

# Annual Report 2014

Česká spořitelna – penzijní společnost, a. s.

# Financial Summary

<b>(CZK in thousands)</b>	<b>2011</b>	<b>2012</b>	<b>2013*</b>	<b>2014</b>
Total assets	40,075,367	45,446,220	1,567,062	1,566,975
Basic capital	350,000	350,000	350,000	350,000
Profit from financial activities	976,239	915,700	(120)	221,577
Operating result	(102,544)	(158,810)	(32,702)	(177,117)
Result for the accounting period	874,262	756,800	(35,396)	44,805

\* Note: 1<sup>st</sup> Jan 2013 transformation to pension society took place and assets of society and its clients were separated.

<b>Development in the number of clients</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of unique clients	938,209	1,058,852	1,023,991	990,740
Number of clients				
Supplementary pension insurance	938,209	1,058,852	994,144	914,272
Additional pension savings	–	–	23,918	71,091
Pension savings	–	–	13,818	13,848

<b>Development in funds at clients' private accounts (CZK in thousands)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Supplementary pension insurance	38,082,791	42,482,029	50,151,750	55,756,809
Additional pension savings	–	–	439,272	1,702,354
Pension savings	–	–	61,704	306,082

The figures in the Financial Summary, Opening Statement and Board of Directors Report are according to the methods of The Association of Pension Funds of the Czech Republic.

# Content

Financial Summary	B
Content	1
Company Profile	2
Opening Statement	3
Company Boards	4
Organizational Chart	5
Company management	5
Board of Directors Report (Business Results, Financial Results, Corporate Social Responsibility)	6
Supervisory Board Report	9
<b>Financial Section</b>	<b>10</b>
Independent Auditor's Report	11
Statement of Financial Position	13
Income Statement	15
Statement of Changes in Shareholders' Equity	16
Notes to the Financial Statements	17
Report on Relations	29
<b>Funds Administered by Česká spořitelna – penzijní společnost, a.s.</b>	<b>32</b>
List of funds	32
<b>Participation fund</b>	<b>33</b>
Compulsory Conservative Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a.s.	33
Balanced Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a.s.	50
Dynamic Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a.s.	67
Transformed Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a.s.	84
<b>Pension fund</b>	<b>103</b>
Government Bonds Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s.	103
Conservative Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s.	117
Balanced Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s.	131
Dynamic Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s.	145
Credits	159

# Company Profile

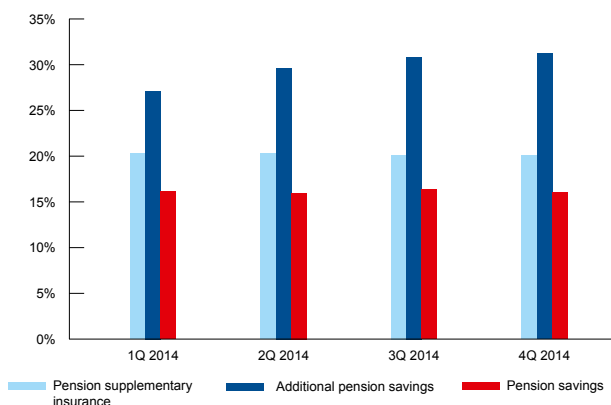
Česká spořitelna – penzijní společnost, a.s., was established by transforming Penzijní fond České spořitelny, a.s., on 1<sup>st</sup> January 2013. Penzijní fond was established by the Articles of Association as a jointstock company on 24<sup>th</sup> August 1994, and came into existence by registering in the Registry at the Court in Prague on 23<sup>rd</sup> December 1994. The registered office is at Poláčkova 1976/2, 140 21, Prague 4. The company’s registered capital amounts to CZK 350 million. Česká spořitelna has been its 100% owner since March 2001. Until 31<sup>st</sup> December 2012, the core business was providing pension supplementary insurance under the Act on the pension supplementary insurance with government contribution no. 42/1994 Col., amended by Act no. 170/1999 Col., and 36/2004 Col. Since 1<sup>st</sup> January 2013, ČS penzijní společnost has been offering its new range of products of additional pension insurance under the Act no. 427/2011 Col., and pension savings under the Act. no. 426/2011 Col.

Since the very beginning ČS penzijní společnost has been continually increasing its share on the pension insurance market. At the beginning of 2013 the successful transformation was finished when the original Penzijní fond České spořitelny was divided into ČS penzijní společnost and 8 independent funds. The original contracts on pension supplementary insurance became part of the Transformed Fund on 1<sup>st</sup> January 2013. In 2014 ČS penzijní společnost closed 47 173 new contracts on supplementary pension insurance. As of 31<sup>st</sup> December 2014 there were 990 740 unique persons with ČS penzijní společnost.

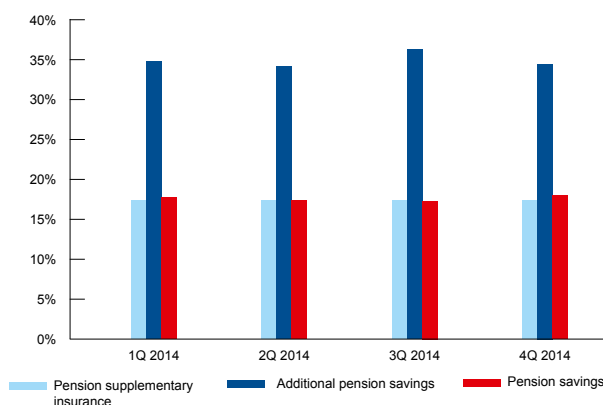
On the Czech market, ČS penzijní společnost is an acknowledged business subject which actively works in the Association of Pension Companies of the Czech Republic.

The guarantee of the appreciation of ČS penzijní společnost clients’ means is mainly a thought-out investment strategy which is grounded on great experience of Česká spořitelna in the financial sector.

**Pension security scheme – market share by number of clients**



**Pension security scheme – market share by assets**



# Opening Statement

## Ladies and Gentlemen,

Let me present the Annual Reports of Česká spořitelna – penzijní společnost, a.s. 2014. I would like to review the last year in relation to ČS penzijní společnost as well as to the whole pension fund sector.

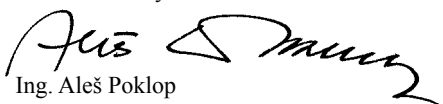
The second year of ČS penzijní společnost's existence was successful and I would like to share these good results with you. Financial result was CZK 44,8 millions to 31<sup>st</sup> December 2014, the maintained property of all the funds continued to grow and so did the amount of the clients of additional retirement savings, in which we have been holding since 2013. In the last year we earned several prestigious awards, which I personally value. In March we received the Best pension fund award by World Finance magazine and in June the Bronze Crown for 2014 for additional pension saving products.

The government of Czech Republic terminated pension savings (2<sup>nd</sup> pillar) and this law correction will be a topic to discuss in the Czech parliament, and therefore the products of the 3<sup>rd</sup> pillar have become our business priority. I.e. supplementary pension savings and its Transformed Fund and new additional retirement savings which allow the clients to achieve higher profitability of their own investments thanks to choosing their own strategy.

At the end of 2014 it had been 20 years since the beginning of retirement saving with financial support of the Czech government. Our company has been celebrating this for the past quarter of the year. We have also decided to get involved in public responsibility and the result was CZK 323 thousands for the community Život 90. In 2015 we will continue to focus on further economic growth and professional administration of entrusted funds of our clients. Our principal priority for the upcoming period is providing them with all necessary information, and remaining a trustworthy partner for those who rely on themselves.

Ladies and Gentlemen, let me assure you that the achieved results represent both a commitment and challenge for us in the coming period. We will strive to be deserving of your trust in the future by continuing to work hard and caring for our clients. Thank you for the confidence you have placed in us, which my colleagues from the ČS penzijní společnost and I truly appreciate.

Yours faithfully



Ing. Aleš Poklop  
Chairman of the Boards of Directors



**Aleš Poklop**  
Chairman of the Board of Directors

# Company Boards

## Board of Directors

as of 31<sup>st</sup> December 2014

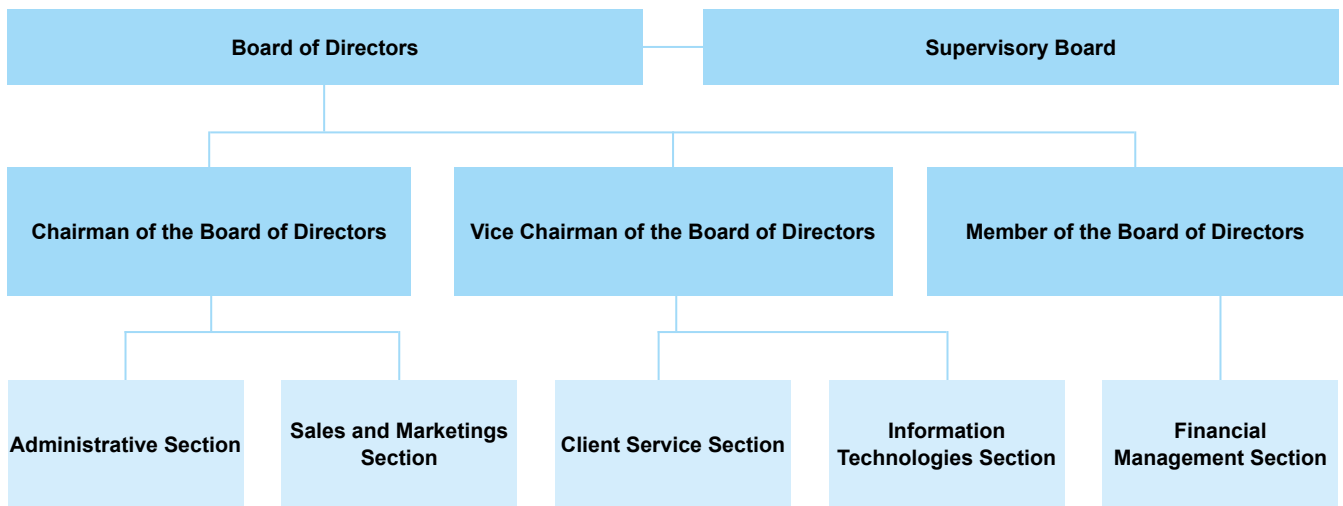
- **Ing. Aleš Poklop**  
Chairman, member since 1<sup>st</sup> Jan 2013
- **Ing. Martin Kopejtko**  
Vice Chairman, member since 1<sup>st</sup> Jan 2013
- **Ing. Jakub Krkoška, MBA**  
Member, member since 1<sup>st</sup> Jan 2014

## Supervisory Board

as of 31<sup>st</sup> December 2014

- **RNDr. Monika Laušmanová, CSc.**  
Chairwoman, member since 1<sup>st</sup> Jan 2013
- **Ing. Aleš Sedlák**  
Vice Chairman, member since 1<sup>st</sup> Jan 2013
- **Ing. Pavel Kráčmar**  
Member, member since 1<sup>st</sup> Jan 2013  
termination of membership 23<sup>rd</sup> Jul 2014
- **Ing. Petr Valenta**  
Member, member since 1<sup>st</sup> Sep 2014
- **Ing. Jiří Škorvaga, CSc.**  
Member, member since 30<sup>th</sup> Jun 2013  
termination of membership 31<sup>st</sup> December 2014
- **Renáta Kováčzová**  
Member, member since 1<sup>st</sup> Jan 2013
- **Ing. Pavel Matějčíček**  
Member, member since 11<sup>th</sup> Jun 2013

# Organizational Chart



# Company Management

- **Ing. Aleš Poklop**  
Chairman of the Boards of Directors
- **Ing. Martin Kopejtko**  
Vice Chairman of the Boards of Directors
- **Ing. Jakub Krkoška, MBA**  
Member of the Boards of Directors
- **Ing. Lenka Hůlová since 1<sup>st</sup> April 2014**  
Head of Sales and Marketing
- **Mgr. Veronika Maderová until 30<sup>th</sup> March 2014**  
Head of Sales and Marketing
- **Daniel Šarman**  
Head of Informational Technologies

# Board of Directors Report

## Business Results

At the end of 2014 the Transformed Fund of Pension Insurance reached 914,272 participants with savings volume of CZK 55,757 million. Our Transformed Fund, with 20,1% of market share, is the second largest pension fund in the Czech Republic. Transformed Fund has been, by law, closed to newcomers since January 1, 2013.

Since 1<sup>st</sup> January the Česká spořitelna – penzijní společnost, a.s., has offered to parties interested in pension savings a new product, the Supplementary Pension Savings. During last year 47 173 new clients entered our Supplementary Pension Savings funds. As of December 31<sup>st</sup> 2014 Supplementary Pension Savings reached total of 71 091 participants and with the largest market share of 31.1% we currently hold the market leader position. As the first company on the market, we fulfilled the legal obligation on volume of each fund in August 2014, and within 2 years after receiving a license, the fund had reached over CZK 50 million. All our Supplementary Pension Savings funds (Conservative, Balanced and Dynamic) are continuously offered to clients in order to fully meet their needs. This proved the reliability and stability of ČS penzijní společnost. Strong growth of the net asset value in all funds continued throughout 2014. As of December 31<sup>st</sup> 2014 our Conservative fund was the largest fund on the new pension market with assets exceeding CZK 1.3 billion.

Česká spořitelna – penzijní společnost strives to increase the quality and to extend the range of services offered to its clients. We offer Garance, a free service unique to the market, which ensures its clients a return on their deposits Supplementary Pension Savings. Garance relates not only to savings with ČS penzijní společnost, but also to transferred contributions from other pension compa-

nies. In 2014 we did not charge management fees and performance fees in the Balanced and Dynamic fund of Supplementary Pension Savings. Since March 2014 ČS penzijní společnost also has not charged any fees in all funds of Pension Savings (2nd pillar).

