debt securities	35,731	46,930	20,040	0	102,701
Shares and mutual funds	18,279	160,284	148,930	1,571	329,064
Other assets	0	728	1,520	0	2,248
Total	169,814	208,227	170,719	1,661	550,421
Liabilities					
Amounts owed to banks	0	30,959	23,720	0	54,679
Other liabilities	11,288	45	1	0	11,334
Equity	484,408	0	0	0	484,408
Total	495,696	31,004	23,721	0	550,421
Net balance sheet assets / liabilities (-)	(325,882)	177,223	146,998	1,661	0
Net off-balance sheet currency positions	241,949	(184,587)	(55,497)	0	1,865
Net open currency position	(83,933)	(7,364)	91,501	1,661	1,865

13.5. Interest Rate Risk

The Fund takes on exposure resulting from fluctuations in market interest rates to its financial position and cash flows.

The tables below summarize the Fund's exposure to interest rate risk. The tables include the Fund's interest-bearing assets and liabilities at carrying amounts, categorized by the earlier of the settlement, interest rate change or maturity dates.

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current and savings accounts	72,330	0	0	0	72,330
Reverse repo agreements	84,953	0	0	0	84,953
Debt securities	0	16,359	79,278	20,478	116,115
Total financial assets	157,283	16,359	79,278	20,478	273,398
Liabilities					
Amounts owed to banks	53,505	0	0	0	53,505
Total liabilities	53,505	0	0	0	53,505

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Current accounts	44,219	0	0	0	44,219
Reverse repo agreements	71,934	0	0	0	71,934
Debt securities	0	7,033	75,278	20,390	102,701
Total financial assets	116,153	7,033	75,278	20,390	218,854
Liabilities					
Amounts owed to banks	54,679	0	0	0	54,679
Total liabilities	54,679	0	0	0	54,679

13.6. Credit Risk

The Fund places part of its assets in debt instruments carrying the risk of debtor losing the ability to meet its liabilities. The Fund only makes investments in securities whose rating or the rating of issuer corresponds to a grade required by Act No. 427/2011 Coll., on Supplementary Pension Savings, and the Fund's Statute. Debt securities held by the Fund are received for trading on the regulated markets.

13.7. Liquidity Risk

The Fund is exposed to liquidity risk as a consequence of calls on available cash resources related to pension benefit payments, transfers of resources between other funds managed by the Company upon savings strategy change and transfers of the policyholders' funds to another pension management company. Liquidity risk, to which the Fund is exposed, is not significant as all assets are immediately convertible into cash before the expected purchases of the Fund's units can be effected.

The tables below summarize the Fund's assets and liabilities categorized by appropriate maturities range based on remaining maturity:

31 December 2018 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	157,540	0	0	0	0	157,540
Debt securities	255	12,439	78,390	25,031	0	116,115
Shares and mutual funds	0	0	0	0	607,575	607,575
Other assets	5,342	0	0	0	0	5,342
Total assets	163,137	12,439	78,390	25,031	607,575	886,572
Liabilities						
Amounts owed to banks	53,505	0	0	0	0	53,505
Other liabilities	11,183	0	0	0	0	11,183
Total liabilities	64,688	0	0	0	0	64,688
Net liquidity exposure	98,449	12,439	78,390	25,031	607,575	821,884

31 December 2017 (in CZK thousands)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Due from banks	116,408	0	0	0	0	116,408
Debt securities	116	3,215	55,931	43,439	0	102,701
Shares and mutual funds	0	0	0	0	329,064	329,064
Other assets	2,248	0	0	0	0	2,248
Total assets	118,772	3,215	55,931	43,439	329,064	550,421
Liabilities						
Amounts owed to banks	54,679	0	0	0	0	54,679
Other liabilities	11,334	0	0	0	0	11,334
Total liabilities	66,013	0	0	0	0	66,013
Net liquidity exposure	52,759	3,215	55,931	43,439	329,064	484,408

14. Related Party Transactions

(in CZK thousands)	31 December 2018	31 December 2017
Penzijní společnost České pojišťovny, a.s.		
Payables – fee for management, fee for appreciation (Note 7)	1,464	5,455
Expenses – fee for management, fee for appreciation (Note 10)	(6,986)	(8,318)

All related party transactions were made under the standard terms on regulated market. The Company believes that these transactions do not involve higher risks or other negative effects.

15. Subsequent Events

No significant events occurred between the balance sheet date and the financial statements date, which would have a material impact on the financial statements of the Fund for the year ended 31 December 2018.

