

Annual Report

2011

1.2 million clients



MARKET LEADER

The strongest pension fund in the Czech Republic by far both at this time and over the long term, Penzijní fond České pojišťovny continues to build the image of a provider of high-quality retirement savings services.

The product portfolio relies on the government-subsidized supplementary retirement savings scheme with all the pension types defined by law – old-age, service, disability, and survivor benefits. At the end of the contributory period, clients can choose from several options of receiving their savings.



WE HELP YOU GO FARTHER



Professional, reliable,
and efficient – the main
attributes of Penzijní fond
České pojišťovny.

FLEXIBLE

We communicate using modern tools.



CONTENTS

Company Profile	4
Key Financial Figures	7
Organizational Chart	8
Corporate Governance	9
Statement by the Chairman of the Board	10
Management Report	13
Report of the Supervisory Board	16
Independent Auditor's Report on the Financial Statements	17
Balance Sheet	20
Off-Balance Sheet	21
Income Statement	22
Statement of Changes in Equity	23
Notes to Financial Statements	24
Report on Related Party Transactions	43
Independent Auditor's Report on the Annual Report	45

COMPANY PROFILE

Name:	Penzijní fond České pojišťovny, a.s.
Registered office:	Truhlářská 1106/9, 110 00 Prague 1
Corporate form:	Public limited company
Incorporation date:	19 September 1994
Identification No.:	61858692
Incorporation details:	Commercial Register maintained by the Prague Municipal Court, Section B, File 2738
Owner (stake in share capital):	Česká pojišťovna a.s. (100%)
Share capital:	CZK 214 million

The Company has no organizational units abroad.

Timeline

1994 – Incorporation

1996 – Number of clients surpasses the 100 thousand mark

1998 – Corporate restructuring is completed, resulting in an upsurge in the Fund's financial performance and sales

1999 – Creation of a sales department targeting exclusively the corporate segment

2001 – Supplementary retirement savings become a part of the integrated product portfolio of the ČP Employee Benefit Program

2002 – Assets surpass ten billion crowns

2003 – Merger with ČP penzijní fond (formerly Commercial Union Penzijní fond) further accelerates growth

2004 – Merger with Nový ČP penzijní fond (formerly ABN AMRO Penzijní fond); Penzijní fond České pojišťovny becomes the market leader as regards the number of clients

2005 – Number of clients grows beyond 800 thousand, and the Fund registers its first win in the MasterCard Bank of the Year contest in its category

2007 – Number of clients surpasses one million

2009 – Assets surpass 50 billion crowns

2010 – Earnings reach a record-high CZK 1.15 billion

2011 – The Fund responds to legislative developments by launching official preparations for an upcoming reform of the pension system

Calendar of Main Events in 2011

January

Certificates detailing paid premium were mailed to all clients eligible for a tax deduction. In the preceding year, 182 thousand clients were eligible for tax relief. Certificates were issued for the aggregate amount of CZK 1.4 billion.

February

The Fund placed third in its category in the Golden Pouch contest, where financial institutions are rated by the public.

March

A redesigned website is launched at www.pfcp.cz. Apart from expanded content and updated design, the website offers a variety of interactive features. Visitors can now calculate their retirement age and future pension benefits and plan the amount of savings in the Fund.

April

A campaign was launched to motivate clients to increase regular premium payments. Clients in selected segments received telephone or mail offers to increase their premiums to be eligible for higher government subsidies.

May

The general meeting approved the appreciation rate for 2010, crediting client accounts with 2.0% p.a. yield.

June

For the seventh time in a row, Penzijní fond České pojišťovny defended its leading position in the Financial Institution/Pension Fund segment of the CZECH TOP 100.

July

Assets surpassed CZK 55 billion as the year rolled into the second half.

September

Launch of www.klientskyportal.cz, a brand-new client portal with similar features and functions as Internet banking. Apart from viewing their accounts, clients can adjust the parameters of their savings plans.

October

Another successful campaign motivating clients to increase premium payments in line with a similar campaign in the spring. Internet activities earned the Fund the third place in the prestigious WebTop100 contest.

November

Close to 400 thousand clients were mailed an offer to take advantage of tax deductions. For the first time, clients were able to handle the necessary administrative tasks through direct Internet access to their accounts.

Products and Services

The key component of the portfolio of products and services is the government-subsidized supplementary retirement savings scheme with all the pension types defined by law – old-age, service, disability, and survivor benefits. At the end of the contributory period, clients can choose one of several options of receiving their savings, including flexible pension schemes.

Supplementary retirement savings are also an integral part of the portfolio of selected insurance products offered by Česká pojišťovna. Last year, we introduced financial bonuses for clients who sign up for the retirement savings scheme together with selected insurance products offered by our parent company. Further, supplementary retirement savings are an integral part of the ČP Employee Benefit Program, a product designed for the corporate segment.

The high quality of our customer care is evidenced by on-line access to client accounts via an interactive portal. Another convenient feature is the SMS ECHO service that sends a message to the mobile phone of a client who happens to miss a payment. SMS ECHO also confirms the receipt of extra deposits to individual retirement savings accounts. Another benefit is the Tax Service that informs clients of eligibility for tax deductions by calculating the additional premium that needs to be made at the year-end. The service also takes care of all related paperwork. A standard feature of customer care, mainly intended for clients who are busy professionals, is the callback service designed to facilitate personal communication with the Fund.

Clients have easy access to their supplementary retirement savings plans and all related services through the large network of Česká pojišťovna's branches. In addition, the majority of clients' inquiries and requests can be handled exclusively using direct communication channels – telephone, the new website, and mail. More and more clients rely on the PEPA electronic tool (PEnsion Portal Application), a secure on-line feature that allows our financial advisors to serve clients anytime, anywhere. Further, PEPA provides business partners with additional information on their clients, helping them make offers to increase regular premium payments.

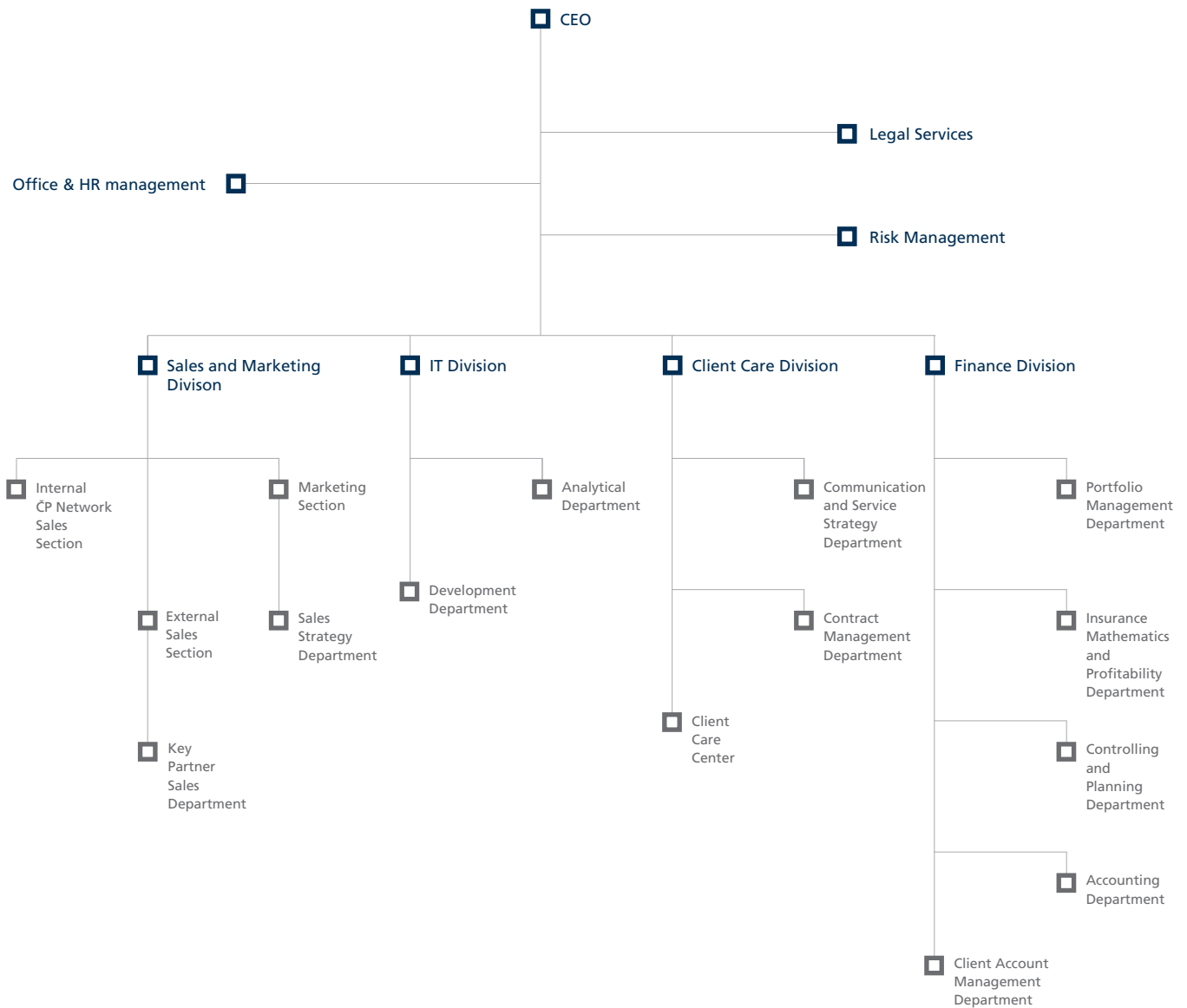
KEY FINANCIAL FIGURES

TCZK	2011	2010	2009	2008	2007	2006
Profit	910,640	1,147,392	619,073	81,354	938,616	1,032,735
Total net assets	59,370,675	55,304,610	51,366,237	44,811,073	38,291,304	32,472,450
Share capital	213,700	213,700	213,700	213,700	213,700	213,700
Statutory reserve fund	380,767	323,397	292,447	288,379	241,448	189,811