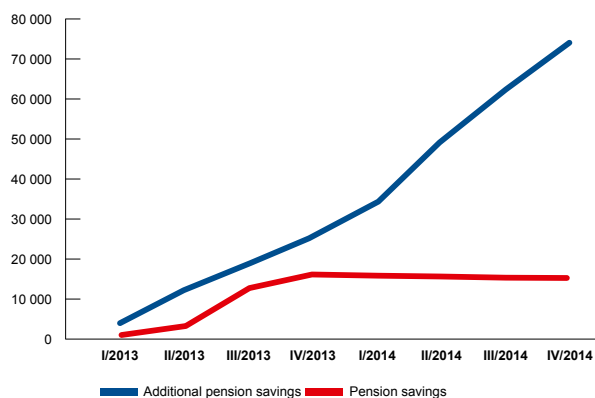
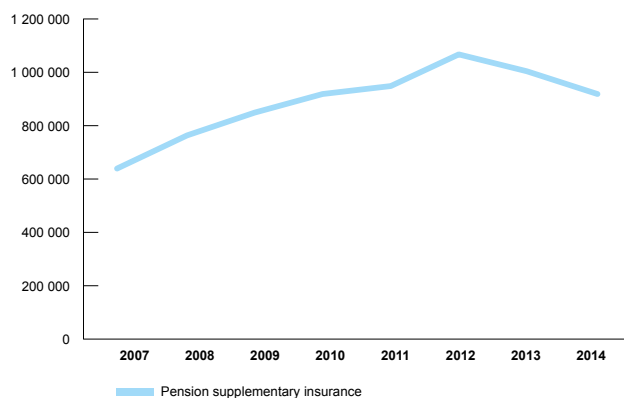
As a modern company we utilize an online internet banking application SERVIS 24 to offer overviews of clients' accounts and other varied services. The application is also available for clients without a current account in Česká spořitelna. Clients, who possess a current account in Česká spořitelna, are eligible to change the settings of the contract, change contact information and purchase additional services, including new services such as electronic communication and the issuing of electronic documents. Our clients can also use a credit card from Česká spořitelna, with 1% bonus from each payment made in favor of Pension Insurance or Supplementary Pension Savings. ČS penzijní společnost is involved in iBOD multi-partnership bonus program where bonus points are collected for monthly contributions and also for contract duration.

The business results in 2014 were achieved thanks to extensive sales network including all branches of Česká spořitelna.



Ing. Lenka Hůlová  
Director of Sales and Marketing

## Number of clients





## Financial Results

Česká spořitelna – penzijní společnost, a.s. achieved in the year 2014 a final profit of CZK 44.8 million. The financial result is driven by savings in financials and also operating costs. Positive effects have seen the continual growth in the volume of clients' means as well as asset value growth in all managed funds. ČS penzijní společnost as a pension company manages one Transformed Fund of Pension Insurance, three participant funds of Supplementary Pension Savings and four pension funds of Pension Savings. Since the transformation on the 1<sup>st</sup> of January 2013, the company's income is in the form of management and performance fees charged to the funds. The fees are strictly regulated and limited by law. From this revenue, the pension company has to cover all cost with clients care, fund operation, portfolio investments and the administration of Pension Insurance, Supplementary Pension Savings and Pension Savings). The main costs of the pension company are depreciated investments into the pension system transformation and introducing new products and funds, asset management costs and commissions for selling products. In the following years, there is an expectation of continuous growth of company profits which will be generated mainly by the continued growth of the funds' asset volume.

Transformed Fund of Pension Insurance has increased by a rate of over 10% and the asset volume reached by 31<sup>st</sup> December 2014 had a value of CZK 55,757 million. Transformed Fund, in the area of investments and financial assets, is pursuing the original strategic goal of reaching the highest possible yield while keeping a low rate of financial risks. Financial means are invested especially into the Czech Republic, mainly government bonds with low levels of non-payment risk, then into term deposits and treasury bills. With proper and professional care, we continue to seek out investment opportunities to ensure the fund's yield will remain above the inflation rate in the long term together with fulfilment of non-negative yield claim in every year. Based on the financial result of CZK 739.5 million which was achieved, the yield and appreciation of Transformed Fund in 2014 is on level of 1.4% and strongly exceeded the annual inflation rate in 2014 of 0.4%.

Participant funds of Supplementary Pension Savings in Pillar III that were reached during 2014 volumes enabled the full investment in long term investment strategies of particular funds, which take place at the beginning of the year. Thanks to this, the funds generated solid yields for clients in year 2014: Conservative Fund 1.34%, Balanced Fund 4.11% and Dynamic Fund 7.02%. Last year has proved, that participant funds can offer clients much more attractive yields comparing to the strictly conservative founded Transformed Fund. Transfer to more risky funds is especially appropriate and useful for younger clients with a long investment horizon ahead. Such clients do not need conservative investment strategies typical for the end of savings period before pension payout. In funds asset volume as well in reached yields ČS penzijní společnost is maintaining its leading position on the pension market.

Based on government notice on form and date of Pillar II termination, ČS penzijní společnost has decided to not expose clients of Pension Saving funds to short term investment risks. All pension funds are and will be not invested in accordance with long term investment strategies and stay in the money market until the termination and payout, which is expected during year 2016. This way client means in all funds will be protected from depreciation or drop in value until the settlement. Expected yield of II.Pillar pension funds will be on level of actual money market yields. Client savings are managed securely and in liquidity to be ready for settlement based on legislative changes in II.Pillar. ČS penzijní společnost will not apply any fee from this passive asset management, all service and administration of Pension Savings funds will be free of charge.



Ing. Jakub Krkoška, MBA  
Member of the Board of Directors

## Social Responsibility

### Contribution to Association Život 90

Česká spořitelna – penzijní společnost, a.s. celebrated its 20<sup>th</sup> birthday at the end of 2014. In order to celebrate the anniversary we decided to support Association Život 90, specifically the project Emergency Care, whose main purpose is health protection of elderly and disabled citizens. For each new Supplementary Pension Savings contract signed in the period from October 1<sup>st</sup> to December 31<sup>st</sup> 2014, ČS penzijní společnost donated CZK 20 to Život 90. In addition our pension company organized a collection among internal staff in whole financial group of Česká spořitelna. Further there were free of charge cash deposits benefit on current account of Život 90. ČS penzijní společnost donated CZK 300,000 and employee collection reached over another CZK 23,000. The ceremony and symbolic check handover took place in the Palace Theatre in Prague on January 20<sup>th</sup> 2015.



**ŽIVOT 90**  
TÍSŇOVÁ PÉČE  
www.tisnovapece.cz

Each new client was also provided with a small gift produced by protected workshops of our partner organizations – SANANIM, Auritus and Charita Czech Republic. ČS penzijní společnost supported the whole event by a marketing campaign (campaign video is available here: <http://youtu.be/K35P0bDN3-4>) and held a number of interesting activities for employees FSČS, its partners and clients.

Emergency Care of Život 90 offers continuous and comprehensive social services for seniors. In case of an emergency, 24/7 dispatching centre is contacted by pressing a single button on the device, which seniors are supposed to wear on themselves all the time. Care users are monitored by the device at home or outside

and in case of emergency voice communication and immediate assistance is ensured. Emergency Care of Život 90 is the longest running and most comprehensive service of its kind in the Czech Republic and helps old age seniors to live fully and without worry in their own homes since 1992.

### Discarded Equipment for Children

In 2014 company donated discarded computer equipment and mobile phones to children's homes, primary schools and kin-



dergartens. Working equipment was given to three non-profit organizations (Tachov DD, DD Plana, Elementary school and kindergarten Halže) contained 19 mobile phones, 2 laptops and 13 desktop computers.

*Martin Kopejtko*

Ing. Martin Kopejtko  
Vice Chairman of the Board of Directors

# Supervisory Board Report

In the calendar year 2014 the Supervisory Board of Česká spořitelna – penzijní společnost, a.s. duly carried out the tasks determined by valid legal regulations and Articles of the company. The Supervisory Board represents an internal control authority of the company, overseeing the performance and competence of the Board of Directors, its business activities and the methods of company management. The Supervisory Board is regularly informed about the work of the company, its financial situation, management and any other major events.

The Supervisory Board reviewed the presented financial statement of Česká spořitelna – penzijní společnost, a.s. of 31<sup>st</sup> December 2014 included financial statements of participating and retirement funds and the financial statement of Transformed Fund of additional pension savings and reached the conclusion that the accounting entries and records were demonstrably kept in accordance with the accounting regulations and Czech Accountings Standards and that the financial statements correctly demonstrates the financial situation of Česká spořitelna – penzijní společnost, a.s., participating and retirement funds and Transformed Fund of additional pension savings as of 31<sup>st</sup> December 2014.

The Supervisory Board reviewed the proposal to divide profits presented by the Board of Directors and recommends the sole shareholder to approve the wording of the proposal.

Ernst & Young Audit, s.r.o., audited the financial statements and confirmed that in all major aspects the financial statements faithfully and honestly represent the assets, liabilities and financial situation of Česká spořitelna – penzijní společnost, a.s., participating and retirement funds and Transformed Fund of additional pension savings as of 31<sup>st</sup> December 2014, and its financial results that are in accordance with accounting regulations valid in the Czech Republic for the period from 1<sup>st</sup> January 2014 until 31<sup>st</sup> December 2014. The Supervisory Board agree and takes into account the auditor's statement.

The Supervisory Board reviewed the 2014 Report on relationships between related parties prepared according to Section 83 of Act No. 90/2012 Coll., on commercial companies and cooperatives. On the basis of the submitted supporting documentation, the Supervisory Board states that Česká spořitelna – penzijní společnost, a.s., did not suffer any harm or damage in connection with related party contracts and agreements in the fiscal year ending 31<sup>st</sup> December 2014 and recommends the sole shareholder approve the 2014 Report on relationships.

Based on all these facts the Supervisory Board recommends the sole shareholder approve the financial statement of Česká spořitelna –

penzijní společnost, a.s., financial statement of participating and retirement funds and Transformed Fund of additional pension savings as of 31<sup>st</sup> December 2014, the proposal to divide profits presented by the Board of Directors and 2014 Report on relationships between related parties prepared according to Section 83 of Act No. 90/2012 Coll., on commercial companies and cooperatives.

In Prague, April 16, 2015



On behalf of the Supervisory Board of Česká spořitelna – penzijní společnost, a.s.

RNDr. Monika Laušmanová, CSc.

Chairwoman of the Supervisory Board

# Financial Section

Independent Auditor's Report	11
Statement of Financial Position As at 31 <sup>st</sup> December 2014	13
Balance Sheet	13
Income Statement	15
Statement of Changes in Shareholders' Equity	16
Notes to the Financial Statements	17
Report on Relations	29

(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Česká spořitelna – penzijní společnost, a.s.:

- I. We have audited the financial statements of Česká spořitelna - penzijní společnost, a.s. as at 31 December 2014 presented in the annual report of the Company on pages 13 – 28 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of Česká spořitelna - penzijní společnost, a.s. which comprise the balance sheet as at 31 December 2014, and the income statement, statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Česká spořitelna - penzijní společnost, a.s. see Note 1 to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of Česká spořitelna - penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of Česká spořitelna - penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Statement of Financial Position

As at 31<sup>st</sup> December 2014

## Balance Sheet as at 31<sup>st</sup> December 2014

### Assets

CZK thousand	Current year	Prior year
<b>Total assets</b>	<b>1,566,975</b>	<b>1,567,062</b>
3 Amounts due from banks and savings associations	632,431	1,041,362
a) Repayable on demand	232,086	241,362
b) Other receivables	400,345	800,000
5 Debt securities	0	0
a) issued by government institutions	0	0
b) issued by other entities	0	0
6 Shares, units and other investments	485,188	0
9 Intangible fixed assets	99,868	97,025
c) Other	99,868	97,025
10 Tangible fixed assets	5,991	5,498
a) Land and Constructions	162	162
b) Other tangible fixed assets	5,829	5,336
bb) Operating tangible fixed assets	5,829	5,336
bc) Non-operating tangible fixed assets	0	0
11 Other assets	170,322	166,201
a) Other cash values and inventory	224	226
b) Amounts due from employees and trade receivables	424	449
c) Amounts due from state budget – tax assets	16	23
e) Estimated assets and other assets	169,658	165,503
13 Deferred expenses and accrued income	173,175	256,976
<b>Control number</b>	<b>4,048,391</b>	<b>4,542,834</b>
	<b>Current year</b>	<b>Prior year</b>
<b>Total off balance sheet assets</b>	<b>885,533</b>	<b>800,000</b>
4 Receivables from fixed term transactions	0	0
a) interest rate instruments		
b) currency instruments		
8 Assets provided for custody	885,533	800,000
of which: Securities	0	0

## Liabilities

CZK thousand	Current year	Prior year
<b>Total liabilities</b>	<b>1,566,975</b>	<b>1,567,062</b>
4 Other liabilities	157,093	197,072
a) Amounts owed to employees and trade payables	13,044	12,627
b) Payables from social security	1,118	1,039
c) Amounts owed to the state budget – tax liabilities	2,847	3,125
e) Estimated liabilities and other liabilities	57,680	84,318
f) Funds placed by retirement benefit policy holders	82,404	95,963
fa) Contr. made by retir. benefit policy holders and state contr.	0	0
fb) Funds for pension payments	0	0
fc) Proceeds of policy holders' contrib. and state contributions	0	0
fd) Unallocated contributions made by policy holders	82,404	95,963
fe) Payables to policy holders – payment of benefits	0	0
6 Provisions	0	0
a) For pensions and similar liabilities	0	0
8 Share capital	350,000	350,000
of which a) Share capital paid up	350,000	350,000
9 Share premium	350,000	350,000
10 Reserve funds and other funds from profit	429,327	434,240
a) Mandatory reserve funds	70,000	70,000
d) Other funds from profit	359,327	364,240
13 Revaluation difference	0	0
a) of assets and liabilities	0	0
14 Retained earnings or accumulated losses brought forward	235,750	271,146
15 Profit/(loss) for the period	44,805	(35,396)
<b>Control number</b>	<b>4,152,774</b>	<b>4,335,783</b>
<b>CZK thousand</b>	<b>Current year</b>	<b>Prior year</b>
<b>Total off balance sheet liabilities</b>	<b>37,377,272</b>	<b>31,007,806</b>
6 Assets received for management and custody from a third party	37,377,272	31,007,806
of which Securities	37,377,272	31,007,806
7 Assets received for management	0	0
of which Securities	0	0

Prepared on 13<sup>th</sup> March 2015.