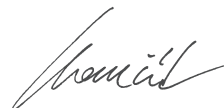
Date of preparation
18 April 2019

Signature of the statutory representative



Marcel Homolka
Chairman of the Board of Directors

Signature of the statutory representative



Miroslav Chromčík
Vice-Chairman of the Board of Directors

Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s. – Information obligation

Pursuant to Annex 1 to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company and a participation fund (hereinafter the “Decree”) Penzijní společnost České pojišťovny, a.s. hereby discloses:

- a) **Name of the Participation Fund**, pursuant to Subsection 2, Letter (a) of Annex 1 to the Decree
Dynamický účastnický fond Penzijní společnosti České pojišťovny a. s.
- b) **Information on the pension management company that manages the Participation Fund, or information on each pension management company that managed the Participation Fund in the relevant period, and information on the period of time for which each pension management company managed the Participation Fund**, pursuant to Subsection 2, Letter (b) of Annex 1 to the Decree
For the entire relevant period, the Participation Fund was managed by Penzijní společnost České pojišťovny, a.s., business registration number (IČ): 618 58 692, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 2738.
- c) **Information on portfolio managers of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a portfolio manager**, pursuant to Subsection 2, Letter (c) of Annex 1 to the Decree
All assets of the Participation Fund were entrusted to the management of Generali Investments CEE, investiční společnost, a.s., business registration number (IČ): 438 73 766, with its registered office at Na Pankráci 1720/123, Nusle, 140 21 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1031. In the relevant period, the activities of the portfolio manager were performed by Tomáš Derner, CFA.
- d) **Information on each depositary of the Participation Fund in the relevant period, and information on the period of time for which they performed the activities of a depositary**, pursuant to Subsection 2, Letter (d) of Annex 1 to the Decree
The Participation Fund’s depositary for the entire relevant period was UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- e) **Information on each entity entrusted with the custody or safekeeping of the Participation Fund’s assets, provided that more than 1% of the value of the Fund’s assets have been in custody or safekeeping of the entity**, pursuant to Subsection 2, Letter (e) of Annex 1 to the Decree
In the relevant period, the custody or safekeeping of the Fund’s assets was performed by UniCredit Bank Czech Republic and Slovakia, a.s., business registration number (IČ): 64948242, with its registered office at Želetavská 1525/1, Michle, 140 92 Prague 4, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 3608.
- f) **Comprehensive identification of the Participation Fund’s assets, if their value exceeds 1% of the value of the Fund’s assets as at the date of the valuation performed for the purposes of this Report, with a specification of the total acquisition price and the fair value at the end of the relevant period**, pursuant to Subsection 2, Letter (f) of Annex 1 to the Decree

Name	ISIN	Acquisition price (CZK thousand)	Fair value (CZK thousand)
Current accounts	BU	72,361	72,330
Repo agreements	Reverse repo agreements	85,000	84,953
MSCI EM iShares ETF	IE00BKM4GZ66	54,321	52,363
EU STOXX50 ISHARES ETF	DE0005933956	37,026	32,403
MSCI EM ISHARES ETF	US46434G1031	32,387	30,422
EU STOXX600 ISHARES ETF	DE0002635307	30,965	27,691
FTSE EM VANGUARD ETF	US9220428588	24,729	22,486
DAX ISHARES ETF	DE0005933931	25,494	21,621
S&P 500 VANGUARD ETF	IE00B3XXRP09	18,156	18,624
EU STOXX50 DB-X ETF	LU0274211217	16,117	14,053
EU STOXX50 DEKA ETF	DE000ETFL029	13,668	11,847
MOL 2.625 04/23	XS1401114811	11,070	11,026
NASDAQ BIOTECH ISHARES ETF	US4642875565	11,063	10,821
S&P 500 SPDR ETF	IE00B5BMR087	9,603	10,197
J&T GLOBAL FIN 3.0 11/19	CZ0003515199	9,003	9,011