	2011	2010	2009	2008	2007	2006
Yield credited (% p.a.)	1.5	2.0	1.2	0.2	2.4	3.3

	2011	2010	2009	2008	2007	2006
Number of clients	1,162,495	1,179,881	1,160,915	1,160,860	1,079,410	974,115
Clients receiving employer's contribution	249,635	255,735	265,311	265,582	244,488	217,942

ORGANIZATIONAL CHART



CORPORATE GOVERNANCE

Board of Directors

Chairman	Tomáš Matoušek
Deputy Chairman	Pavel Šoukal
Member	Libor Pergl
Member	Robert Hlava

Supervisory Board

Chairman	Pavel Řehák
Deputy Chairman	Lorenzo Kravina
Member	Štefan Tillinger

Changes made by the sole shareholder in 2011 (in chronological order):

1. 22 May 2011 – The office of Václav Šrajer ended.
2. 23 May 2011 – Tomáš Matoušek was appointed to the Board of Directors.
3. 30 June 2011 – Petr Kopecký resigned from the Supervisory Board.
4. 1 August 2011 – Štefan Tillinger was appointed to the Supervisory Board.

STATEMENT BY THE CHAIRMAN OF THE BOARD



Dear Shareholder, Clients, and Business Partners,

Few would question that last year was a turning point in the development of the retirement savings segment. After lengthy discussions, the Parliament passed a much-debated ensemble of key laws that will pave the way for a reform of the pension system. Starting in 2013, the new legislation will introduce beneficial changes into the Czech Republic's current old-age pension scheme as well as into the functioning of already existing pension funds. I am happy to report that our company participated very intensively in the debate and in the preparation of these laws throughout last year. After the reform, the old-age pension system will provide new opportunities for our business in the retirement savings segment.

Further, I want to present our results in the reported year. While we entered 2011 with the optimism that the global economy was on a recovery course, the end of the year was marked by an exacerbation of the debt crisis in the Eurozone. In view of last year's developments, we continued to reinforce the government bond segment up to 75% of the portfolio, as the overall share of bonds grew to 92%. Considering the legal obligation to preserve the value of deposits, we pursued a conservative investment strategy to protect investments against both the potential escalation of problems in Southern Europe and the risk of another recession in 2012.

In the reported year, the Fund continued to grow dynamically, meeting the planned targets. Total assets grew to almost CZK 60 billion, and profit approached the one-billion crown mark. The results show that we were not only able to protect clients' savings last year, but to increase their value as well. We recorded a 4% year-on-year increase in premiums paid by clients, including government subsidies and employer contributions, which translates into cash income of CZK 10.3 billion. Thanks to the growth, the overall balance of assets increased by 7% on the preceding year to reach 59.4 billion crowns at the end of 2011.

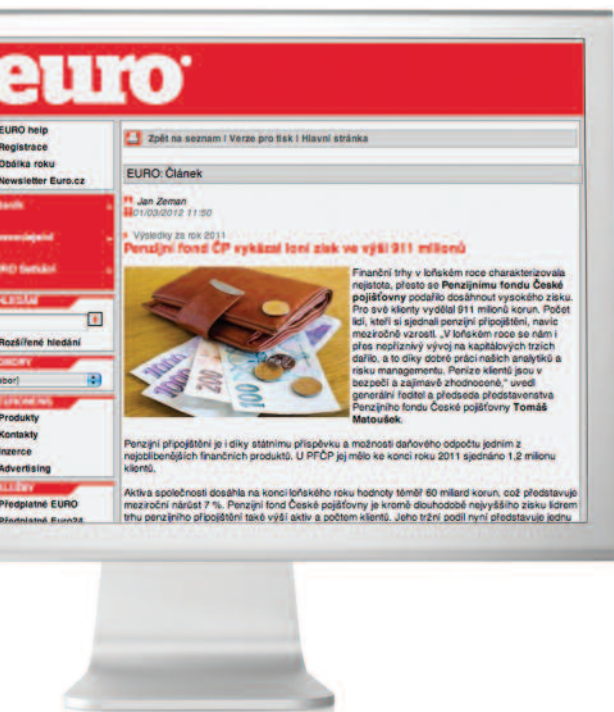
Penzijní fond České pojišťovny currently has 1.2 million clients; 250 thousand of them receive retirement savings contributions from their employer. Last year, 135 thousand contracts were signed with new clients, over ten thousand more than in the year before. We also began negotiations with distributors with a view to set up partnerships to take advantage of the reformed pension system as a starting point for future business success. As regards this issue, I want to say that Penzijní fond České pojišťovny began already last year to make thorough preparations for the transformation we will have to go through in connection with the pension reform. The transformation will change our organization from a pension fund to a retirement savings company, where appropriate attention will be paid to the necessary organizational and procedural changes. We worked hard to have the transformation project ready for delivery to the Czech National Bank by the legal deadline. We want to assure our clients that the upcoming changes will have no effect on the conditions of existing retirement savings plans.

Some things did change last year, however, as we expanded our customer service and further improved its quality. This is evidenced, among others, by the launch of a new portal that provides our clients with on-line access to their accounts. In addition, we expanded the options for communicating with the Fund by SMS messaging. Another improvement concerned the Internet portal for dealers, where additional information has been made available to facilitate communication between sales representatives and clients. All the mentioned innovations not only make communication with the Fund more convenient, but also provide sophisticated tools for further exploitation of business opportunities in our segment.

In 2012, we will face demanding tasks, mainly in connection with preparations for the already mentioned reform of the pension system, where we want to succeed in line with our past achievements. In addition to transforming the Fund into a retirement savings company, we will have to fine-tune selling strategies and corporate processes for the start of the reform. I am confident that we will show with confidence that our corporation is and will remain the incontestable Number One of private retirement savings in the Czech Republic.



Tomáš Matoušek
CEO and Chairman of the Board



PROFESSIONAL

We take care of your investments
into the future.



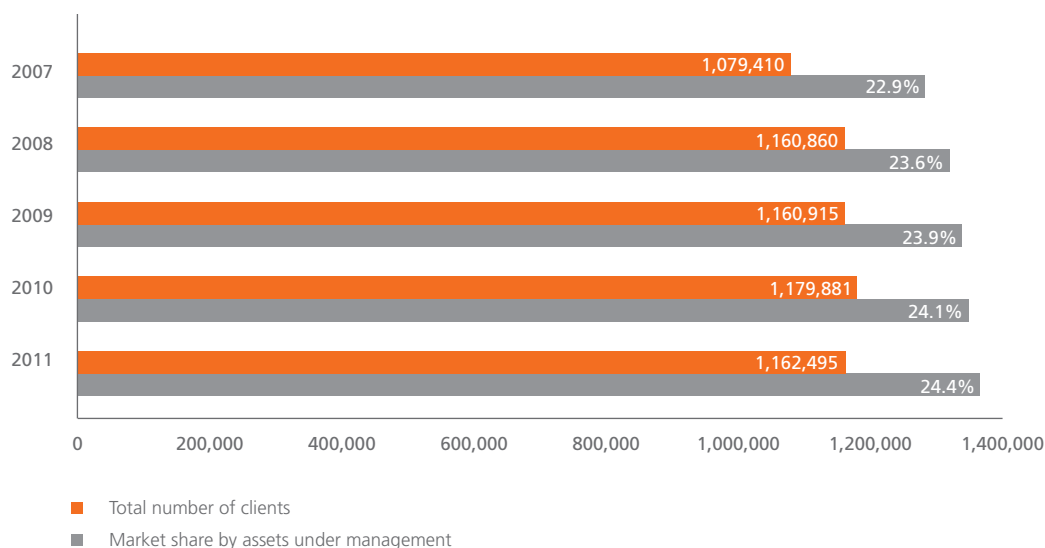
MANAGEMENT REPORT

Throughout last year, Penzijní fond České pojišťovny continued to grow dynamically, meeting planned targets. Total assets approached the 60 billion crown mark and earnings amounted to CZK 911 million. The Fund currently has 1.2 million clients; 250 thousand receive retirement savings contributions from their employer. Besides excellent business performance and financial results that makes us the incontestable leader in the savings sector, we reinforced our position by taking a lead in the quality of client care. A testimony to this is the launch of a new version of SMS communication and on-line administration of client accounts, which has not only enhanced comfort, but also improved the efficiency of customer services. All pension-related measures taken by the management in 2011 were implemented in view of the strategic changes that will be made in response to the upcoming pension system reform.