## Income Statement for the Year Ending 31<sup>st</sup> December 2014

CZK thousand	2014	2013
1 Interest income and similar income	1,242	2,034
including Interest income from debt securities	0	0
3 Proceeds from shares	0	0
including c) income from other shares and participations	0	0
4 Commission and fee income	467,045	397,521
5 Commission and fee expenses	(247,164)	(266,476)
6 Net profit or loss on financial operations	454	(120)
7 Other operating income	712	799
8 Other operating expenses	(2,302)	(1,672)
9 Administrative costs	(145,112)	(144,079)
of which a) Staff costs	(52,546)	(51,016)
aa) Wages and salaries	(37,917)	(37,141)
ab) Social security and health insurance	(12,079)	(12,304)
ac) Other staff costs	(2,550)	(1,571)
of which b) Other administrative costs	(92,566)	(93,063)
Depreciation/amortisation, charge for provisions and allowances for tangible and intangible		
11 fixed assets	(30,415)	(20,829)
a) Depreciation of tangible fixed assets	(3,437)	(3,710)
d) Amortisation of intangible fixed assets	(26,954)	(16,739)
e) Costs of transfer of tangible assets (NBV)	(24)	(380)
17 Charge for and use of other provisions	0	0
19 Profit/loss for the period from ordinary activities before taxes	44,460	(32,822)
23 Income tax	345	(2,574)
of which a) – due	0	0
of which b) – deferred	345	(2,574)
24 Net profit/(loss) for the period	44,805	(35,396)
<b>Control number</b>	<b>(93,658)</b>	<b>(322,112)</b>

Prepared on 13<sup>st</sup> March 2015.

## Statement of Changes in Equity for the period year 2014

CZK thousand	Share capital	Reserve fund and other funds from profit	Share premium	Revaluation differences	Undistributed profit and Retained earnings	Total
<b>Balance as of 1<sup>st</sup> January 2013</b>	<b>350,000</b>	<b>439,403</b>	<b>350,000</b>	<b>0</b>	<b>271,147</b>	<b>1,410,550</b>
Increase of share capital	0					
Increase of reserve fund	0					
Profit transferred to policy holders	0					
Dividends	0					
Other use of funds	0	(5,164)	0	0	0	(5,164)
Revaluation gains/losses movements	0	0	0	0	0	0
Impairment of securities	0	0	0	0	0	0
Profit for 2012	0	0	0	0	(35,396)	(35,396)
<b>Balance as of 31<sup>st</sup> December 2013</b>	<b>350,000</b>	<b>434,239</b>	<b>350,000</b>	<b>0</b>	<b>235,751</b>	<b>1,369,990</b>
<b>Balance as of 1<sup>st</sup> January 2014</b>	<b>350,000</b>	<b>434,239</b>	<b>350,000</b>	<b>0</b>	<b>235,751</b>	<b>1,369,990</b>
Increase of share capital	0	0	0	0	0	0
Increase of reserve fund	0	0	0	0	0	0
Profit transferred to policy holders	0	0	0	0	0	0
Dividends	0	0	0	0	0	0
Other use of funds	0	(4,913)	0	0	0	(4,913)
Revaluation gains/losses movements	0	0	0	0	0	0
Impairment of securities	0	0	0	0	0	0
<b>Profit for 2014</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44,805</b>	<b>44,805</b>
<b>Balance as of 31<sup>st</sup> December 2014</b>	<b>350,000</b>	<b>429,326</b>	<b>350,000</b>	<b>0</b>	<b>280,556</b>	<b>1,409,882</b>

Prepared on 13<sup>th</sup> March 2015.

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Background information

### 1.1 Incorporation and Description of the Business

Česká spořitelna – penzijní společnost, a.s. (the “Company”) was incorporated on 1<sup>st</sup> January 2013 through the transformation of Penzijní fond České spořitelny to a pension company in connection with the pension reform.

A legal predecessor, Penzijní fond České spořitelny, was the first pension fund in the Czech Republic that was granted an authorization by the Czech National Bank to establish a Transformed Fund. Penzijní fond České spořitelny entered the Czech financial market in 1995. Prior to the pension reform, Penzijní fond České spořitelny had steadily increased its share in the retirement benefit scheme market and ranked second in the market in terms of the number of clients and the volume of monies managed.

As at 31<sup>st</sup> December 2014 the Company managed assets for four pension funds (Pillar 2), three participation funds (Pillar 3) with various investment strategies, and one Transformed Fund.

Since March 2001 the Company has been 100% held by Česká spořitelna, which had become a member of a powerful Central European financial group of Erste Bank already in 2000. The company has an exceptional background and is able to offer its clients services of ever-improving quality.

The Company’s issued share capital is CZK 350,000 thousand.

The Company is primarily engaged in providing pension savings within Pillar 2 and supplementary pension savings within Pillar 3 of the pension system, and in operating a Transformed Fund that includes retirement benefit schemes concluded prior to 30<sup>th</sup> November 2012. The company operates four pension funds, three participation funds and one transformed fund.

### 1.2 Organisational Structure

The Company’s organisational structure is as follows:

- Board of Directors
- Supervisory Board
- Chairman of the Board of Directors
- Vice Chairman of the Board of Directors
- Member of the Board of Directors
- Administrative Section
- Sales and Marketing Section
- Client Service Section
- Information Technologies Section
- Financial Management Section

### 1.3 Board of Directors and Supervisory Board

Set out below is the composition of the boards according to the corporate details recorded in the Commercial Register as at 31<sup>st</sup> December 2014:

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairman	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Jiří Škorvaga, CSc.
Member	Ing. Pavel Matějčík
Member	Petr Valenta
Member	Renáta Kováčzová

In 2014 changes were made to the composition of the Board of Directors and the Supervisory Board.

### 1.4 Depositary

The depositary of Česká spořitelna – penzijní společnost, a.s., is Komerční banka, a.s.

## 2. Accounting policies and general accounting principles

The financial statements are based on the Company’s bookkeeping which is maintained in accordance with Accounting Act 563/1991 Coll., as amended, and relevant regulations and guidance notes, specifically Guidance Note 501/2002, which provides implementation guidance on certain provisions of the Accounting Act, for entities that are banks or other financial institutions, as amended, and Czech Accounting Standards for Financial Institutions.

The financial statements have been prepared based on the historical acquisition cost principle modified by the financial instruments valued at fair value through profit and loss, financial instruments classified as available for sale, derivatives and non-operating tangible assets valued at fair value.

The accounting records are maintained in compliance with general accounting principles, in particular the accruals principle, prudence concept and going concern assumption.

The reporting currency used in the financial statements is the Czech crown (“CZK”) with all values rounded to CZK thousand unless indicated otherwise.

## 2.1 Valuation and Depreciation Methods

### 2.1.1 Tangible and Intangible Fixed Assets

Tangible fixed assets include identifiable assets with physical substance and with an estimated useful life of more than one year and an acquisition cost greater than CZK 40 thousand.

Intangible fixed assets include identifiable assets without physical substance and with an estimated useful life of more than one year and an acquisition cost greater than CZK 60 thousand.

Tangible and intangible fixed assets are stated at acquisition cost net of accumulated depreciation indicating the wear and tear of the assets.

Assets acquired without consideration on the basis of a contract to purchase a leased asset, assets acquired through donation, assets developed internally if their production cost cannot be ascertained, fixed assets recently identified and not yet entered in the accounting books and an investment of fixed assets with the exception of situations where the investment is valued pursuant to a deed of association or a deed of foundation are stated at replacement cost, i.e. the cost at which the asset would be acquired at the time it is accounted for.

Land, works of art, irrespective of their acquisition cost, and assets under construction are not depreciated.

Tangible assets with an acquisition cost below CZK 40 thousand and intangible assets with an acquisition cost below CZK 60 thousand are charged to expenses in the period in which they were acquired.

Non-operating tangible assets are initially recognised at cost. Pursuant to the requirements set out in Section 33 of Act 42/1994 Coll., the Company revalues its assets to fair value. Changes in valuation are recorded to the account "Gains or losses from revaluation of assets".

Any identified temporary impairment of operating assets is provided for. If the Company identifies other-than-temporary impairment of assets, it recognises a write-off of these assets.

### 2.1.2 Depreciation of Fixed Assets

Depreciation of operating tangible and intangible fixed assets for accounting purposes commences in the month following the month in which the assets were put into use and is provided on a straight line basis according to the estimated useful lives and pursuant to the Company's depreciation plan.

Depreciation of fixed assets is recorded on a straight line basis over the depreciation period indicated below:

Category of assets	Depreciation period in years
Machines and other equipment	4–12 years
Vehicles	4 years
Furniture and fixtures	4–6 years
Software, licences and other intangible assets	4 years

### 2.1.3 Securities

The Company holds securities recorded at fair value, revalued with a corresponding entry in net profit or loss.

### 2.1.4 Receivables

Receivables are stated at amortised cost net of allowances. Allowances are made based upon the results of inventorying, to the extent that the carrying values of assets are lower than the actual balance. The Company recognises allowance charges in respect of overdue receivables.

### 2.1.5 Provisions

Provisions are recorded if the Company is obliged (under a contract or otherwise) to perform, the obligation is the result of past events and the performance is probable and will require an outflow of funds representing economic benefits and the amount of performance can be reliably estimated.

The Company created no provisions in 2014.

## 2.2 Retirement Benefit Schemes

Unassigned funds placed by retirement benefit policy holders are recorded in nominal value in "Unassigned contributions placed by retirement benefit policy holders" in the statement of financial position.

## 2.3 Foreign Currency Translation

Transactions in foreign currencies during the year are translated using the daily exchange rates as notified by the Czech National Bank effective at the transaction date. Assets and liabilities denominated in foreign currencies are translated into Czech crowns using the foreign exchange rate announced by the Czech National Bank as at the balance sheet date.

Any resulting foreign currency translation differences arising from retranslation of assets and liabilities denominated in foreign currencies are recorded through the current year's expenses or revenues.

## 2.4 Taxation

The income tax base is calculated from the profit and loss of the period by means of adding non-tax deductible expenses and subtracting income exempt from income tax and items amending the tax base. The due tax liability is calculated at the end of the taxation period pursuant to Act No. 586/1992 Coll., on income taxation, as amended, while the tax rate for 2014 amounts to 19%.

The deferred tax liability (asset) is calculated from all temporary differences between the reported accounting carrying amount of assets and liabilities and their tax carrying value. Deferred tax is accounted for using the statement of financial position liability method. The deferred tax is determined on the basis of all temporary differences between the tax base of an asset or a liability and its carrying value in the statement of financial position. A deferred tax asset (liability) is determined as a product of the resulting difference and the rate effective pursuant to Income Taxes Act No. 586/1992 Coll. in the period, in which the related deferred tax asset (liability) is realised (settled).

Deferred tax liabilities are accounted for without exception whereas deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised. If it is unlikely that a deferred tax asset will be realised, its value will be reduced as appropriate or it will not be accounted for at all.

## 2.5 Deferred Acquisition Costs of Pension Policies

The Company amortises costs, including in particular commissions paid and other direct acquisition costs relating to the conclusion of pension policy contracts over four years, i.e. the average duration of pension policies in the funds managed by the Company.

## 2.6 Fees for the Administration of Pension Policies

Fees for the administration of pension policies are recorded as incurred to the income statement as "Commission and fee expense".

## 2.7 Commission and Fee Income

Commission and fee income is income from fees received for the management of administered funds. A maximum amount of fee for the management of participation funds and the Transformed Fund is stipulated in Act No. 427/2011 Coll. on Supplementary Pension Savings and for the management of pension funds in Act No. 426/2011 Coll. on Retirement Savings.

## 2.8 Interest Income and Expense

Interest income is accrued and recorded to the income statement as "Interest income and similar income". The Company recorded no interest expense in 2014.

## 2.9 Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the balance sheet date.

## 2.10 Shareholder's Equity

The Company's equity consisted of share capital, share premium, statutory reserve fund and other funds from profit and the current year's profit. Movements of shareholder's equity are shown in the statement of changes in equity.

## 2.11 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements' preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements' preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 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.

### 3. Additional information on the statement of financial position and income statement

#### 3.1 Amounts Due from Banks

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Current accounts	232,086	241,362
Term accounts	400,345	800,000
<b>Total</b>	<b>632,431</b>	<b>1,041,362</b>

#### 3.2 Debt securities, shares, participation certificates and other holdings

As at the balance sheet date, the Company solely holds participation certificates.

(CZK thousand)	Balance at 31 Dec 2014 Fair value	Balance at 31 Dec 2013 Fair value
Participation certificates	485,188	0
<b>Total</b>	<b>485,188</b>	<b>0</b>

#### 3.3 Fixed Assets

##### 3.3.1 Intangible Fixed Assets

Acquisition cost (CZK thousand)	Software and licences	Total
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>139,323</b>	<b>139,323</b>
Additions	42,372	42,372
Disposals	0	0
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>181,695</b>	<b>181,695</b>
Additions	29,797	29,797
Disposals	0	0
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>211,492</b>	<b>211,492</b>

Accumulated amortisation (CZK thousand)	Software and licences	Total
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>(67,931)</b>	<b>(67,931)</b>
Additions	(16,739)	(16,739)
Accumulated amortisation on disposals	0	0
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>(84,670)</b>	<b>(84,670)</b>
Additions	(26,954)	(26,954)
Accumulated amortisation on disposals	0	0
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>(111,624)</b>	<b>(111,624)</b>

(CZK thousand)	Software and licences	Total
<b>Net book value at 31<sup>st</sup> December 2013</b>	<b>97,025</b>	<b>97,025</b>
<b>Net book value at 31<sup>st</sup> December 2014</b>	<b>99,868</b>	<b>99,868</b>

Amortisation of intangible fixed assets charged to expenses

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Amortisation of intangible fixed assets	26,954	16,739

The Company has no small assets recorded off balance sheet.