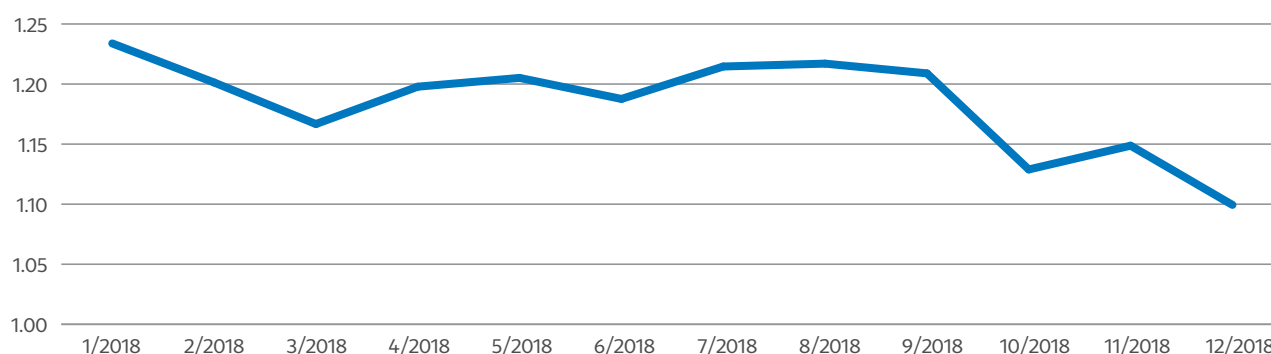
- g) **Information on judicial or arbitration disputes relating to the Fund's assets or to any claim of the Participation Fund's participants, if the value of the dispute exceeds 1% of the value of the Participation Fund's assets in the relevant period,** pursuant to Subsection 2, Letter (g) of Annex 1 to the Decree

The Participation Fund has not been a party to any judicial or arbitration disputes, where the value subject to the dispute exceeds 1% of the value of the Fund's assets in the relevant period.

- h) **Information on the Participation Fund's total equity and equity per unit as at 31 December of the relevant period and for the last three reporting periods,** pursuant to Subsection 2, Letter (h) of Annex 1 to the Decree

Date	Equity (CZK thousand)	Equity per unit
31/12/2016	232,019	1.1178
31/12/2017	484,408	1.2099
31/12/2018	821,884	1.0994

- i) **Information on the development of the value of a pension unit in the relevant period, which is expressed in a graphic form,** pursuant to Subsection 2, Letter (i) of Annex 1 to the Decree



- j) **Information on the composition of and changes in the Fund's assets,** pursuant to Subsection 2, Letter (j) of Annex 1 to the Decree

ASSETS (in CZK thousand)	31 December 2016	31 December 2017	31 December 2018
Due from banks and cooperative savings banks	34,222	116,408	157,540
a) repayable on demand	9,222	44,219	72,330
b) other receivables	25,000	72,189	85,210
Debt securities	58,867	102,701	116,115
a) issued by government organizations	11,825	17,688	22,671
b) issued by other entities	47,042	85,013	93,444
Shares, participating certificates and other interests	141,599	329,064	607,575
Other assets	299	2,248	5,342
TOTAL	234,987	550,421	886,572

- k) **Information on the consideration paid to the pension management company for managing the assets of the Participation Fund,** pursuant to Subsection 2, Letter (k) of Annex 1 to the Decree

The consideration paid to the pension management company for managing the assets of the Participation Fund amounted to 1.0% of the average annual value of the Participation Fund's equity at the end of the relevant period, and 15% of the positive difference between the average value of the pension unit in the relevant period and the highest annual average value of the pension unit in the years prior to the relevant period since the establishment of the Participation Fund, multiplied by the average number of pension units in the relevant period.

- l) **Information on quantitative restrictions and methods selected for risk assessment related to the techniques and instruments for effective asset management in the Participation Fund,** pursuant to Subsection 2, Letter (l) of Annex 1 to the Decree

The pension management company uses derivative instruments and repo agreements for efficient management of assets in the Participation Fund. These instruments are primarily used to manage currency and interest rate risks. In order to reduce the risks arising from the use of financial derivatives which are to be settled by the Participation Fund by means of the provision of funds, the Participation Fund holds cash or a highly liquid asset. The open position of all derivatives calculated using the standard liability method does not exceed 80% of the Fund's equity. The sum of the positive fair values agreed on with the counterparty, which is a regulated bank, does not exceed 10% of the assets of the Participation Fund. To maintain a low risk while efficiently managing the assets, the Participation Fund invests funds acquired from repo agreements into highly liquid assets only. Information on the used financial derivatives, repo agreements and valuation methods are included in the notes to the financial statements.

Pursuant to Section 21(2) of Act No. 563/1991 Coll., on Accounting, Penzijní společnost České pojišťovny, a.s. discloses information on the projected development of the entity:

Increased interest in supplementary pension savings programs will boost dynamic growth in the number of clients and the volume of administered assets in the coming period.

Contacts

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E-mail:	pfcp@pfcp.cz
Internet:	www.pfcp.cz
Auditor:	Ernst & Young Audit, s.r.o., Na Florenci 2116/15, 110 00 Praha 1, Česká republika
Depository:	UniCredit Bank Czech Republic and Slovakia a.s., Želetavská 1525/1, 140 92 Praha 4, Česká republika