Sales

As in previous years, Penzijní fond České pojišťovny relied on its diversified distribution network capable of reaching a wide portfolio of client segments. In addition to Česká pojišťovna's branches and consultants, we cooperated extensively with a network of independent external brokers. An important role in this arrangement was played by our partnership with the Czech Post and selected multi-level marketing firms. Despite growing competition, the Fund used the above distribution channels to sign 135 thousand new contracts, ten thousand more than in the year before. We also began negotiations with distributors with a view to set up partnerships to take advantage of the reformed pension system as a starting point for future business success.

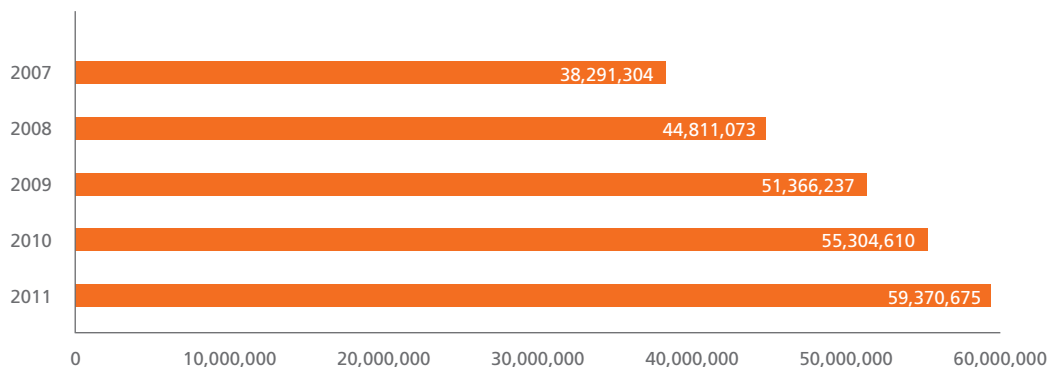
Penzijní fond České pojišťovny: Number of clients and market share



Financial Results

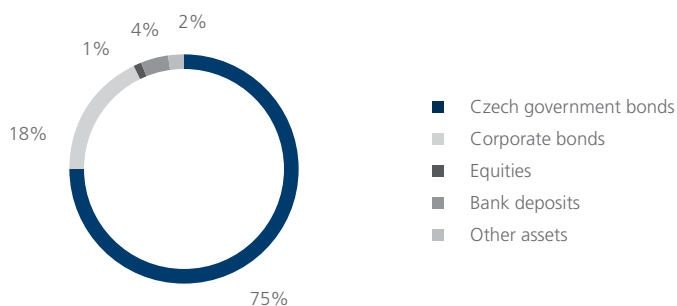
In the reported year, Penzijní fond České pojišťovny recorded CZK 911 million in profit, the highest figure in the pension fund segment. Client savings, including government subsidies and employer contributions, amounted to CZK 10.3 billion in 2011 (4% year-on-year increase). Total assets grew as well, increasing by 7% to reach 59.4 billion crowns on 31 December 2011. As before, last year's growth of financial indicators was largely driven by ongoing up-selling projects and campaigns motivating clients to make extra premium payments to earn eligibility for tax deductions.

Penzijní fond České pojišťovny: Assets (TCZK)



Portfolio Management

While we entered 2011 with the optimism that the global economy was on a recovery course, the end of the year was marked by an exacerbation of the debt crisis in the Eurozone. In view of last year's developments, we continued to reinforce the government bond segment up to 75% of the portfolio, as the overall share of bonds grew to 92%. In contrast, the share of equities in the portfolio was reduced considerably. Considering the legal obligation to preserve the value of deposits, we pursued a conservative investment strategy to protect assets under management against both the potential escalation of problems in Southern Europe and the risk of another recession in 2012. This strategy will also allow the Fund to be transformed in a problem-free manner to a retirement savings company at the end of this year.



Portfolio Structure

%	2011	2010	2009	2008
Czech government bonds	75	71	68	61
Corporate bonds	18	19	17	26
Equities	1	5	5	9
Bank deposits	4	2	6	3
Other assets*	2	3	4	1
Market value of portfolio	100	100	100	100

*) Government subsidies receivable, tax-related receivables, and coupons

Human Resources and Environmental Policy

In view of the main corporate targets in 2011, Penzijní fond České pojišťovny continued to focus on stabilizing and supporting its workforce. Motivation and employee loyalty were encouraged by a system of fringe benefits that mainly comprised preventive healthcare, fitness, relaxation, language proficiency, and active support for retirement savings. Training programs focused on improving employees' qualifications through university enrollment and specialized training projects. The development of personal skills and abilities addressed the specific needs of individual employees identified during annual employee evaluations.

An integral part of the Fund's strategy is a responsible attitude to the environment, the production of carbon dioxide in particular. Since financial services involve large quantities of paper documents, the Fund pays close attention to reducing paper consumption in addition to promoting the judicious use of energy.

Subsequent Events

No events occurred after the date of completion of the financial accounts which could have impact on the accounts for the year ending 31 December 2011 and ought to be made public in this annual report.



Tomáš Matoušek
CEO and Chairman of the Board

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board of Penzijní fond České pojišťovny, a.s. on the results of its oversight activities, including a review of the Financial Statements for 2011, the Report on Related Party Transactions in 2011, and the Board of Directors' Profit Distribution Proposal for 2011.

In 2011, all activities of the Supervisory Board of Penzijní fond České pojišťovny, a.s. ("Fund") were carried out in accordance with the applicable laws and the Fund's Articles of Association. The Supervisory Board oversaw activities carried out by the Board of Directors and the conduct of the Fund's business.

In the reported year, the Supervisory Board held five meetings to handle matters entrusted to its authority in accordance with the Articles of Association. At its meetings, the Supervisory Board mainly discussed issues relating to the oversight and monitoring of the Fund's finances, business transactions, and financial results, the condition and profitability of its investment portfolio, and the fulfillment of the financial and business plans for 2011.

The Board of Directors submitted to the Supervisory Board the Financial Statements for 2011, the Auditor's Report on the Financial Statements, and the Profit Distribution Proposal for 2011. Further, the Supervisory Board received an audited copy of the Report on Related Party Transactions in 2011 compiled in accordance with Section 66a, paragraph 9 of Act No. 513/1991 Coll., the Commercial Code, as amended ("Commercial Code"). Following a review of the Fund's financial results in the fiscal year of 2011, the Supervisory Board issues the following statement to the General Meeting:

The Supervisory Board has reviewed the Financial Statements for 2011 and the Auditor's Report and found no discrepancies in these documents. Based on this review, the Supervisory Board recommends to the General Meeting to approve the Financial Statement for 2011. Moreover, the Supervisory Board recommends approving the distribution of profits earned in 2011 in accordance with the Profit Distribution Proposal submitted by the Board of Directors.

The Supervisory Board has examined the Report on Related Party Transactions for 2011 compiled in accordance with Section 66a, paragraph 9 of the Commercial Code and verified by an auditor, and found no grounds for issuing a disapproving statement regarding the content of this report.

In Prague on 27 March 2012



Pavel Řehák

Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT



to the shareholder of Penzijní fond České pojišťovny, a.s.

We have audited the accompanying financial statements of Penzijní fond České pojišťovny, a.s. , identification number 618 58 692, with registered office at Truhlářská 1106/9, Praha 1 ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011 and its financial performance for the year then ended in accordance with Czech accounting legislation.

21 February 2012



PricewaterhouseCoopers Audit, s.r.o.
represented by partner



Petr Kříž
Statutory Auditor, Licence No. 1140

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

EFFICIENT

We achieve maximum results.