### 3.3.2 Tangible Fixed Assets

Acquisition cost (CZK thousand)	Operating assets	Operating assets	Total
	Buildings	Individual movable assets	
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>179</b>	<b>34,170</b>	<b>34,349</b>
Additions	0	1,945	1,945
Disposals	0	(5,859)	(5,859)
Revaluation gains/losses	0	0	0
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>179</b>	<b>30,256</b>	<b>30,435</b>
Additions	0	3,953	3,953
Disposals	0	(5,519)	(5,519)
Revaluation gains/losses	0	0	0
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>179</b>	<b>28,690</b>	<b>28,869</b>

Note: Non-operating assets are reported including gains/losses on revaluation.

Accumulated amortisation (CZK thousand)	Buildings	Individual movable assets	Total
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>(17)</b>	<b>(26,688)</b>	<b>(26,705)</b>
Additions	0	(3,710)	(3,710)
Accumulated depreciation on disposals	0	5,478	5,478
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>(17)</b>	<b>(24,920)</b>	<b>(24,937)</b>
Additions	0	(3,437)	(3,437)
Accumulated depreciation on disposals	0	5,496	5,496
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>(17)</b>	<b>(22,861)</b>	<b>(22,878)</b>

Note: Non-operating assets are reported including gains/losses on revaluation.

(CZK thousand)	Buildings	Works of art and collections	Individual tangible movable assets	Total
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>162</b>	<b>0</b>	<b>5,336</b>	<b>5,498</b>
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>162</b>	<b>0</b>	<b>5,829</b>	<b>5,991</b>

#### Depreciation of tangible fixed assets charged to expenses

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Depreciation of tangible fixed assets	3,437	3,710

The Company has no small tangible assets that would be recorded off balance sheet.

In the reporting period, the Company held no fixed assets under finance or operating leases and carried no pledged assets.

### 3.4 Other Assets

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Other cash and inventory	224	226
Receivables from employees and trade receivables	424	449
Tax receivables	16	23
Estimated receivables and other assets	169,658	165,503
<b>Total other assets</b>	<b>170,322</b>	<b>166,201</b>

The Company had no receivables subject to either a lien or that were otherwise encumbered in the reporting period.

### 3.4.1 Tax Receivables and Liabilities

The Company records a tax receivable due from the government in the amount of CZK 16 thousand. In 2013, the tax receivable amounted to CZK 23 thousand.

### 3.4.2 Estimated Receivables and Other Assets

Estimated receivables consist of an estimate of fees for appreciation and management of assets of the Transformed Fund amounting to CZK 130,550 thousand (2013: CZK 124,865 thousand).

### 3.4.3 Intercompany Receivables

Short-term receivables (CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Short-term receivables		
Česká spořitelna	0	0
<b>Total short-term receivables</b>	<b>0</b>	<b>0</b>
Prepayments		
Česká spořitelna	374	406
<b>Total prepayments</b>	<b>374</b>	<b>406</b>

### 3.5 Deferred Expenses and Accrued Income

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Deferred expenses	173,175	256,976
<b>Total temporary assets</b>	<b>173,175</b>	<b>256,976</b>

Deferred expenses principally consist of deferred commissions for the sale of retirement benefit policies of CZK 172,729 thousand (2013: CZK 255,026 thousand).

### 3.6 Shareholder's Equity

In the year ending 31<sup>st</sup> December 2014, the Company's equity consisted of share capital, share premium, statutory reserve fund and other funds from profit and the current year's profit. Movements of shareholder's equity are shown in the statement of changes in equity.

#### 3.6.1 Share capital

The registered share capital as at 31<sup>st</sup> December 2014 consists of 175 shares with a nominal value of CZK 2,000 thousand per share. The aggregate nominal value of the share capital is CZK 350,000 thousand. The shares are not publicly traded; they are bearer shares and non-endorsable.

During the year ended 31<sup>st</sup> December 2014, there were no changes in share capital.

### 3.7 Provisions

The Company does not create provisions.

### 3.8 Other Liabilities

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Amounts owed to staff and trade payables	13,044	12,627
Social security payables	1,118	1,039
Tax liabilities	2,847	3,125
Estimated payables and other liabilities	57,680	84,318
Funds placed by retirement benefit policy holders	82,404	95,963
<b>Total</b>	<b>157,093</b>	<b>197,072</b>

In 2014 and 2013, tax liabilities principally comprise payroll taxes of CZK 449 thousand and CZK 382 thousand, respectively and deferred tax of CZK 2,396 thousand and CZK 2,741 thousand.



The Company records a liability to policy holders of retirement benefits supplementary pension savings and pension savings schemes totaling CZK 82,404 thousand. The liability includes funds which could not be identified and assigned to individual participants as at the balance sheet date, and thus could not be transferred from the pension company's summary accounts to appropriate funds.

The Company carried no liabilities subject to either a lien, or that were otherwise encumbered as at 31<sup>st</sup> December 2014.

The Company had no received loans and issued no debt securities as at 31<sup>st</sup> December 2014.

Estimated payables and other liabilities consist of an estimated commission fees of CZK 6,450 thousand (2013: CZK 16,150 thousand), an estimated payable for the administration of securities fee of CZK 34,060 thousand (2013: CZK 52,461 thousand) and an estimated payable for outstanding vacation days and employee bonuses of CZK 6,823 thousand (2013: CZK 7,522 thousand).

### 3.9 Off Balance Sheet Assets and Liabilities

The Company retains future fixed and contingent assets and commitments off balance sheet.

In the year ended 31<sup>st</sup> December 2014, the Company carried in its off balance sheet accounts assets received for custody amounting to CZK 400,344 thousand (term deposit placed with Komerční banka).

### 3.10 Interest Income

Interest on (CZK thousand)	Balance at 31 <sup>st</sup> December 2014			Balance at 31 <sup>st</sup> December 2013		
	CZK	Foreign currency	Total	CZK	Foreign currency	Total
Term deposits	999	0	999	2,014	0	2,014
Deposits on current accounts	243	0	243	20	0	20
<b>Total</b>	<b>1,242</b>	<b>0</b>	<b>1,242</b>	<b>2,034</b>	<b>0</b>	<b>2,034</b>

### 3.11 Commission and Fee Income

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Fees for management	457,394	385,796
Fees from retirement benefit policy holders	9,651	10,102
Other	0	1,623
<b>Total other operating income</b>	<b>467,045</b>	<b>397,521</b>

Commission and fee income for the year ending 31<sup>st</sup> December 2014 comprised in particular fees from the Transformed Fund for the Fund's asset management and appreciation. In addition, it included fees paid by the clients for pension insurance transfer and severance in the amount of CZK 9,651 thousand (2013: CZK 10,102 thousand).

### 3.12 Commission and Fee Expense

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Fee for maintenance of accounts paid to the depository	6,333	6,590
Fees for administration and safe-keeping of securities	9,788	9,992
Asset management fee	84,455	86,844
Fees paid in selling securities	990	993
Fees for conclusion and administration of retirement benefit policies	143,639	159,933
Other	1,959	2,124
<b>Total</b>	<b>247,164</b>	<b>266,476</b>

### 3.13 Net Profit or Loss on Financial Operations

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Loss on foreign exchange transactions	(124)	(236)
Profit on foreign exchange transactions	94	116
Increase in fair value of securities	484	0
<b>Net profit (+) /loss (-) on foreign exchange transactions</b>	<b>(30)</b>	<b>(120)</b>
<b>Net profit (+) /loss (-) on financial transactions</b>	<b>454</b>	<b>(120)</b>

### 3.14 Other Operating Income

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Income from the transfer of tangible and intangible fixed assets	326	511
Sundry operating income	386	288
<b>Total other operating income</b>	<b>712</b>	<b>799</b>

Sundry operating income comprised proceeds from sold assets and vehicle damage compensation.

### 3.15 Other Operating Expense

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Sundry operating expenses	2,302	1,672
<b>Total other operating expenses</b>	<b>2,302</b>	<b>1,672</b>

Other operating expenses for the year ended 31<sup>st</sup> December 2014 principally comprise permanent compensations within client accounting of CZK 831 thousand, logo costs in the amount of CZK 400 thousand (2013: CZK 1,035 thousand), 3VU and 3DU fund subsidy of CZK 500 thousand, Pension Companies Association (Asociace penzijních společností) membership fee of CZK 405 thousand (2013: CZK 382 thousand) and Erste risk insurance costs of CZK 129 thousand (2013: CZK 130 thousand).

### 3.16 Administrative Expenses

Administrative expenses consist of staff costs and other administrative expenses (expenses related to the operation of the real estate, material and energy consumption, services and taxes). Aggregate administrative expenses for the year ended 31<sup>st</sup> December 2014 amounted to CZK 145,113 thousand (2013: CZK 144,079 thousand).

#### 3.16.1 Staff Costs

The average number of employees and management and staff costs for the years ended 31<sup>st</sup> December 2014 and 2013 are as follows:

2014

(CZK thousand)	Number	Wages and salaries	Social security and health insurance	Other expenses	Bonuses to management	Total staff costs
Staff	60	29,004	9,700	1,727	0	40,431
Management	2	3,537	2,379	823	5,376	12,115
<b>Total</b>	<b>62</b>	<b>32,541</b>	<b>12,079</b>	<b>2,550</b>	<b>5,376</b>	<b>52,546</b>

2013

(CZK thousand)	Number	Wages and salaries	Social security and health insurance	Other expenses	Bonuses to management	Total staff costs
Staff	57	27,295	9,369	1,474	0	38,138
Management	5	8,993	2,935	1,007	854	13,789
<b>Total</b>	<b>62</b>	<b>36,288</b>	<b>12,304</b>	<b>2,481</b>	<b>854</b>	<b>51,927</b>

The number of employees is based on the average recalculated headcount. Since 2014, members of the Board of Directors fall under the employees category provided they serve as employees at the same time. In 2013, all members of the Board of Directors belonged to the management group.

### 3.16.2 Loans, Borrowings and Other Benefits Provided

The Company provided no loans, borrowings or other benefits to the members of the Board of Directors, Supervisory Board, management or shareholders in the year ended 31<sup>st</sup> December 2014.

### 3.16.3 Other Administrative Costs

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Advertisement	13,996	25,049
Rent	5,034	5,438
Information technology	38,110	28,883
Audit	2,293	2,465
Advisory	4	156
Outsourcing	6,920	6,887
Sundry administrative expenses	26,209	24,185
<b>Total other administrative costs</b>	<b>92,566</b>	<b>93,063</b>

For the year ending 31<sup>st</sup> December 2014, the costs of the mandatory financial statements audit amounted to CZK 2,293 thousand (2013: CZK 2,465 thousand) and the costs of legal and tax advisory amounted to CZK 4 thousand (2013: CZK 156 thousand). Information technology is mainly comprised of software maintenance in the amount of CZK 33,694 thousand (2013: CZK 21,695 thousand). Sundry administrative expenses are mainly comprised of postage totaling CZK 13,244 thousand (2013: CZK 12,978 thousand).

### 3.17 Use of Allowances and Provisions for Receivables

For the years ending 31<sup>st</sup> December 2014 and 2013 no allowances against receivables were used.

### 3.18 Related Party Information

The controlling entity is the entity that has, de facto or de jure, the ability to exercise directly or indirectly significant influence over the other (controlled) entity in making financial or operational decisions. If the controlling and controlled entities are companies, they are considered a parent company and its subsidiary, respectively.

Related parties are entities controlled by the same controlling entity.

Transactions with securities for the year ending 31<sup>st</sup> December 2014 were effected through Česká spořitelna (the controlling entity).

The products offered by the Company are distributed through the Česká spořitelna's branch network.

#### 3.18.1 Income

Financial income from the Transformed Fund and other funds amounting to CZK 457,394 thousand (2013: CZK 385,796 thousand from the Transformed Fund) arose from the fee for appreciation of fund's assets in the amount of CZK 131,396 thousand (2013: CZK 104,839 thousand) and the fee for management of fund's assets in the amount of CZK 325,998 thousand (2013: CZK 280,957 thousand).

#### 3.18.2 Expenses

The services of the Erste Group Bank financial group entities amounted to CZK 174,599 thousand (2013: CZK 260,722 thousand), where the greatest amount related to the fee from product sales and from asset management paid to Česká spořitelna amounted to CZK 142,828 thousand (2013: CZK 230,050 thousand). In 2014 the Company charged to income services related to the on-site sale of products to Česká spořitelna do domu (former Partner ČS) of CZK 7,182 thousand (2013: CZK 9,278 thousand). Other services purchased by the Company from Česká spořitelna in the amount of CZK 29,527 thousand (2013: CZK 20,224 thousand) related to rent, outsourcing services, software maintenance and payments for client centre. In 2014, the services of group purchase were provided by Procurement Services in the amount of CZK 1,023 thousand CZK (2013: CZK 1,170 thousand).

### 3.18.3 Other Related Party Transactions

The members of the statutory bodies received no loans, guarantees, advances or other benefits and held no shares of the Company as at 31<sup>st</sup> December 2014 and 2013.

### 3.19 Taxation

The following table shows the adjustment of the net profit or loss before taxation to the tax base:

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
<b>Profit before tax</b>	<b>44,460</b>	<b>(32,822)</b>
Expenses that are not deductible for tax purposes	14,501	17,076
Income which is not subject to taxation	(17,162)	(11,304)
<b>Tax base</b>	<b>41,770</b>	<b>(27,050)</b>
Tax loss of prior years reduction	(41,770)	0
<b>Adjusted tax base</b>	<b>0</b>	<b>0</b>
Tax debt of 19%	0	0
Tax relief	0	0
<b>Adjusted tax liability</b>	<b>0</b>	<b>0</b>
Adjustment of tax payable from previous years	0	0
<b>Total tax payable</b>	<b>0</b>	<b>0</b>

In compliance with the Income Taxes Act, The Company can carry forward tax losses generated and assessed in the previous accounting periods or part thereof for up to five years immediately following the period for which the loss was assessed. The benefit of the tax loss from 2009 (CZK 376,937 thousand) was recognized in the 2014 financial statements in the amount of CZK 41,770 thousand. It will not be possible to utilise the remaining portion of the tax loss of CZK 335,167 thousand in subsequent years. The 2013 tax loss of CZK 26,986 thousand will be carried forward.

The deferred tax asset/liability is calculated in the amount of 19% of temporary taxable differences between the accounting and tax net book value of assets and liabilities and can be analysed as follows:

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Deferred tax assets		
Unused tax loss	5,127	71,618
Other	1,737	1,062
<b>Total deferred tax assets</b>	<b>6,864</b>	<b>72,680</b>
Deferred tax liabilities		
Difference between tax and accounting value of fixed assets	(4,133)	(1,939)
Gain or loss on revaluation of available-for-sale securities	0	0
<b>Total deferred tax liabilities</b>	<b>(4,133)</b>	<b>(1,939)</b>
<b>Net deferred tax asset (+) / liability (-)</b>	<b>2,731</b>	<b>70,741</b>

The deferred tax asset of CZK 5,127 thousand as at 31<sup>st</sup> December 2014, arising from unused tax loss, was not recognised in compliance with the principle of prudence as it is uncertain that the Company will be able to generate a large enough tax base in the future against which it would be possible to utilise this deferred tax asset.

The Company believes that the temporary differences, giving rise to a deferred tax liability, will be realized only after the option to utilise tax loss carryforward expires. In compliance with the principle of prudence, the Company recognised a net deferred tax liability of CZK 2,396 thousand in 2014 arising from the differences between book and tax depreciation of assets and social security and health insurance premiums from recorded bonuses.

The recognised tax asset / liability are presented within "Other assets" / "Other liabilities" and comprise the following:

(CZK thousand)	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Other	1,737	1,062
Difference between tax and accounting value of fixed assets	(4,133)	(1,939)
Impact of derecognised deferred tax on provisions for future retirement benefits	0	(1,864)
<b>Net deferred tax asset (+) / liability (-)</b>	<b>(2,396)</b>	<b>(2,741)</b>

## 4. Explanatory Notes to the Managed Pension and Participation Funds and the Transformed Fund

### Number of participants in retirement benefit schemes and in pension savings or supplementary pension savings schemes

As at the balance sheet date, the pension savings scheme, supplementary pension savings scheme and the Transformed Funds had 13,901 participants, 66,581 participants and 908,444 participants, respectively. The number of unique participants was 981,811 as at the balance sheet date.

### Number and amount of paid allowances

Paid allowances	2014	2013
Surrender	769,107	581,408
One-off settlement	2,636,656	2,026,729
Transfers to other pension funds	3,471	26,011
Pensions	230,498	198,775
Inheritance	0	0
Surcharges for pension insurance already terminated	0	0
<b>Total</b>	<b>3,639,732</b>	<b>2,832,923</b>

\* Structure of paid allowances according to the Czech National Bank methodology (state contribution returns, pension plan participants returns and other returns are not included)

In 2014, the Company paid out CZK 4,088,909 thousand, of which the funds paid to the participants was CZK 3,636,261 thousand. The remaining amount relates, in particular, to returns to the state budget.

### Depositary

The depositary of pension funds, participation funds and the Transformed Fund is Komerční banka, a.s.

### Appreciation of invested funds

For the year ending 31<sup>st</sup> December 2014, the Company allocated the 2013 profit to retirement benefit policy holders in the Transformed Fund, i.e. CZK 594,113 thousand; the amount represents an appreciation of the policy holders' investments of 1.30% (2013: 1.63%).

Based on the profit for 2014 totaling CZK 739,484 thousand, expected appreciation is 1.42%. The exact appreciation rate will be calculated from actual figures available after crediting the client accounts at the end of May 2015.

### Other funds

v CZK thousand	Current value of fund unit	Net business assets	Profit for 2014
Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.	1.0179	1,324,442	9,484
Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.	1.0454	233,588	2,700
Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.	1.0720	144,322	2,818
Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s.	1.0028	4,984	6
Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.	1.0026	106,473	123
Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.	1.0032	136,093	180
Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.	1.0033	58,532	78

### Provision for future annuities

The amount of provision is determined on the basis of the present actuarial value of committed supplementary pension insurance benefits to be paid decreased by the amount of funds recorded on behalf of pension recipients.

The Company accounts for a provision if the minimum amount of liabilities to participants is higher than the actual liabilities accounted. The provision amounts to the ascertained difference.

## 5. Commitments, contingencies and off balance sheet liabilities

### Legal disputes

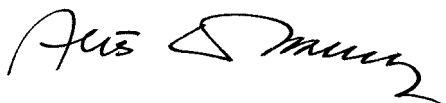
As at 31<sup>st</sup> December 2014, the Company was involved in no legal disputes, the outcome of which would significantly impact the Company's financial performance.

## 6. Subsequent Events

No events that would have an impact on the Company's financial statements for the year ended 31<sup>st</sup> December 2014 occurred subsequent to the balance sheet date.

Prepared on 13<sup>th</sup> March 2015.

Signature of accounting entity's statutory body:



Ing. Aleš Poklop  
Chairman of the Board of Directors



Ing. Jakub Krkoška, MBA  
Member of the Board

# Report on Relations

in accordance with Article 82 – 88 of Act No. 90/2012 Coll., on commercial companies and cooperatives for the accounting period from 1. 1. 2014 to 31. 12. 2014

Česká spořitelna – penzijní společnost, a. s. with its registered office at Poláčkova 1976/2, Prague 4, Registration Number: 61672033, registered in the Commercial Registry, Section B, Insert 2927, administered at Municipal Court Prague, (henceforth “company”, is part of the business group (concern) where following relations exist between the processor and parties controlled by the same controlling parties (henceforth “related parties”).

This report on relations between the parties hereunder was prepared pursuant to the provision of Section 82-88 of Act No. 90/2012 Coll., on commercial companies and cooperatives, as amended, for the accounting period of 2014 (henceforth the “accounting period”). In this accounting period, the company and the parties hereunder entered into the following contracts and adopted or enacted the following legal acts and other de facto measures. The Report on Relations provides the financial details of transactions with related parties for the accounting period from 1<sup>st</sup> January 2014 to 31<sup>st</sup> December 2014.

## A. Company

The company is a member of the Financial Group of Česká spořitelna, a. s. The main object of the company is providing pension savings in the second pillar, the additional pension savings in the third pillar and managing of the Transformed Fund. The Company prosecutes 4 pension funds, 3 participant funds and 1 Transformed Fund.

## B. Controlling Entities

- **Erste Group Bank AG**,  
registered office at Graben 21, Vienna, Austria  
Relation to the company: indirect controlling subject – subject controlling EGB Ceps Beteiligungen GmbH
- **EGB Ceps Beteiligungen GmbH**,  
registered office at Graben 21, Vienna, Austria  
Relation to the company: indirect controlling subject – subject controlling EGB Ceps Holding GmbH
- **EGB Ceps Holding GmbH**,  
registered office at Graben 21, Vienna, Austria  
Relation to the company: indirect controlling subject – subject controlling Česká spořitelna, a. s.

- **Česká spořitelna, a. s.**,  
registered office at Olbrachtova 1929/62, Prague 4, Czech Republic, Registration number 45244782  
Relation to the company: direct controlling subject with the 100% share on assets.

## C. Other Interconnected Subjects

- **ČS do domu, a. s.**,  
registered office at Poláčkova 1976/2, Prague 4,  
Registration number 28909011  
Relation to the company: sister company directly controlled by Česká spořitelna, a. s.
- **s IT Solutions CZ, s. r. o.**,  
registered office at Antala Staška 32/1292, Prague 4,  
Registration number 27864260  
Relation to the company: other interconnected subjects
- **Stavební spořitelna České spořitelny, a. s.**,  
registered office at Vinohradská 180/1632, 130 11 Prague 3,  
Registration number 60197609  
Relation to the company: sister company directly controlled by Česká spořitelna, a. s.
- **Procurement Services CZ s. r. o.**,  
registered office at Budějovická 1912/64b, Prague 4,  
Registration number 27631621  
Relation to the company: other interconnected subjects

## D. Business Transactions With The Interconnected Subjects

The pension company identified relations with interconnected subjects listed in Part B and Part C which are aggregated below into categories as follow.

### Business transactions with interconnected subjects on the active side of the pension company Balance sheet

#### Receivables from banks

The pension company does not have any funds on term deposits and current accounts deposited at the interconnected subjects.

### Other assets

In the item Other assets, receivables from business relations and other assets of the pension company towards interconnected subjects amounting 139,5 million CZK are included. The items concerned are mainly time deferred commissions towards Česká spořitelna. No detriment rose to the pension company from these transactions in the accounting period.

### Business transactions with interconnected subjects on the passive side of the pension company Balance sheet

#### Other liabilities

In the Other liabilities item, liabilities from the pension company business relations towards interconnected subjects amounting 42,3 million CZK are included. These are mainly liabilities towards Česká spořitelna. No detriment rose to the pension company from these transactions in the accounting period.

#### Equity

The pension company held no securities of the interconnected subjects.

### Business transactions with interconnected subjects affecting the pension company Profit and Loss Statement

#### Cost of fees and commissions

Within business transactions with interconnected subjects the pension company expended under regular market or business conditions in the accounting period costs of fees and commissions, including mainly fees and commissions for asset management and product sale, amounting to 178,3 million CZK. No detriment rose to the pension company from these transactions in the accounting.

#### General administrative costs and other operating costs

The pension company expended in the financial year on other administrative costs towards interconnected subjects, especially outsourcing, risk management, rent, services etc., under regular market or business conditions 30,6 million CZK. No detriment rose to the pension company from these transactions in the accounting.

## E. Contractual relations

The company closed in the past accounting periods contracts with interconnected subjects listed in Part B and Part C, whose financial pronouncement for the accounting period is included in Part D. The company closed in the accounting period new contracts with interconnected subjects listed in Part B and Part C, whose financial pronouncement for the accounting period is included in Part D. The list below includes all contracts with interconnected subjects closed in the accounting period:

Name of contract	Contractor	Description of contract	Possible detriment
Management of Securities Agreement	Česká spořitelna, a. s.	Securities management	None
Lease agreement for premises in Poláčkova St	Česká spořitelna, a. s.	Lease	None
The Lease contract	Česká spořitelna, a. s.	Rent of 2 safes	None
Protection of confidential information agreement	Česká spořitelna, a. s.	Protection of confidential information	None
The Lease Contract	Česká spořitelna, a. s.	Rent of office in Přerově	None
The Lease Contract	Česká spořitelna, a. s.	Rent of archive place at Olbrachtova	None
Contract on Cooperation	Česká spořitelna, a. s.	Provision of services for Client centre	None
Contract on Cooperation	Česká spořitelna, a. s.	Participation on funding Pension solution campaign	None
Contract on Providing Selected Activities in Risk Management Section	Česká spořitelna, a. s.	Outsourcing of KondImp ModulAdministration into CS	None
Contract for the provision of selected activities related to assets management	Česká spořitelna, a. s.	Back office services for assets	None
Information Technology Agreement	Česká spořitelna, a. s.	IT service agreement	None
Agreement of cooperation in Partner 24 application	Česká spořitelna, a. s.	Cooperation with PARTNER 24application	None
Outsourcing services agreement concerning provisions of some of the duties of a pension company related to the management of funds, bookkeeping for pension funds, participation funds and Transformed Funds, back office activities, processing of cooperation applications and preparation of execution orders	Česká spořitelna, a. s.	Outsourcing back office for securities for ČS	None



Name of contract	Contractor	Description of contract	Possible detriment
Representation agreement for external partners	Česká spořitelna, a. s.	Business representation	None
Outsourcing services agreement concerning processing and payment of commissions to external partners, product support and central partner administration activities	Česká spořitelna, a. s.	Processing and payment of commission to external partners	None
Outsourcing services agreement	Česká spořitelna, a. s.	Outsourcing	None
Outsourcing services agreement concerning processing of cooperation applications, and preparation of execution orders	Česká spořitelna, a. s.	Outsourcing	None
The Lease Contract	Česká spořitelna, a. s.	Rent of Reserve Centre of Antal Stašek	None
@FAKTURA 24 Service agreement	Česká spořitelna, a. s.	Providing service for @FAKTURA24	None
Contract on Post-Warranty Service	IT Solutions CZ, s. r. o.	Post-warranty service hardware	None
Master Agreement for the Provisioning of IT Services for PFČS	S IT Solutions CZ, s. r. o.	Contract for cooperation in providing post-warranty service	None
Contract on Supply of Service	Procurement Services CZ, s. r. o.	Purchase centralization	None
Agreement on organising an extraordinary marketing event and reimbursement of related expenses	Stavební spořitelna České spořitelny, a. s.	Sales support	None
Representation agreement	ČS do domu, a. s.	Business representation	None

## E. Other Legal Acts

The company in the accounting period did not receive or provide any legal acts for the sake or from the incentive of the interconnected subjects.

## F. Other Real Measures


The pension company cooperates within Erste Group Bank on group projects. While cooperating on these group projects, no detriment has befallen the company.

## G. Conclusion

With regard to the revision of legal relations between the Processor and interconnected subjects it is clear that due to the contracts, other legal acts or other measures closed, taken or adopted by the company in the financial year 2014 for the sake of or from incentive of individual interconnected subjects, no detriment has befallen the company.

This report was discussed and approved by the Board of Directors of the Processor on 25<sup>th</sup> March 2015.

Česká spořitelna – penzijní společnost, a. s.