BALANCE SHEET

as at 31 December 2011

ASSETS (CZK '000)	Note	31 December 2011	31 December 2010
A. Cash on hand		48	22
B. Due from banks	3	2,492,390	1,356,628
a) payable on demand		222,804	920,393
b) other receivables		2,269,586	436,235
C. Debt securities	4	54,613,102	49,379,029
a) issued by government institutions		44,265,880	39,104,574
b) issued by other entities		10,347,222	10,274,455
D. Shares and mutual fund shares	4	1,317,354	3,456,593
E. Intangible fixed assets	5	34,166	19,691
F. Tangible fixed assets	5	21,287	18,420
G. Other assets	6	499,333	565,689
H. Prepayments and accrued income	7	392,995	508,538
TOTAL ASSETS		59,370,675	55,304,610

BALANCE SHEET

as at 31 December 2011 (continued)

LIABILITIES (CZK '000)	Note	31 December 2011	31 December 2010
A. Equity	8	57,247,864	52,254,845
a) policyholders' funds		56,695,956	52,124,745
aa) contributions from policyholders and state		52,934,087	48,978,646
ab) pension funds		73,813	63,032
ac) income from policyholders' contributions		3,509,214	3,022,093
ad) unallocated policyholders' contributions		56,506	50,608
ae) pension benefit payments		122,336	10,366
b) other		551,908	130,100
ba) trade payables		30,760	28,632
bb) payroll payables		3,743	4,961
bc) social insurance liabilities		1,925	1,911
bd) due to state budget – state contribution		9,278	9,697
be) due to state budget – tax liabilities		20,155	16,761
bf) estimated payables and other liabilities		486,047	68,138
B. Provisions	9	45,993	23,143
a) for pensions and similar liabilities		20,397	15,975
b) other		25,596	7,168
C. Share capital – paid up	10	213,700	213,700
D. Share premium		50,000	50,000
E. Reserve funds and other funds from profit		388,617	330,747
a) statutory reserve fund		380,767	323,397
b) other funds created from profits		7,850	7,350
F. Capital funds		245,567	745,567
a) shareholder invested capital funds		225,753	725,753
b) other capital funds		19,814	19,814
G. Revaluation reserve of assets and liabilities		(310,850)	74,311
H. Retained earnings from previous periods		579,144	464,905
I. Profit/loss for the accounting period		910,640	1,147,392
TOTAL LIABILITIES		59,370,675	55,304,610

OFF-BALANCE SHEET

as at 31 December 2011

(CZK '000)	Note	31 December 2011	31 December 2010
Off-balance sheet assets			
Receivables from term instruments	20	18,300,806	16,761,424
Assets managed by a third party	20	57,897,636	54,125,451
Total off-balance sheet assets		76,198,442	70,886,875
Off-balance sheet liabilities			
Payables from term instruments	20	18,737,034	16,697,453
Collateral received – securities	20	500,101	350,000
Total off-balance sheet liabilities		19,237,135	17,047,453

INCOME STATEMENT

for the year ended 31 December 2011

(CZK '000)	Note	2011	2010
1. Interest and similar income	11	2,018,987	1,818,957
of which: interest income from debt securities		1,991,281	1,810,725
2. Income from shares and other interests		61,374	56,895
3. Fee and commission expenses	12	(600,341)	(624,943)
4. Gains less losses from financial transactions	13	(262,887)	176,699
5. Other operating income	14	20,617	17,186
6. Other operating expenses	15	(4,311)	(3,744)
7. Administrative expenses	16	(279,361)	(269,789)
a) staff costs		(102,095)	(93,357)
aa) wages and salaries		(78,626)	(72,460)
ab) social and health insurance		(23,469)	(20,897)
b) other administrative expenses		(177,266)	(176,432)
ba) business costs		(48,627)	(79,344)
bb) administration expenses		(128,639)	(97,088)
8. Depreciation and amortisation of tangible and intangible fixed assets	5	(20,588)	(15,756)
9. Additions and utilisations of other provisions	9	(22,850)	(8,113)
10. Profit on ordinary activities before taxation		910,640	1,147,392
11. Income tax	17	0	0
12. Profit for the accounting period after taxation		910,640	1,147,392

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	Share capital	Share premium	Reserve funds and other funds from profit	Capital funds	Revaluation reserve	Retained earnings	Net profit for the period	Total
(CZK '000)								
As at 1 January 2010	213,700	50,000	300,297	1,745,567	(313,574)	403,004	619,011	3,018,005
Changes to revaluation reserve not included in net profit (Note 10)	0	0	0	0	387,885	0	0	387,885
Net profit for the accounting period	0	0	0	0	0	0	1,147,392	1,147,392
Transfers to funds	0	0	30,950	0	0	61,901	(92,851)	0
Use of funds	0	0	(500)	0	0	0	0	(500)
Net profit distributed to policyholders	0	0	0	0	0	0	(526,160)	(526,160)
Decrease in capital funds	0	0	0	(1,000,000)	0	0	0	(1,000,000)
As at 31 December 2010	213,700	50,000	330,747	745,567	74,311	464,905	1,147,392	3,026,622
Changes to revaluation reserve not included in net profit (Note 10)	0	0	0	0	(385,161)	0	0	(385,161)
Net profit for the accounting period	0	0	0	0	0	0	910,640	910,640
Transfers to funds	0	0	57,870	0	0	114,239	(172,109)	0
Use of funds	0	0	0	0	0	0	0	0
Net profit distributed to policyholders	0	0	0	0	0	0	(975,283)	(975,283)
Decrease in capital funds	0	0	0	(500,000)	0	0	0	(500,000)
As at 31 December 2011	213,700	50,000	388,617	245,567	(310,850)	579,144	910,640	2,076,818

NOTES TO FINANCIAL STATEMENTS

for the Year Ended 31 December 2011

1. General Information

Penzijní fond České pojišťovny, a. s. (the "Company"), with its registered office at Truhlářská 1106/9, Prague 1, was established by its registration in the Commercial Register on 19 September 1994. The Company's identification number is 618 58 692.

The sole shareholder of the Company is Česká pojišťovna a.s. The Company's financial statements are part of the consolidated financial statements of Česká pojišťovna a.s., the Generali PPF Holding B.V. holding, based in the Netherlands, and Assicurazioni Generali S.p.A, based in Italy, which is the ultimate parent company.

The Company's main business activities are:

- collecting funds from pension plan policy holders ("policy holders") and from the state collected in favour of policy holders;
- asset management of the funds;
- additional pension insurance payments; and
- other activities directly related to pension insurance contributions.

The Company has the following organisational structure:

- Sales and marketing division,
- Finance division,
- Client services division,
- IT division.

Sales are realised by external brokers and through the branches of Česká pojišťovna a.s.

The Company's investment portfolio is managed by Generali PPF Asset Management a.s.

The Company's depository is UniCredit Bank Czech Republic, a.s. ("the Depository").

2. Accounting Standards

2.1. Key Accounting Methods

The Company's financial statements, comprising the balance sheet, income statement, the statement of changes in equity and notes to financial statements are prepared in accordance with the Act on Accounting, implementing decrees of the Ministry of Finance of the Czech Republic and Czech Accounting Standards for financial institutions. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values and held-to-maturity financial instruments at amortised cost.

The figures in the financial statements are rounded to thousands of Czech crowns ("CZK '000") unless stated otherwise.

Operating environment

Deepening of the credit crisis in Eurozone caused financial markets to remain very volatile and influenced with psychological factors. Economic environment is still very fragile and therefore increase in confidence that problems are going to be resolved is fundamental for further development in Europe.

When preparing financial plans, the Company's management properly incorporates the revised estimates of expected future cash flows. The Company assessed asset impairment indicators.

The fair values of investments quoted in active markets are based on current market prices (financial assets) or bid prices (financial liabilities). If there is no active market for a financial instrument, the Company measured fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash-flow analyses, and other valuation techniques commonly used by market participants.

2.2. Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective as at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions.

2.3. Fair Value of Securities

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

In its models designed for determining fair value of securities, the Company uses only observable market data. 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. The management of the Company reviewed these models as at the balance sheet date and considered that the models adequately reflect the current market conditions including relative market liquidity and credit spread.

2.4. Recognition and Derecognition of Financial Assets and Liabilities

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

The Company recognises a financial asset or a financial liability in its balance sheet when, and only when, the Company becomes a party to the transaction. Standard way purchases and sales are recognised only in the off-balance sheet in the period between trade date and settlement date

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

The Company derecognises a financial asset or a part thereof when it loses control over the asset or its part. It loses this control when the contractual rights to the cash flows from the financial asset expire, are used by the Company or the Company surrenders these rights.

The Company removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for is recognised net in profit or loss for the period.

2.5. Securities at Fair Value through Profit or Loss

Securities at fair value through profit or loss have two subcategories: held-for-trading, and those designated at fair value through profit or loss at inception. 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 and for which there is evidence of a recent actual pattern of short-term profit-taking. Any security that is a financial asset or liability can be designated at fair value through profit or loss at inception except for participation interests that are not publicly traded and their fair value of which cannot be reliably measured and securities issued by the Company.

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as interest income.

2.6. 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. From 1 January 2009 they are measured at amortised cost.

2.7. Securities Available-for-sale

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

Available-for-sale securities are initially recognised at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity (net of any tax effect) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

Interest calculated using the linear interest rate method, dividends and foreign exchange differences on debt securities are recognised in the income statement. Foreign exchange differences on equity securities are recognised in the revaluation reserve in equity.

2.8. 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 equalling the original amount, or other form of payment, and interest. 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 equalling the original amount, or other form of payment, and interest.

Repo agreement is:

- classic repo agreement, i.e. receipt of loan collateralised by transfer of financial asset and classic reverse repo, 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 back and purchase of securities with simultaneous arrangement to sell securities back.

Simultaneous purchases and sales of securities on the spot market with settlements on the same date are not considered as repo arrangements.

2.9. Transfers between Portfolios

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- transfers to and from the at fair value through profit or loss portfolio are not allowed; and
- on the sale or transfer of any securities held-to-maturity, the Company 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 within the two following accounting periods. Exceptions to this rule are allowed for sales within the last three months before maturity of the security or in the case of a significant deterioration in an issuer's creditworthiness.

2.10. Financial Derivatives and Hedging

Derivative financial instruments and foreign exchange contracts are initially recognised on balance sheet at cost and are subsequently remeasured at their 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 reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative, respectively.

Certain 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 and the host contract is not carried at fair value through profit or loss.

Changes in the fair value of derivatives held-for-trading are included in Gains less losses from financial transactions.

The Company designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for 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. 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 it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- iv. the hedge is effective on an ongoing basis; and
- v. the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of the hedging instruments are recorded in the income statements and the corresponding changes in the fair value of the hedged items (as a result of the hedged risk) are also recorded in the income statement.

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 as trading derivatives. Gains less losses from the revaluation of these derivatives are recorded in the income statement.

2.11. Interest Income and Expenses, Dividend Income

Interest income and expense are recognised for all interest bearing instruments on an accruals basis using the linear interest rate method, eventually using the effective interest rate based on the acquisition cost for the held-to-maturity portfolio.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

The linear interest rate method is used as the approximation of the effective interest rate for available-for-sale securities and for securities at fair value through profit or loss. Interest income includes the accrued interests, discount and premium for all fixed income instruments.

Dividend income is recorded as at ex-dividend date. Pension funds are not subject to dividend and interest income tax.

2.12. 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.

2.13. Pension Insurance Policyholders' Contributions

Pension insurance policyholders' contributions and state subsidy, including revenues from these contributions, are recognised at nominal value.

2.14. 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.

2.15. Deferred Tax

A deferred tax liability is recognised 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. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

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

Deferred tax related to fair value remeasurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity.

2.16. Provisions

Provisions are recognised 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.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income. Provisions are set aside in the currency in which settlement is expected to be made.

Provisions for future pension distributions

When needed, the Company creates a provision for future pension distributions based on the net carrying value of the expected pension payments calculated by an actuary less total funds allocated in favour of pension beneficiaries as at the calculation date.

2.17. Tangible and Intangible Fixed Assets

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

Fixed asset	Estimated useful life
Software	individually based on the useful life – max. 20 years
Low-value fixed assets	3 years
Machines and equipment	3–4 years
Personal cars	3 years
Furniture	6 years
Air-conditioning	5–12 years
Safes	12–15 years

Costs related to repair and maintenance of the tangible fixed assets are recorded to expenses. Technical improvements on the individual assets are capitalised and depreciated.

2.18. Staff Costs, Supplementary Pension Plan and Social Fund

Staff costs are included in Administrative expenses and they also include board emoluments.

The Company makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Company are accounted for directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

2.19. Related Parties

Related parties are defined as follows:

- board members and senior management of the Company, being persons responsible for management functions based on employment or other contracts and powers and responsibilities defined in the Company's statute ("senior management");
- relatives (direct family members) of the board members, senior management of the Company 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; and
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the management of these entities.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 19.

2.20. Subsequent Events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements

3. Receivables from Banks

(CZK '000)	31 December 2011	31 December 2010
Current bank accounts	222,804	262,393
Term deposits	1,796,485	744,221
Repo transactions	500,101	350,014
Total receivables from banks	2,492,390	1,356,628

4. Securities

(CZK '000)	Debt securities as at 31 December		Shares and mutual fund shares as at 31 December	
	2011	2010	2011	2010
Fair value through profit or loss	0	0	478,160	448,650
Available-for-sale	37,541,795	34,391,274	839,194	3,007,943
Held-to-maturity	17,071,307	14,987,755	0	0
Total securities	54,613,102	49,379,029	1,317,354	3,456,593

4.1. Securities at Fair Value through Profit or Loss

Shares and mutual fund shares

(CZK '000)	31 December 2011	31 December 2010
Foreign stock exchanges	478,160	448,650
Total shares and mutual fund shares	478,160	448,650

4.2. Securities Available-for-sale

Debt securities including zero-coupon bonds

(CZK '000)	31 December 2011	31 December 2010
Traded on the primary or secondary PSE market	25,614,440	23,016,092
Foreign stock exchanges	11,927,355	11,375,182
Total debt securities including zero-coupon bonds	37,541,795	34,391,274

Shares and mutual fund shares

(CZK '000)	31 December 2011	31 December 2010
Traded on the primary or secondary PSE market	74,670	284,068
Foreign stock exchanges	764,524	2,723,875
Total shares and mutual fund shares	839,194	3,007,943

4.3. Securities Held-to-maturity

Debt securities

(CZK '000)	31 December 2011	31 December 2010
Traded on the primary or secondary PSE market	17,071,307	14,987,755
Total debt securities	17,071,307	14,987,755

The fair value of debt securities held-to-maturity as at 31 December 2011 is CZK 18,215,475,000 (2010: CZK 15,695,892,000) and includes only debt securities issued by the Czech Republic.

5. Intangible and Tangible Fixed Assets

Intangible fixed assets

(CZK '000)	Software	Valuable rights	Total
As at 1 January 2010			
Acquisition cost	39,685	16,295	55,980
Accumulated amortisation	(37,498)	(16,146)	(53,644)
Net book value	2,187	149	2,336
Year ended 31 December 2010			
Net book value – opening balance	2,187	149	2,336
Additions	23,358	0	23,358
Amortisation	(5,936)	(67)	(6,003)
Net book value – closing balance	19,609	82	19,691
As at 31 December 2010			
Acquisition cost	63,044	16,295	79,339
Accumulated amortisation	(43,435)	(16,213)	(59,648)
Net book value	19,609	82	19,691
Year ended 31 December 2011			
Net book value – opening balance	19,609	82	19,691
Additions	24,347	0	24,347
Amortisation	(9,845)	(27)	(9,872)
Net book value – closing balance	34,111	55	34,166
As at 31 December 2011			
Acquisition cost	87,392	7,391	94,783
Accumulated amortisation	(53,281)	(7,336)	(60,617)
Net book value	34,111	55	34,166

Tangible fixed assets

(CZK '000)	Vehicles	Machines and equipment	Furniture and fixtures and low-value assets	Total
As at 1 January 2010				
Acquisition cost	13,822	38,540	20,978	73,340
Accumulated depreciation	(6,682)	(32,018)	(16,158)	(54,858)
Net book value	7,140	6,522	4,820	18,482
As at 31 December 2010				
Net book value – opening balance	7,140	6,522	4,820	18,482
Additions	3,249	5,025	1,906	10,180
Disposals	(425)	(1)	(63)	(489)
Depreciation	(4,185)	(2,835)	(2,733)	(9,753)
Net book value – closing balance	5,779	8,711	3,930	18,420
As at 31 December 2010				
Acquisition cost	11,802	39,320	21,526	72,648
Accumulated depreciation	(6,023)	(30,609)	(17,596)	(54,228)
Net book value	5,779	8,711	3,930	18,420
As at 31 December 2011				
Net book value – opening balance	5,779	8,711	3,930	18,420
Additions	3,259	9,412	1,091	13,762
Disposals	(179)	0	(1)	(180)
Depreciation	(3,478)	(4,912)	(2,325)	(10,715)
Net book value – closing balance	5,381	13,211	2,695	21,287
As at 31 December 2011				
Acquisition cost	12,913	40,188	21,649	74,750
Accumulated depreciation	(7,532)	(26,977)	(18,954)	(53,463)
Net book value	5,381	13,211	2,695	21,287

6. Other Assets

(CZK '000)	31 December 2011	31 December 2010
Receivables from unsettled securities transactions	109,730	92,246
Other debtors	32,729	27,348
Due from State (Note 8)	368,934	366,795
Financial derivatives (Note 18.3)	5,258	95,324
Cash equivalents	170	433
Due to and from state budget	591	1,715
Other receivables	121	28
Total other assets	517,533	583,889
Allowances to receivables	(18,200)	(18,200)
Net book value	499,333	565,689

7. Prepayments and Accrued Income

The Company recognised payments and accrued income of CZK 392,995,000 (2010: CZK 508,538,000), which includes CZK 390,998,000 (2010: CZK 505,277,000) of deferred acquisition cost of insurance contracts, which are expensed over a period of four years, and CZK 1,997,000 (2010: CZK 3,261,000) as other prepayments and accrued income.