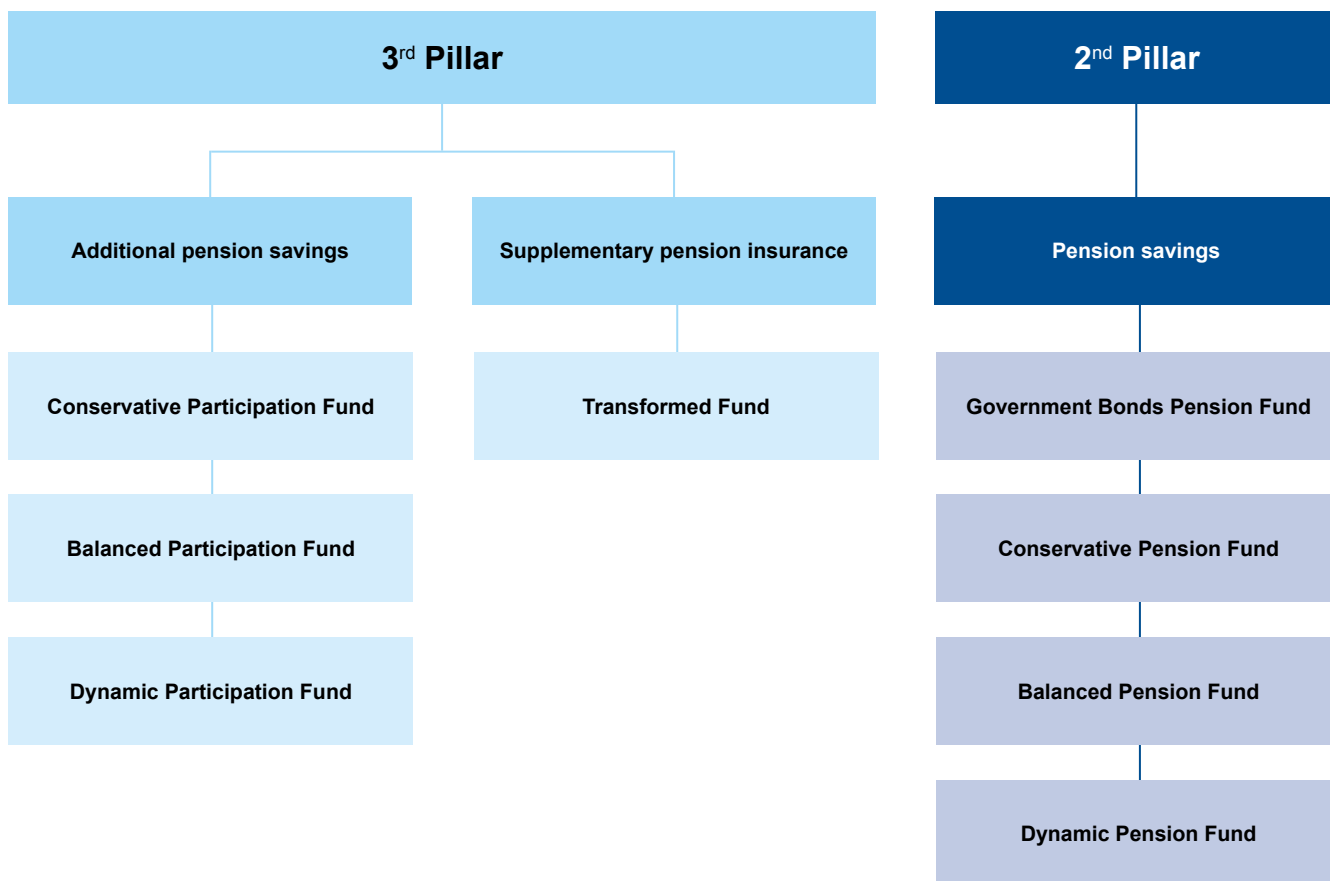


Ing. Aleš Poklop  
Chairman of the Board of Directors

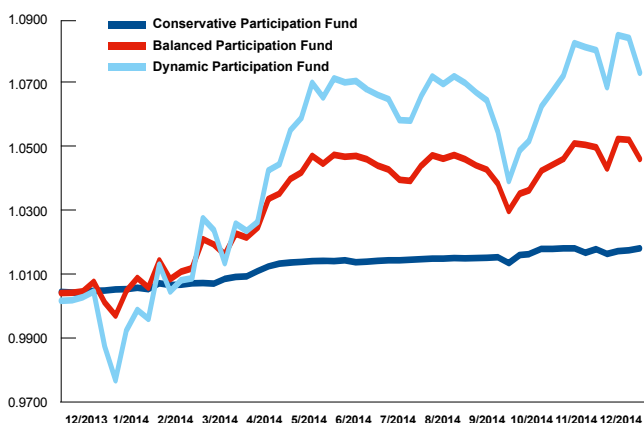


Ing. Jakub Krkoška, MBA  
Member of the Board of Directors

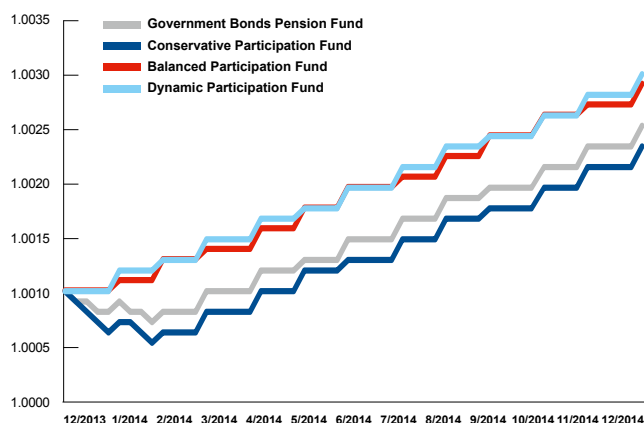
# List of funds



**Development of pension unit of the additional pension savings funds (2014)**



**Development of pension unit of the pension savings funds (2014)**



# Compulsory Conservative Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a. s.

## Basic information

Compulsory Conservative Participation Fund of additional pension savings with government contribution Česká spořitelna – penzijní společnost, a.s. The Czech National Bank (CNB) issued a decision which permitted the establishment of the participation fund on 17<sup>th</sup> December 2013, reference number 2012/12485/570. The decision came into effect on 18<sup>th</sup> December 2012.

It is managed by Česká spořitelna – penzijní společnost, a.s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033, Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of the consolidation group, whose parent company is Česká spořitelna, a.s., IN: 45244782

## Fund characteristics

Investment into a Conservative Participation Fund is suitable for those participants who are neither interested nor informed about events on capital markets and at the same time who are looking for a complex solution of their investment divided between the money and bond markets. The Conservative Participation Fund is designed for those participants who prefer fixed-income financial instruments and for less-experienced investors with a minimum investment horizon of one year. The goal of the investment policy is to provide participants with a long-term appreciation of the funds invested which are mainly into the instruments of money market, government bonds, and other debt securities rated at the investment level permitted by law on additional pension savings. The interest rate risk is actively managed, the investment denominated in foreign currency are fully managed.

## Depository

The depository of the participation fund is Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a.s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171. Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and is

professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

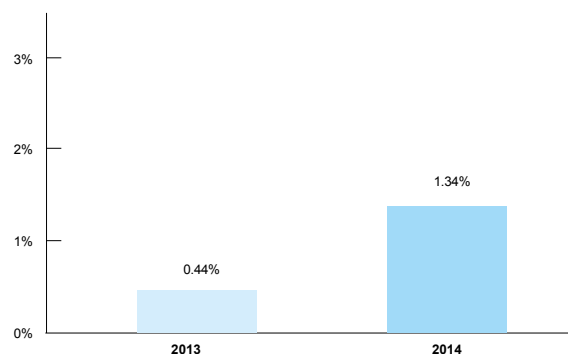
Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054.

## Fees and charges

In 2014, Česká spořitelna – penzijní společnost charged an annual management fee of 0.4% of the average net asset value at the expense of Conservative Fund of Additional Pension Savings. Also, an asset performance fee of 10% was charged of the difference between the average annual value of pension unit in the relevant period and the highest average annual value of pension unit in previous years multiplied by the average annual number of pension units. Fees and charges are regulated by Supplementary pension savings law no. 427/2011 Coll. Section 60 Pension companies' remuneration.

**To obtain further information on the participation fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

## Historical Performance of Conservative Participation Fund



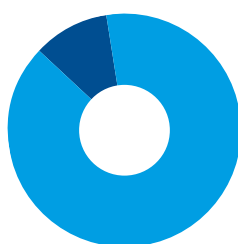
### Top holdings of the Compulsory Conservative Participation Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
GOVERNMENT BOND 4.6 08/18/18	CZK	443,802	441,066	33.5%
GOVERNMENT BOND VAR 10/27/16	CZK	281,288	281,428	21.4%
GOVERNMENT BOND 4 04/11/17	CZK	220,575	218,100	16.6%
GOVERNMENT BOND VAR 07/23/17	CZK	102,920	102,870	7.8%
GOVERNMENT BOND 0.5 07/28/16	CZK	55,251	55,330	4.2%
SLOVAKIA GOVT 4.375 05/21/22 USD	USD	39,430	44,850	3.4%
PRAHA 4.25 05/11/21	CZK	36,735	37,488	2.8%
Money Market		135,465	135,465	10.3%

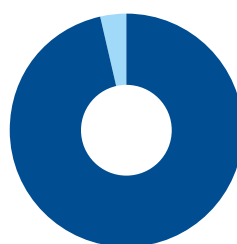
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	1,324,442
<b>NAV per unit of fund in CZK</b>	<b>1.0179</b>

### Portfolio of the participation fund as at 31<sup>st</sup> December 2014

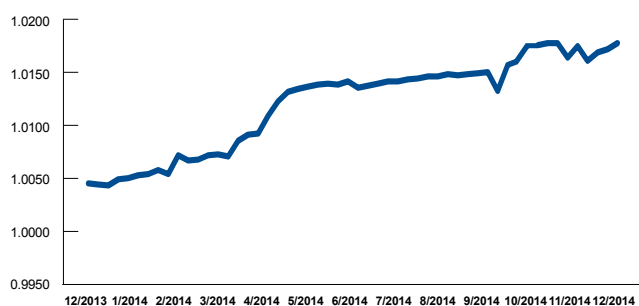


■ Money market 89.7%  
■ Bonds 10.3%

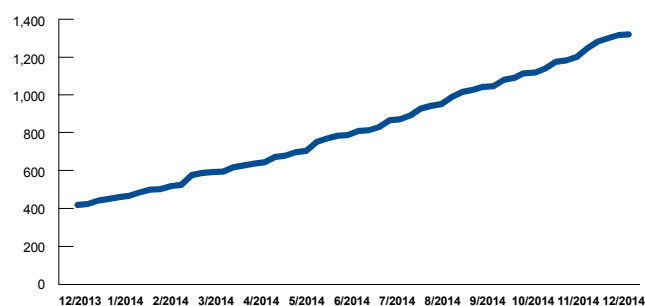


■ CZK 96.6%  
■ USD 3.4%

### The development of pension unit of the Compulsory Conservative Participation Fund (2014)



### Development of the fund NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s.:

- I. We have audited the financial statements of the fund Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014 presented in the annual report of the Company on pages 37 – 49 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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*

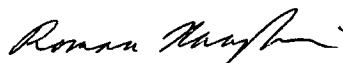
In our opinion, the financial statements present fairly, in all material respects, the financial position of the fund Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	135,465	385,576
of which: a) on demand: aa) current accounts	02	135,465	315,376
ab) term deposits	03		70,200
5 Debt securities	10	1,194,573	35,294
of which: a) issued by the government	11	1,156,247	35,294
b) issued by other institutions	12	38,326	
11 Other assets	15	28,772	6,749
d) other assets	19	28,772	6,749
<b>Total assets</b>	<b>23</b>	<b>1,358,810</b>	<b>427,619</b>
4 Other liabilities	30	33,067	13,882
a) financial derivatives	31	1,325	
c) liabilities from taxes	33	6	42
d) other liabilities	34	31,736	13,840
5 Accrued liabilities and deferred income	36	1,300	
10 Reserve funds and other funds created from profit	42	1,069	
12 Capital funds	43	1,313,890	412,668
15 Profit or loss for the accounting period	49	9,484	1,069
<b>Total liabilities</b>	<b>50</b>	<b>1,358,810</b>	<b>427,619</b>
of which: Equity	51	1,324,443	413,737
<b>Off balance sheet accounts</b>	<b>52</b>		
4 Amounts due from fixed term transactions	54	41,374	
b) with currency instruments	56	41,374	
8 Values provided for management	62	1,193,248	105,494
a) securities	63	1,194,573	35,294
c) other values	64	(1,325)	70,200
12 Amounts owed from fixed term transactions	67	42,699	
b) with currency instruments	69	42 699	

# Income Statement

for the period ended 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	12,630	505
of which: a) interest income from bonds	02	11,622	78
5 Fees and commissions expense	08	4,117	
a) management fee	09	3,271	
b) performance fee	10	846	
6 Profit or loss on financial operations	12	1,000	606
a) profit or loss on transactions with securities	13	5,102	606
b) profit or loss from FX differences	14	222	
c) profit or loss from fixed term transactions and options	15	(4,324)	
7 Other operating income	16	7	
8 Other operating expense	17	36	
19 Ordinary profit or loss for the accounting period before tax	24	9,484	1,111
23 Income tax	28		42
24 Profit or loss for the accounting period after tax	29	9,484	1,069



# Notes to the Financial Statements

for the period ended 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Účastnický fond – CSPS, a.s.” or the “Participation Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS”) in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12485/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as of 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 427/2011 Coll. on Supplementary Pension Savings, the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a participation fund as at the date of approval of the Statute.

### Registered Office

Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

CS PS collects participants’ contributions, employers’ contributions and state contributions under the Act to place them in participation funds, to manage the assets of participation funds and to pay out supplementary pension savings benefits.

The number of issued pension units (“penzijní jednotky”) or the period for which the Fund has been formed has not been restricted.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities with rating on investment level allowed by the Act. The interest rate risk is actively managed, the investments denominated in foreign currencies are fully hedged.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds or discount certificates. The Fund may invest in securities in compliance with Section 98 of the Act.

The Participation Fund is not permitted to invest in investment securities issued by CS PS, which manages the Fund, or by any entity belonging to the same group.

The Participation Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Participation Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Fund can use financial derivatives to hedge the interest and currency risks.

The Fund’s assets must be fully secured against the currency risk.