8. Other Liabilities

Policyholders' funds

Balances and movements in policyholders' funds can be analysed as follows:

(CZK '000)	Balance at 1 January 2011	Additions	Disposals	Balance at 31 December 2011
Policyholders' contributions	41,232,604	8,841,217	5,338,142	44,735,679
Shared profit	3,022,093	1,016,878	530,547	3,508,424
State contributions	7,870,048	1,549,553	967,748	8,451,853
Policyholder funds in total	52,124,745	11,407,648	6,836,437	56,695,956

(CZK '000)	Balance at 1 January 2010	Additions	Disposals	Balance at 31 December 2010
Policyholders' contributions	38,193,504	7,904,059	4,864,959	41,232,604
Shared profit	2,935,263	946,604	859,774	3,022,093
State contributions	6,826,704	1,509,162	465,818	7,870,048
Policyholder funds in total	47,955,471	10,359,825	6,190,551	52,124,745

The above-mentioned overview of the balances and changes in the policyholders' funds includes estimated state contributions for the last calendar quarters in the respective years. This contribution was estimated at CZK 368,934,000 as at 31 December 2011 (31 December 2010: CZK 366,795,000).

The shared profit also includes relevant portions of the policyholders' funds transferred from other funds.

Portfolio of policyholders

(CZK '000)	2011	2010
Number of policyholders as at 31 December	1,162,495	1,179,881
Average monthly policyholder contribution (CZK)	508	590

Analysis of payments to policyholders

(CZK '000)	Pension benefit payments	2011 Number of contracts	Pension benefit payments	2010 Number of contracts
Lump-sum settlements	1,020,505	29,424	846,154	26,600
Lump-sum benefits	4,582,189	66,079	4,335,030	64,083
Transfers to other pension funds	607,873	11,149	485,094	9,575
Pensions	7,952	612	7,756	563
Legacies	26,465	791	21,957	701
Total	6,224,984	108,055	5,695,991	101,522

Note: Structure of payments to policyholder is according to methodology of ČNB. The summary does not include other payments and return payments. Returned payments of state contributions amounted to CZK 171,484,000 (2010: CZK 131,118,000).

Other liabilities

(CZK '000)	31 December 2011	31 December 2010
Trade payables	30,760	28,632
Payables to employees and social insurance	5,668	6,872
Financial derivatives (Note 18.3)	442,738	33,426
Liabilities from the sale of securities	2,237	2,172
Tax payable	20,155	16,761
Estimated liabilities	41,072	32,541
Other payables	9,278	9,696
Total other liabilities	551,908	130,100

Estimated liabilities of CZK 41,072,000 (2010: 32,541,000) include mainly bonuses for year 2011 payable in February and services purchased in 2011 that have not been invoiced yet. Tax payable mainly represents withholding tax from pension benefit payments of CZK 19,438,000 (2010: 11,958,000) and payroll tax for the period of December.

9. Reserves

The Company creates reserves for pension payments in accordance with the methods specified in Note 2.15.

(CZK '000)	Pension reserves	Other reserves	Total reserves
Balance as at 1 January 2011	15,975	7,168	23,143
Creation	4,988	18,428	23,416
Utilisation	(566)	0	(566)
Balance as at 31 December 2011	20,397	25,596	45,993

For the calculation as at 31 December 2011, the following key economic and actuarial assumptions were used:

- The Pension 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, the most reasonable estimation of the fund's future income were used as at 31 December 2011. In accordance with the existing procedure, the model expected the participants to be credited with 85 % 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 2010, 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 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.

10. Equity

10.1. Share Capital

Česká pojišťovna a.s., with its registered office at Spálená 75/16, 113 04 Prague 1, is the sole shareholder of the Company as at 31 December 2011, holding 213,699,560 shares stated at a nominal value of CZK 1 each.

10.2. Profit Distribution

(CZK '000)	Proposal for 2011	2010
Transfer to the statutory reserve fund and other funds from profit	45,532	57,870
Profit shared with policyholders	774,044	975,283
Transfer to retained earnings	91,064	114,239
Total profit for the period	910,640	1,147,392
Annual yield	1.5%	2.0%

According to Act No. 42/1994 Coll., on pension insurance with state contribution as amended, at least 85 % of the profit for the accounting period has to be allocated in favour of the policyholders. 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 2011 is based on the assumption that the proposed distribution of profit shall be approved by the sole shareholder of the Company.

10.3. Revaluation Reserve

(CZK '000)	31 December 2011	31 December 2010
Shares and mutual fund shares	(89,158)	6,566
Debt securities – government	184,574	262,313
Debt securities – other	(406,266)	(190,657)
Deferred tax	0	(3,911)
Total revaluation reserve	(310,850)	74,311

In compliance with the valid legislation, revaluation differences are fully recognised in equity although at least 85 % will be allocated to policyholders as part of the profit distribution when the differences are realised. The negative balance represents an implicit receivable from policyholders; positive represents liability.

11. Interest and Similar Income

(CZK '000)	2011	2010
Current accounts	2,093	1,841
Term deposits	19,116	6,391
Debt securities	1,991,281	1,805,797
Repo agreements	6,497	4,928
Total interest and similar income	2,018,987	1,818,957

12. Fee and Commission Expenses

(CZK '000)	2011	2010
Commissions to agents	429,209	466,062
Bank fees	15,762	10,593
Portfolio management fees (external)	141,304	129,526
Commissions – motivation	14,066	18,762
Total fee and commission expenses	600,341	624,943

13. Gains Less Losses from Financial Transactions

(CZK '000)	2011	2010
Gains and losses from trading with securities	37,936	170,780
Foreign exchange differences	373,077	(112,694)
Gains and losses from trading derivatives	(673,900)	118,613
Total gains less losses from financial transactions	(262,887)	176,699

14. Other Operating Income

(CZK '000)	2011	2010
Insurance benefit	417	958
Gains on sale of tangible assets	349	1,382
Charges paid by policyholders	19,783	14,707
Other 68	139	
Total other operating income	20,617	17,186

15. Other Operating Expenses

(CZK '000)	2011	2010
Damages	787	557
Net book value of tangible assets sold	1	490
Policyholders' contributions	67	86
Utilisation of reserves for guaranteed return and allocation to pension reserve	3,418	2,503
Other	38	108
Total other operating expenses	4,311	3,744

16. Administrative Expenses

(CZK '000)	2011	2010
Staff costs	102,095	93,357
Rent and facility maintenance	19,189	20,412
Tax and legal advisory services, internal audit	7,939	9,121
Audit services – statutory audit	1,415	1,390
Postal and telecommunication charges	33,576	33,930
Consumed material	45,766	73,312
Advertising and promotion	12,507	17,578
Maintenance and software support	6,561	5,126
Employee training	2,982	2,470
Documentation scanning and archiving	388	687
Other administration expenses	46,943	10,971
Total administrative expenses	279,361	269,789

Staff costs can be analysed as follows:

(CZK '000)	2011	2010
Bonuses to members of the Board of Directors	106	1,439
Bonuses to members of the Supervisory Board	23	341
Salaries, personnel costs and bonuses to senior management	13,951	13,412
Salaries, personnel costs and bonuses to other employees	60,901	54,069
Other social expenses	3,645	3,199
Social security and health insurance	23,469	20,897
Total staff costs	102,095	93,357

Employees Statistics

	2011	2010
Number of members of the Board of Directors	4	5
Number of members of the Supervisory Board	3	3
Average number of senior management	4	4
Average number of other employees	115	108

17. Income Tax

Income tax payable was calculated as follows:

(CZK '000)	2011	2010
Profit before tax	910,640	1,147,390
Non-taxable income	(2,158,958)	(1,942,662)
Non-deductible expenses	203,633	169,083
Net taxable profit	0	0
Corporate income tax at 5%	0	0

The deferred tax liability and contingent deferred tax asset is calculated at 5% (the rate for pension funds enacted in the period of expected realisation of deferred tax) of the tax base.

Deferred tax liability was calculated as follows:

(CZK '000)	31 December 2011	31 December 2010
Revaluation reserve for available-for-sale securities (Note 10)	0	3,911
Total deferred tax liability	0	3,911

Contingent deferred tax asset was calculated as follows:

(CZK '000)	2011	2010
Tax loss for the current period	52,234	31,309
Unused tax losses	167,329	136,020
Reserves and provisions	3,728	2,761
Total deferred tax asset	223,291	170,090

The contingent deferred tax asset was not recognised as it is not probable that the Company will generate sufficient future taxable income against which the deferred tax asset could be utilised.