The underlying instrument of a financial derivative must correspond to the Fund's investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Participation Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Participation Fund's assets, the reinvestment fund created from the previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

Pursuant to Section 36(2) of the Act, CS PS is required to establish a mandatory Conservative fund (Section 94(1)) not later than one year from the date of issuance of the authorization to carry on the activities of a pension company. CS PS must have at least 10,000 thousand participants upon the expiration of a period of 24 months from the date when the authorization to establish a mandatory Conservative fund was granted.

The Participation Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 108 of the Act.

The Participation Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, Section 3, paragraph 29. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The terms and conditions are stipulated in the Fund's Statute and in the Section 108 of the Act on Supplementary Pension Savings.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Participation Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the Participation fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the Participation fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 115 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank; the Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Participation Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the Participation funds' assets,
- b) fee for appreciation of the Participation funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 74 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs.

The fee pursuant to Paragraph a) above must not exceed 0.4% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each Participation fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of pension units in previous years since the formation of the Participation

fund, multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the Participation fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the Participation fund.

The average value of a Participation fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

### Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčová
Member	Ing. Pavel Matějčec

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, the prudence concept and the going concern assumption.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

## 3. Accounting Policies

### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- the date upon which the related contract was entered into;
- the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

## Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

## Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

## Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

## Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

## Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

## Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Currency risk was insignificant for the Fund in 2014 as well as in 2013. The quantitative information about interest risk is given in Note 5.15.

Set out below are relative monthly values of the VaR in percentage terms for individual types of risks in 2014:

	As at 31 Dec 2014	Average VaR
Global VaR	0.16%	0.13%
Foreign currency VaR	0.00%	0.00%
Interest rate VaR	0.12%	0.12%
Equity VaR	0.00%	0.00%

The average VaR is calculated as the average of daily VaR values in the given year.

No derivative transactions were effected in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Participant's funds will cover the following benefits:

- a) retirement pension benefits paid for a specified period,
- b) disability pension benefits paid for a specified period,
- c) one-off settlements,
- d) surrender values,
- e) single premiums – whole life, or
- f) single premiums – variable life (fixed term and fixed pension benefit).

Supplementary pension savings benefits are paid following a written request by a participant, beneficiary or heir. A participant may request the payment of a benefit as soon as their entitlement arises.

The benefits specified under Section 19 a) through d) of the Act are required to be paid by CS PS within the time limits and in a manner agreed with the recipient of the benefit, unless the Act provides otherwise.

If requested in writing by a participant or beneficiary, benefits are paid to a participant or beneficiary to abroad.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

### One-off Settlement

If a participant is entitled to a one-off settlement, CS PS shall pay the one-off settlement following the receipt of their written request,

no later than by the end of the calendar quarter immediately following the month for which the last contribution was made.

If a beneficiary or heir is entitled to a one-off settlement, CS PS shall pay the one-off settlement within one month of the receipt of their written request, provided the death of the participant has been proven.

A participant that is entitled to a one-off settlement and who, prior to submitting the request for the one-off settlement, ceased the payment of contributions in compliance with Section 11 of the Act, shall receive the one-off settlement within one month of the receipt of their written request.

### Surrender Values

Surrender values shall be paid by CS PS within one month of the receipt of the beneficiary's request for the payment of surrender values.

### Retirement and disability pension benefits paid for a specified period

Retirement pension benefits for a specified period and disability pension benefits for a specified period shall be paid either through installments of a specified amount or through a specified number of installments, until all the participant's funds are withdrawn; payments shall be made on a regular basis at least four times per calendar year, provided the installment is at least CZK 500. If it is not the case, CS PS may reduce the number of installments to one annually.

### Single premiums – whole life and variable life

CS PS shall, no later than within seven business days of the receipt of a request for a single premium for whole life insurance or variable life insurance (fixed term and fixed pension benefit), inform a participant of the level of the participant's funds as at the date of the receipt of the request.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.16.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	135,465	315,376
Term deposits	0	70,200
<b>Total</b>	<b>135,465</b>	<b>385,576</b>

Balances on current accounts are payable on demand.

## 5.2 Securities

All securities held by the Fund are publicly listed on the Prague Stock Exchange or foreign stock exchanges.

<b>Debt securities</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Acquisition cost	1,180,000	34,615
Market revaluation	1,133	605
Aliquot interest income	13,440	74
<b>Total</b>	<b>1,194,573</b>	<b>35,294</b>

The proportion of debt securities due in more than 1 year with a fixed coupon was 67.82% and with a variable coupon 32.18% in 2014 (2013: 100% with a fixed coupon).

## 5.3 Other Assets

<b>Other assets</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Estimated state contribution	28,123	6,749
Receivables – domestic coupons	649	0
<b>Total</b>	<b>28,772</b>	<b>6,749</b>

Estimated state contribution represents the estimated amount of state contribution that will be transferred to the Fund's account by Penzijní společnost in April 2015. The caption 'Receivables – domestic coupons' includes a claim for the coupon, CZ0001003438 Government Bond, due in January 2015.

## 5.4 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As of the last business day of 2014, the value of a pension unit was CZK 1.0175 (2013: CZK 1.0044) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 9,484 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 1,069 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

## 5.5 Changes in Capital Fund

	<b>Number of pension units (items)</b>	<b>Total capital funds</b>
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>0</b>	<b>0</b>
Pension units sold	422,060,141	422,808
Pension units purchased	10,115,706	10,140
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>411,944,435</b>	<b>412,668</b>
Pension units sold	950,780,505	963,007
Pension units purchased	61,025,946	61,785
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>1,301,698,994</b>	<b>1,313,890</b>

## 5.6 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	1,480	4,679
Liability from deduction of pension units	2,133	2,412
Settlement with state budget	6	42
Liability – state contribution	28,123	6,749
Liability – Forward currency contracts	1,325	0
<b>Total</b>	<b>33,067</b>	<b>13,882</b>

Liabilities from deposits from pension insurance participants represent invested funds prior to their matching against the book of pension units.

Deduction of pension units represents the Fund's liability from purchased pension units deducted from the book of pension units.

Liability – state contribution represents the estimated amount of state contribution. After the amount is credited to the Fund's account, the contribution is credited to pension savings participants as part of the matching against the book of pension units.

## 5.7 Accrued Liabilities and Deferred Income

Accrued liabilities consist of the unbilled management fee – December 2014 of CZK 454 thousand and the performance fee for 2014 of CZK 846 thousand.

## 5.8 Financial Derivatives Designated as Trading Derivatives

Fair value of the derivatives:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Positive	Negative	Positive	Negative
Currency swaps	0	1,325	0	0
<b>Total</b>	<b>0</b>	<b>1,325</b>	<b>0</b>	<b>0</b>

All financial derivatives recognized as trading derivatives are due within one year.

Receivables and payables from fixed term transactions at fair values of underlying instruments from the off-balance sheet account:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Asset	Liability	Asset	Liability
Currency swaps	41,374	42,699	0	0
<b>Total</b>	<b>41,374</b>	<b>42,699</b>	<b>0</b>	<b>0</b>

Open derivative positions accounted off-balance sheet are daily converted to fair value in absolute amounts.

## 5.9 Interest Income

Income	2014	2013
Interest on bank deposits	958	227
Interest on debt securities	11,622	78
Interest on term deposits	50	200
<b>Total</b>	<b>12,630</b>	<b>505</b>

## 5.10 Management fee, performance fee and depository's fee

	2014	2013
Management fee (flat fee)	3,271	0
Performance fee	846	0
<b>Total</b>	<b>4,117</b>	<b>0</b>



In compliance with the Statute of the Fund, the management fee (“flat fee”) paid to CS PS by the Fund amounts to 0.4% of the average annual value of the Fund’s equity. The performance fee amounts to 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund multiplied by the average annual number of pension units.

Based on the decision of CS PS, the 2013 management fee was CZK 0 (a fee holiday, see the Price List).

The depository’s fee is included in the management fee.

### 5.11 Profit or Loss from Financial Operations

	2014	2013
Profit or loss from securities designated at fair value through profit or loss	5,102	606
Profit or loss from FX differences	222	0
Profit or loss from futures, forwards, swaps	(4,324)	0
<b>Total</b>	<b>1,000</b>	<b>606</b>

Profit or loss from securities designated at fair value through profit or loss represents, in particular, the daily revaluation of securities at fair value.

Profit or loss from FX differences represent the value of realized FX gains or losses from foreign currency accounts and from the settlement of foreign currency receivables and payables as well as gains or losses arising from the revaluation of assets, with the exception of securities, and liabilities in foreign currency at fair value.

Profit or loss from derivatives include profit or loss on the settlement of fixed term transactions (futures, forwards, swaps) with currency instruments and also the revaluation of open derivatives at fair value.

### 5.12 Other Operating Expenses and Income

	2014	2013
Other operating income	7	0
Other operating expenses	36	0

Other operating income serves to record settlement of hedges on all types of payments and items subject to statute of limitations pertaining to termination of the policy from the inception as the payment shall be made at the nominal value of invested funds and credited state contributions.

Other operating expenses serve to record subsidies for policies, which lack funds for payment due to movements in rates. The most common case involves termination of the policy from the inception as the payment shall be made at the nominal value of invested funds and credited state contributions.

### 5.13 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	0	42
<b>Total income tax</b>	<b>0</b>	<b>42</b>

## Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	9,484	1,111
Items to add	1,943	0
Deductible items	(11,672)	279
Tax base	(245)	832
Tax (5%) on tax base	0	42
<b>Total tax</b>	<b>0</b>	<b>42</b>

## Deferred tax

As of 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As of 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5.14 Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a. s.

Receivables from and payables to related parties	31 Dec 2014	31 Dec 2013
Accrued income – state contribution – ČSPS	28,123	6,749
Unbilled management fee – liability to CS PS	454	0
Unbilled annual performance fee – liability to CS PS	846	0
<b>Total</b>	<b>29,423</b>	<b>6,749</b>

The Fund will obtain the state contribution from Penzijní společnost.

The related party costs recorded in the Fund's accounting records amounted to CZK 4,117 thousand in 2014. The costs include CS PS management fee of CZK 3,271 thousand and CS PS performance fee of CZK 846 thousand.

## 5.15 Interest Rate Risk

The following tables show the interest rate risk that the Fund is exposed to. Assets and liabilities that bear no interest are included in the “No interest” column.

## 2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	No interest	Total
Receivables from banks	135,465	0	0	0	0	135,465
Debt securities	0	0	1,111,201	83,372	0	1,194,573
Other assets	0	0	0	0	28,772	28,772
<b>Total assets</b>	<b>135,465</b>	<b>0</b>	<b>1,111,201</b>	<b>83,372</b>	<b>28,772</b>	<b>1,358,810</b>
Liabilities						
Other liabilities and accrued expense	1,325	0	0	0	(33,042)	(34,367)
<b>Net assets</b>	<b>134,140</b>	<b>0</b>	<b>1,111,201</b>	<b>83,372</b>	<b>(4,270)</b>	<b>1,324,443</b>

## 2013

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months –1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>No interest</b>	<b>Total</b>
Receivables from banks	360,576	25,000	0	0	0	385,576
Debt securities	0	0	35,294	0	0	35,294
Other assets	0	0	0	0	6,749	6,749
<b>Total assets</b>	<b>360,576</b>	<b>25,000</b>	<b>35,294</b>	<b>0</b>	<b>6,749</b>	<b>427,619</b>
<b>Liabilities</b>						
Other liabilities	0	0	0	0	(13,882)	(13,882)
<b>Net assets</b>	<b>360,576</b>	<b>25,000</b>	<b>35,294</b>	<b>0</b>	<b>(7,133)</b>	<b>413,737</b>

**5.16 Liquidity**

The following tables show the residual maturity of assets and liabilities broken down by major classes.

Given the fact that all securities are marketable on public markets, sales can be realized within 3 months period.

## 2014

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months –1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Not specified</b>	<b>Total</b>
Receivables from banks	135,465	0	0	0	0	135,465
Debt securities	0	0	1,111,201	83,372	0	1,194,573
Other assets	28,772	0	0	0	0	28,772
<b>Total assets</b>	<b>164,237</b>	<b>0</b>	<b>1,111,201</b>	<b>83,372</b>	<b>0</b>	<b>1,358,810</b>
<b>Liabilities</b>						
Other liabilities	(34,361)	(6)	0	0	0	(34,367)
<b>Net assets</b>	<b>129,876</b>	<b>(6)</b>	<b>1,111,201</b>	<b>83,372</b>	<b>0</b>	<b>1,324,443</b>

## 2013

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months –1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Not specified</b>	<b>Total</b>
Receivables from banks	360,576	25,000	0	0	0	385,576
Debt securities	0	0	35,294	0	0	35,294
Other assets	6,749	0	0	0	0	6,749
<b>Total assets</b>	<b>367,325</b>	<b>25,000</b>	<b>35,294</b>	<b>0</b>	<b>0</b>	<b>427,619</b>
<b>Liabilities</b>						
Other liabilities	(13,840)	(42)	0	0	0	(13,882)
<b>Net assets</b>	<b>353,485</b>	<b>24,958</b>	<b>35,294</b>	<b>0</b>	<b>0</b>	<b>413,737</b>

Liquidity risk, to which the Fund is exposed, is low as all assets are immediately convertible into cash before the expected purchases by the Fund's Participants.

**5.17 Off-balance Sheet Assets and Liabilities**

The off-balance sheet of the Fund contains values provided for management. Item "values provided for management" contains domestic securities administrated by Komerční banka, a. s., and other values (term deposits).

**5.18 Contingent Assets and Liabilities**

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

**5.19 Other Material Disclosures**

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

**5.20 Subsequent Events**

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Balanced Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a. s.

## Basic information

Balanced Participation Fund of the additional pension savings with government contribution Česká spořitelna – penzijní společnost, a.s. CNB issued a decision which permitted the establishment of the participation fund on 17<sup>th</sup> December 2012, reference number 2012/12487/570. The decision came into effect on 18<sup>th</sup> December 2012.