18. Financial Risks

18.1. Strategy in Using Financial Instruments

The Company's investment strategy is to achieve market appreciation of policyholders' 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 Act No. 42/1994 Coll. on pension insurance with state subsidy as amended and the Company's investment strategy, which is set in accordance with legal requirements.

18.2. Market Risk

The Company 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 Company acquires funds from the pension insurance policyholders and invests them in quality assets.

Geographical segmentation of assets

As at 31 December 2011 (CZK '000)	Czech Republic	European Union excluding Czech Republic	USA	Other	Total
Financial assets					
Due from banks	2,492,390	0	0	0	2,492,390
Debt securities	44,867,779	6,106,390	3,124,895	514,038	54,613,102
Shares and mutual fund shares	74,670	271,829	970,855	0	1,317,354
Total financial assets	47,434,839	6,378,219	4,095,750	514,038	58,422,846

As at 31 December 2010 (CZK '000)	Czech Republic	European Union excluding Czech Republic	USA	Other	Total
Financial assets					
Due from banks	1,356,628	0	0	0	1,356,628
Debt securities	39,659,475	6,410,861	3,087,743	220,950	49,379,029
Shares and mutual fund shares	284,068	1,161,481	2,011,044	0	3,456,593
Total financial assets	41,300,171	7,572,342	5,098,787	220,950	54,192,250

18.3. Financial Derivatives

(CZK '000)	31 December 2011	31 December 2010
FX forwards		
Trading agreements	3,782	48,086
Fair value hedging agreements	0	26,811
Positive fair value of financial derivatives (Note 6)	3,782	74,897

(CZK '000)	31 December 2011	31 December 2010
FX forwards		
Trading agreements	193,412	8,440
Fair value hedging agreements	34,902	0
Negative fair value of financial derivatives (Note 8)	228,314	8,440

(CZK '000)	31 December 2011	31 December 2010
Interest rate swaps		
Trading agreements	1,476	20,427
Positive fair value of financial derivatives (Note 6)	1,476	20,427

(CZK '000)	31 December 2011	31 December 2010
Interest rate swaps		
Trading agreements	214,424	24,986
Negative fair value of financial derivatives (Note 8)	214,424	24,986

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

(CZK '000)	Nominal value	31 December 2011 Positive fair value	31 December 2011 Negative fair value	Nominal value	31 December 2010 Positive fair value	31 December 2010 Negative fair value
FX forwards	11,235,512	3,782	(228,314)	13,212,590	74,897	(8,440)
Interest rate swaps	7,273,920	1,476	(214,424)	3,484,863	20,427	(24,986)
Total derivatives	18,509,432	5,258	(442,738)	16,697,453	95,324	(33,426)

18.4. Currency Risk

The Company takes on exposure resulting from fluctuations in the prevailing 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 summarises the Company's exposure to currency risk. The table includes the Company's assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2011

(CZK '000)	CZK	EUR	USD	Other	Total
Assets					
Cash on hand	48	0	0	0	48
Due from banks	2,344,536	10,580	136,415	859	2,492,390
Debt securities available-for-sale	27,796,471	5,646,102	3,124,895	974,327	37,541,795
Securities held-to-maturity	17,071,307	0	0	0	17,071,307
Shares and mutual fund shares	74,670	271,829	970,855	0	1,317,354
Other assets	942,523	1,476	0	3,782	947,781
Total	48,229,555	5,929,987	4,232,165	978,968	59,370,675
Liabilities					
Policyholders' funds	56,695,956	0	0	0	56,695,956
Other liabilities	247,687	62,350	213,495	28,376	551,908
Reserves	45,993	0	0	0	45,993
Equity	2,076,818	0	0	0	2,076,818
Total	59,066,454	62,350	213,495	28,376	59,370,675
Net balance sheet assets/ liabilities (-)	(10,836,899)	5,867,637	4,018,670	950,592	0
Net off-balance sheet currency positions	10,762,541	(5,886,012)	(4,171,249)	(928,560)	(223,280)
Net opened currency position	(74,358)	(18,375)	(152,579)	22,032	(223,280)

As at 31 December 2010

(CZK '000)	CZK	EUR	USD	Other	Total
Assets					
Cash on hand	22	0	0	0	22
Due from banks	1,227,849	93,181	34,231	1,367	1,356,628
Debt securities available-for-sale	24,671,720	5,499,585	3,087,743	1,132,226	34,391,274
Securities held-to-maturity	14,987,755	0	0	0	14,987,755
Shares and mutual fund shares	284,068	1,131,341	2,011,044	30,140	3,456,593
Other assets	1,031,529	31,872	31,777	17,160	1,112,338
Total	42,202,943	6,755,979	5,164,795	1,180,893	55,304,610
Liabilities					
Policyholders' funds	52,124,745	0	0	0	52,124,745
Other liabilities	96,674	13,495	11,532	8,399	130,100
Reserves	23,143	0	0	0	23,143
Equity	3 027 622	0	0	0	3,027,622
Total	55,271,184	13,495	11,532	8,399	55,304,610
Net balance sheet assets/ liabilities (-)	(13,068,241)	6,742,484	5,153,263	1,172,494	0
Net off-balance sheet currency positions	12,895,071	(7,067,871)	(4,990,016)	(768,654)	68,530
Net opened currency position	(173,170)	(325,387)	163,247	403,840	68,530

18.5. Interest Rate Risks

The Company is exposed to the effects of fluctuations in the prevailing levels of 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 the interest rate differences that are acceptable. These limits are monitored on a daily basis.

The table below summarises the Company's exposure to interest rate risk. The table includes the Company's assets and liabilities at carrying amounts, categorised by the earlier of the settlement, re-pricing or maturity dates. The table includes only interest-rate-sensitive assets, therefore it is not identical with the data presented in the balance sheet of the Company.

As at 31 December 2011

(CZK '000)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Due from banks	2,492,390	0	0	0	2,492,390
Debt securities	5,520,122	8,711,754	16,097,866	24,283,360	54,613,102
Total assets	8,012,512	8,711,754	16,097,866	24,283,360	57,105,492

As at 31 December 2010

(CZK '000)	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Due from banks	1,356,628	0	0	0	1,356,628
Debt securities	6,394,648	7,099,681	13,776,468	22,108,232	49,379,029
Total assets	7,751,276	7,099,681	13,776,468	22,108,232	50,735,657

The Company did not have any liabilities exposed to the effects of market interest rate fluctuations as at 31 December 2011 and 2010.

18.6. Liquidity Risk

The Company 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 Company regularly assesses the liquidity risk, mainly by monitoring the changes in the inflow and outflow of the participants' funds. The Company, 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.

The table below allocates the assets and liabilities of the Company into relevant maturity bands based on the remaining period as at the balance sheet date to the contractual maturity date. At present, one-off settlements, severance payments, pensions and transfers to other pension funds are being financed continuously, i.e., from interest income from financial placement and contributions paid by the policyholders.

The Company reports the participants' contributions, state contributions and contributions from third parties as liabilities. The shareholders' equity is a minority source of capital. For supplementary pension insurance, it is not possible to determine the remaining maturity of the liabilities due to the characteristics of the product and due to the possibility of asking for the pension benefit payment any time after the occurrence of the claim or to ask for the payment of the surrender after 12 months of the insured period. The Company carried the amount of CZK 13,333,379,000 (2010: CZK 11,786,898,000) on these liability accounts in favour of the participants who have met the conditions for claiming the pension but have not asked for the benefit.

As at 31 December 2011

(CZK '000)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Cash on hand	48	0	0	0	0	48
Due from banks	2,492,390	0	0	0	0	2,492,390
Debt securities	219,689	5,477,367	20,702,454	28,213,592	0	54,613,102
Shares and mutual fund shares	0	0	0	0	1,317,354	1,317,354
Other assets	497,857	1,476	0	0	448,448	947,781
Total assets	3,209,984	5,478,843	20,702,454	28,213,592	1,765,802	59,370,675
Liabilities						
Payables to policyholders'	13,333,739	3,349,531	14,344,019	25,668,667	0	56,695,956
Other liabilities	341,180	31,863	178,865	0	0	551,908
Provisions	0	45,993	0	0	0	45,993
Equity	0	0	0	0	2,076,818	2,076,818
Total liabilities	13,674,919	3,427,387	14,522,884	25,668,667	2,076,818	59,370,675
Net assets/ liabilities (-)	(10,464,935)	2,051,456	6,179,570	2,544,925	(311,016)	0

As at 31 December 2010

(CZK '000)	Within 3 months	3–12 months	1–5 years	Over 5 years	Not specified	Total
Assets						
Cash on hand	22	0	0	0	0	22
Due from banks	1,356,628	0	0	0	0	1,356,628
Debt securities	353,832	5,827,656	17,950,118	25,247,423	0	49,379,029
Shares and mutual fund shares	0	0	0	0	3,456,593	3,456,593
Other assets	565,689	0	0	0	546,649	1,112,338
Total assets	2,276,171	5,827,656	17,950,118	25,247,423	4,003,242	55,304,610
Liabilities						
Payables to policyholders'	11,786,898	3,460,055	13,542,316	23,335,476	0	52,124,745
Other liabilities	130,100	0	0	0	0	130,100
Provisions	0	23,143	0	0	0	23,143
Equity	0	0	0	0	3,026,622	3,027,622
Total liabilities	11,916,998	3,483,198	13,542,316	23,335,476	3,026,622	55,304,610
Net assets/ liabilities (-)	(9,640,827)	2,344,458	4,407,802	1,911,947	976,620	0

19. Related Party Transactions

(CZK '000)	31 December 2011	31 December 2010
Payables		
Česká pojišťovna a.s.	20,984	16,301
ČP ZDRAVÍ a.s.	0	534
Home Credit a.s.	0	1,842
Generali PPF Asset Management a.s.	3,721	3,544
Generali PPF Services s.r.o.	1,278	0
Generali PPF Holding B.V., organizační složka	375	375
Receivables		
Česká pojišťovna a.s.	131	179
Generali penzijní fond a.s.	44	0
Generali PPF Services s.r.o.	3,317	800
Income		
Česká pojišťovna a.s.	155	961
Česká pojišťovna ZDRAVÍ a.s.	44	0
Home Credit Finance Bank o.o.o.	119,817	119,841
Generali Development s.r.o.	0	91
Generali penzijní fond a.s.	0	19
NOMOS CAPITAL PLC.	24,002	24,002
Expenses		
Česká pojišťovna a.s.	39,775	22,743
Česká pojišťovna ZDRAVÍ a.s.	97	558
ČP Invest a.s.	0	10
Generali PPF Asset Management a.s.	141,263	129,488
Generali PPF Holding B.V., organizační složka	4,500	4,500
Generali PPF Services s.r.o.	12,008	9,228
Home Credit a.s.	0	4,646

These transactions were based on actual cost and profit margin.

Securities purchased

(CZK '000)			2011		2010
ISIN	Group entity	No. of shares	Market value	No. of shares	Market value
XS0371442822	Home Credit Finance Bank o.o.o.	0	0	17,400	338,074
XS0380161645	Home Credit Finance Bank o.o.o.	0	0	47,723	970,704
XS0473293701	NOMOS CAPITAL PLC.	14,150	295,840	14,150	281,172
XS0606382413	Home Credit Finance Bank o.o.o.	56,500	1,144,026	0	0

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

20. Off-balance Sheet

20.1. Off-balance Sheet Financial Instruments

(CZK '000)	2011	Contracted amount 2010	2011	Fair value 2010
Term currency instruments				
Term currency transaction (purchase)	11,003,295	13,281,120	0	66,457
Term currency transaction (sale)	11,226,575	13,212,590	(224,532)	0

(CZK '000)	2011	Contracted amount 2010	2011	Fair value 2010
Term interest instruments				
Interest rate swap – receivables	7,297,511	3,480,304	0	0
Interest rate swap – payables	7,510,460	3,484,863	(212,948)	(4,559)

Term currency and interest rate instruments were agreed on the interbank market (OTC).

20.2. Managed Assets

(CZK '000)	31 December 2011	31 December 2011
Bank accounts and term deposits	2,297,168	1,137,858
Debt securities	54,613,102	49,379,029
Shares and mutual fund shares	1,317,354	3,456,593
Coupons and dividends due	107,493	90,073
Fair value of derivatives	(437,481)	61,898
Total	57,897,636	54,125,451

21. Subsequent Events

There have been no significant events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2011.

Statutory approvals

These financial statements have been approved by the Company's Board of Directors for submission to the sole shareholder acting in the competence of the General Meeting.

Date of preparation

Signature of the statutory
representative

Person responsible
for the accounting records

Person responsible
for the financial statements





21 February 2012

Tomáš Matoušek

Pavel Šoukal

Blanka Jarošová

REPORT ON RELATED-PARTY TRANSACTIONS

for the 2011 Accounting Period

The board of directors of Penzijní fond České pojišťovny, a.s., registered office at Prague 1, Truhlářská 1106/9, 110 00, registered number: 61858692 (hereinafter referred to as the "Company") is required to prepare a Report on Related-Party Transactions for the 2011 accounting period in accordance with Section 66a(9) of Act No 513/1991, the Commercial Code, as amended. The ownership structure was for the whole period of 2011 as follows:



- The following contractual documents were concluded between the Company and Česká pojišťovna a.s. having its registered office at Prague 1, Spálená 75/16, 113 04, registered number: 45272956:
 - Agreement of 31 March 2011 which states the modus for sending funds in marketing cooperation activities to boost the support of sale and customer loyalty,
 - Addendum No 1 of 4 April 2011 to the Agreement which states the modus for sending funds, which extends cooperation activities by pilot sales,
 - Addendum No 2 of 8 July 2011 to the Agreement which regulates the modus for sending funds, extending cooperation activities by additional pilot sales activities,
 - Addendum No 3 of 30 December 2011 to the Agreement which states the modus for sending funds, extending validity of the Agreement to 30 April 2012,
 - Agreement of 31 March 2011 which regulates the mutual cooperation in the arrangement of supplementary pension insurance,
 - Cost Sharing Agreement of 20 May 2011 on internal audit providing,
 - Agreement on Agency, Use of Distribution Network and Additional Cooperation of 31 August 2011, which regulates the cooperation of the Company with Česká pojišťovna in using Česká pojišťovna's distribution network and further cooperation in marketing activities,
 - Addendum No 1 of 30 November 2011 to the Agreement on Agency, Use of Distribution Network and Additional Cooperation, extending interaction in marketing activities,
 - Insurance contract for Package Insurance of vehicles,
 - Agreement on Termination of Framework Contract on Risk Insurance of 1 July 2011 concluded 4 May 2011.
- The following contractual documents were concluded between the Company and ČP INVEST investiční společnost, a.s, having its registered office at Prague 4, Na Pankráci 1658/21, 140 21, registered number: 43873766:
 - Agreement on Cooperation of 10 March 2011 on sale of the product KONTO POHODA.

- The following contractual documents were concluded between the Company and Česká pojišťovna ZDRAVÍ a.s., having its registered office at Prague 10, Litevská 1174/8, 100 05, registered number: 49240749:
 - Addendum No 4 to the Contract of 27 September 2011 modifying joint supply of financial product,
 - Addendum No 1 to the Insurance Contract no. 19101016 of 11 October 2011 for group insurance in the event of illness which modified range of covering.
- The following contractual documents were concluded between the Company and Generali PPF Services a.s., having its registered office at Prague 4, Na Pankráci 1720/123, 140 21, registered number: 27108562:
 - Agreement on Providing Services of 31 March 2011 on providing services for sale of pension insurance contributions.

All the above-mentioned contracts were concluded on an arm's-length basis; all considerations under these contracts were also provided and received on an arm's-length basis, and the Company suffered no detriment or loss under these contracts.

The Company did not take any measures or execute other legal acts on behalf of or at the instigation of related parties in the 2011 accounting period.

The Company's governing body declares that it has prepared this report with due professional care and that the information disclosed herein is correct and complete.

Prague, 27 February 2012



Tomáš Matoušek
Chairman of the Board of Directors

INDEPENDENT AUDITOR'S REPORT

to the shareholder of Penzijní fond České pojišťovny, a.s.



We have audited the financial statements of Penzijní fond České pojišťovny, a.s., identification number 618 58 692, with registered office at Truhářská 1106/9, Prague 1 ("the Company") for the year ended 31 December 2011 disclosed in the annual report on pages 19–44 and issued the opinion dated 21 February 2012 and disclosed on pages 17–18.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent with the financial statements referred to above. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent, in all material respects, with the financial statements.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2011 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

18 June 2012

PricewaterhouseCoopers Audit, s.r.o.
represented by partner

Petr Kříž
Statutory Auditor, Licence No. 1140

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Name of Company: Penzijní fond České pojišťovny, a.s.

Registered Address: Truhlářská 1106/9, 110 00 Prague 1, Czech Republic

Telephone: +420 840 111 280

Fax: +420 222 314 191

E-mail: pfcp@pfcp.cz

Internet: www.pfcp.cz

Auditor: PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic

Depository: UniCredit Bank Czech Republic, a.s., Na Příkopě 858/20, 111 21 Prague 1, Czech Republic

Consulting, design and production:

© B.I.G. Prague, 2012