Is managed by Česká spořitelna – penzijní společnost, a.s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033, Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of the consolidation group, whose parent company is Česká spořitelna, a.s., IN: 45244782

## Fund characteristics

Investment into a Balanced Participation Fund is suitable for those participants who seek a long-term solution for their investment, distributed among money, bond, and share markets. With regard to the nature of investment, the participant should be aware of the fact that the value of the investment can – in the medium term – drop below the initial value. The Balanced fund is thus suitable for rather experienced investors, who prefer fixed income financial instruments, and want to invest in stock markets with a minimum investment horizon of three years. The investment into the Balanced Participation Fund is also suitable for less-experienced investors as part of broadly diversified portfolio. The goal of the investment policy is to provide the participants with long-term appreciation of funds invested placed mainly into the instruments of money markets, government bonds, and other debt securities and shares or similar securities representing the share on a legal entity. The credit and interest risk is actively controlled; unsecured investment denominated in foreign exchanges can not exceed 25% maximum of the value of fund assets.

## Depository

The depository of the participation fund is Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054.

## Portfolio manager

Česká spořitelna, a.s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171.

Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and is professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

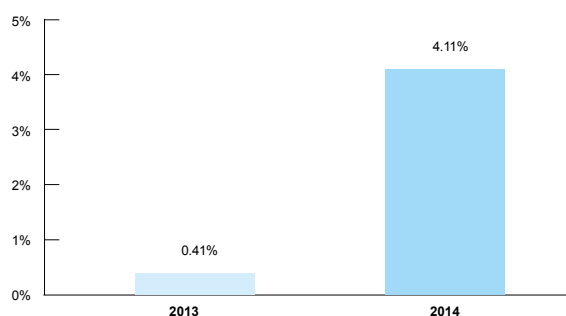
Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054.

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge management fee and asset performance fee (Fee holidays) at the expense of Balanced Fund of Additional Pension Savings. However in 2015, annual management fee 0.8% of the average net asset value will be charged. Also, assets performance fee of 10% will be charged of the difference between the average annual value of pension unit in the relevant period and the highest average annual value of pension unit in foregoing years multiplied by the average annual number of pension units. Fees and charges are regulated by Supplementary pension savings law no. 427/2011 Coll. Section 60 Pension companies' remuneration.

**To obtain further information on the participation fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

## Historical Performance of Balanced Participation Fund



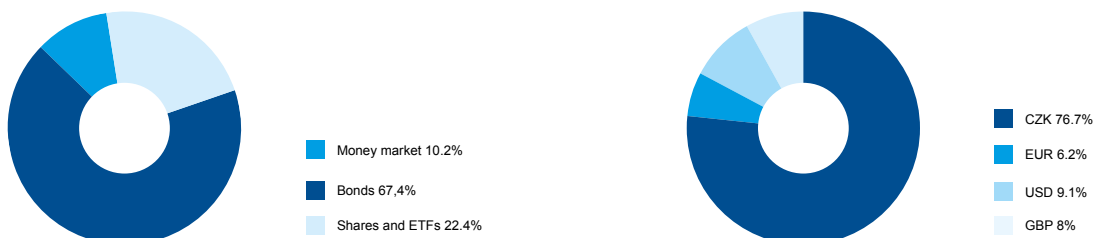
### Top holdings of the Balanced Participation Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
GOVERNMENT BOND VAR 10/27/16	CZK	69,324	69,352	29.6%
GOVERNMENT BOND 4.6 08/18/18	CZK	58,395	58,035	24.7%
ISHARE SP 500 INDEX FUND (GBP)	GBP	10,067	10,902	4.6%
PRAHA 4.25 05/11/21	CZK	7,110	7,256	3.1%
ISHARES CORE DAX UCITS ETF (DE)	EUR	6,754	7,144	3.0%
ISHARES EURO STOXX UCITS ETF DE	EUR	6,720	6,991	3.0%
CEZ 4.6 05/03/23	CZK	6,340	6,403	2.7%
ISHARES MSCI EM-INC	GBP	6,469	6,366	2.7%
CETELEM VAR 10/08/19	CZK	6,000	6,044	2.6%
GOVERNMENT BOND 0.5 07/28/16	CZK	6,016	6,036	2.6%
SLOVAKIA GOVT 4.375 05/21/22 USD	USD	4,545	4,983	2.1%
ISHARE MSCI JAPAN INDEX FUND	USD	2,778	2,862	1.2%
Other < 1%		17,758	18,280	7.8%
Money Market		23,973	23,973	10.2%

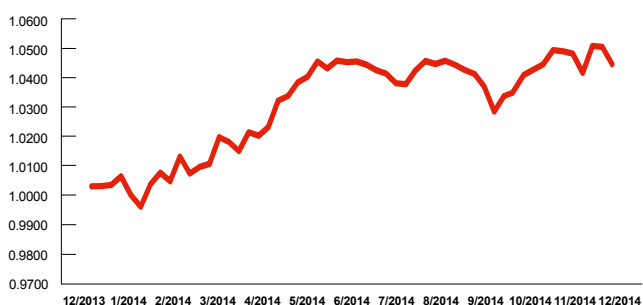
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	233,588
<b>NAV per unit of fund in CZK</b>	<b>1.0454</b>

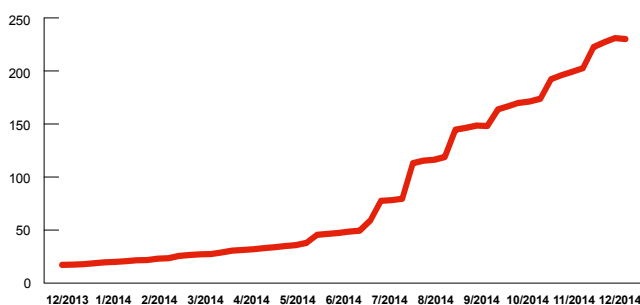
### Portfolio of the participation fund as at 31<sup>st</sup> December 2014



### The development of pension unit of the Balanced Participation Fund (2014)



### Development of the fund NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s.:

- I. We have audited the financial statements of the fund Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014 presented in the annual report of the Company on pages 54 – 66 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	23,973	17,066
of which: a) on demand: aa) current accounts	02	23,973	15,361
ab) term deposits	03		1,705
5 Debt securities	10	159,364	1,008
of which: a) issued by the government	11	139,335	1,008
b) issued by other institutions	12	20,029	
6 Shares, participation certificates and other holdings	13	52,544	
11 Other assets	15	2,951	593
d) other assets	19	2,951	593
<b>Total assets</b>	<b>23</b>	<b>238,832</b>	<b>18,667</b>
4 Other liabilities	30	5,244	945
a) financial derivatives	31	1,151	
c) liabilities from taxes	33	87	1
d) other liabilities	34	4,006	944
10 Reserve funds and other funds created from profit	42	31	
12 Capital funds	43	230,857	17,691
15 Profit or loss for the accounting period	49	2,700	31
<b>Total liabilities</b>	<b>50</b>	<b>238,832</b>	<b>18,667</b>
of which: Equity	51	233,588	17,722
<b>Off balance sheet accounts</b>	<b>52</b>		
4 Amounts due from fixed term transactions	54	51,605	
b) with currency instruments	56	51,605	
8 Values provided for management	62	210,757	2,713
a) securities	63	211,908	1,008
c) other values	64	(1,151)	1,705
12 Amounts owed from fixed term transactions	67	52,756	
b) with currency instruments	69	52,756	



# Income Statement

for the period ended 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	782	15
of which: a) interest income from bonds	02	690	2
3 Income from shares and holdings	07	284	
6 Profit or loss on financial operations	12	1,732	17
a) profit or loss on transactions with securities	13	4,058	17
b) profit or loss from FX differences	14	204	
c) profit or loss from fixed term transactions and options	15	(2,530)	
8 Other operating expense	17	7	
19 Ordinary profit or loss for the accounting period before tax	24	2,791	32
23 Income tax	28	91	1
24 Profit or loss for the accounting period after tax	29	2,700	31

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Povinný konzervativní účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Účastnický fond – CSPS, a.s.” or the “Participation Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS”) in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12487/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as of 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Act”), the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a participation fund as at the date of approval of the Statute.

### Registered Office

Vyvážený účastnický fond doplňkového penzijního spoření se státním příspěvkem

Česká spořitelna – penzijní společnost, a.s.

Prague 4, Poláčkova 1976/2

### Principal Business

CS PS collects participants’ contributions, employers’ contributions and state contributions under the Act to place them in participation funds, to manage the assets of participation funds and to pay out supplementary pension savings benefits.

The number of issued pension units (“penzijní jednotky”) or the period for which the Fund has been formed has not been restricted.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities and shares or similar securities representing shares on legal persons. The credit and interest rate risk is actively managed; the unhedged investments denominated in foreign currencies can form maximum 25 per cent of the value of the Fund’s assets.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds, bonds funds or discount certificates, shares and equity funds. The Fund may invest in securities in compliance with Section 100 of the Act.

The Participation Fund is not permitted to invest in investment securities issued by CS PS, which manages the Fund, or by any entity belonging to the same group.

The Participation Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Participation Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Participation Fund uses techniques and tools for the efficient management of assets in accordance with the Statute to decrease the risk, decrease the expenses or to reach additional income for the Fund provided that the risk taken is demonstrably low. The Participation Fund’s assets that are not secured against currency

risk cannot represent more than 25 per cent of the value of the Fund's assets.

The underlying instrument of a financial derivative must correspond to the Fund's investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise from the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Participation Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Participation Fund's assets, the reinvestment fund created from the previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 108 of the Act.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Participation Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, Section 3, paragraph 36. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

The terms and conditions are stipulated in the Fund's Statute and in the Section 108 of the Act on Supplementary Pension Savings.

Pursuant to Section 36(2) of the Act, CS PS is required to establish a mandatory Conservative fund (Section 94(1)) not later than one year from the date of issuance of the authorization to carry on the activities of a pension company. CS PS must have at least 10,000 thousand participants upon the expiration of a period of 24 months from the date when the authorization to establish a mandatory Conservative fund was granted. The value of Participation Fund's assets managed by Penzijní společnost must reach at least CZK 50 million after the expiry of 24 months from the approval to form the participation fund.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Participation Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the Participation fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the Participation fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 115 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank; the Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Participation Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the Participation funds' assets,
- b) fee for appreciation of the Participation funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 74 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs.

The fee pursuant to Paragraph a) above must not exceed 0.8% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each Participation fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit

in the relevant period and the highest average annual value of pension units in previous years since the formation of the Participation fund, multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the Participation fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the Participation fund.

The average value of a Participation fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in said fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

### Česká spořitelna – penzijní společnost, a. s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějčíček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the content of the financial statements of banks and certain

financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, the prudence concept and the going concern assumption.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company make estimates which have an impact on the reported amounts of assets and liabilities as of the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as of the date of the financial statements, and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

## 3. Accounting Policies

### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value,

while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are

valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%. Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed on the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Market risk was insignificant for the Fund in 2014 as well as in 2013.

Set out below are relative monthly values of the VaR in percentage terms for individual types of risks in 2014:

	As at 31 Dec 2014	Average VaR
Global VaR	0.41%	0.52%
Foreign currency VaR	0.04%	0.04%
Interest rate VaR	0.10%	0.10%
Equity VaR	0.39%	0.39%

The average VaR is calculated as the average of daily VaR values in the given year.

No derivative transactions were effected in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Participant's funds will cover the following benefits:

- retirement pension benefits paid for a specified period,
- disability pension benefits paid for a specified period,
- one-off settlement,
- surrender values,
- single premiums – whole life, or
- single premiums – variable life (fixed term and fixed pension benefit).

Supplementary pension savings benefits are paid following a written request by a participant, beneficiary or heir. A participant may request the payment of a benefit as soon as their entitlement arises.

The benefits specified under Section 19 a) through d) of the Act are required to be paid by CS PS within the time limits and in a manner agreed with the recipient of the benefit, unless the Act provides otherwise.

If requested in writing by a participant or beneficiary, benefits are paid to a participant or beneficiary to abroad.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

### One-off Settlement

If a participant is entitled to a one-off settlement, CS PS shall pay the one-off settlement following the receipt of their written request, no later than by the end of the calendar quarter immediately following the month for which the last contribution was made.

If a beneficiary or heir is entitled to a one-off settlement, CS PS shall pay the one-off settlement within one month of the receipt of their written request, provided the death of the participant has been proven.

A participant that is entitled to a one-off settlement and who, prior to submitting the request for the one-off settlement, ceased the payment of contributions in compliance with Section 11 of the Act, shall receive the one-off settlement within one month of the receipt of their written request.

### Surrender Values

Surrender values shall be paid by CS PS within one month of the receipt of the beneficiary's request for the payment of surrender values.

### Retirement and disability pension benefits paid for a specified period

Retirement pension benefits for a specified period and disability pension benefits for a specified period shall be paid either through installments of a specified amount or through a specified number of installments, until all the participant's funds are withdrawn; payments shall be made on a regular basis at least four times per calendar year, provided the installment is at least CZK 500. If it is not the case, CS PS may reduce the number of installments to one annually.

### Single premiums – whole life and variable life

CS PS shall, no later than within seven business days of the receipt of a request for a single premium for whole life insurance or variable life insurance (fixed term and fixed pension benefit), inform a participant of the level of the participant's funds as at the date of the receipt of the request.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.15.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	23,973	15,361
Term deposits	0	1,705
<b>Total</b>	<b>23,973</b>	<b>17,066</b>

Balances on current accounts are payable on demand.

### 5.2 Securities

All securities held by the Fund are publicly listed on the Prague Stock Exchange or on foreign stock exchanges.

Debt securities	31 Dec 2014	31 Dec 2013
Acquisition cost	157,730	989
Market revaluation	378	17
Aliquot interest income	1,256	2
<b>Total</b>	<b>159,364</b>	<b>1,008</b>

Shares, participation certificates	31 Dec 2014	31 Dec 2013
Acquisition cost	50,547	0
Market revaluation	1,997	0
Aliquot interest income	0	0
<b>Total</b>	<b>52,544</b>	<b>0</b>

The proportion of debt securities due in more than 1 year with a fixed coupon was 52.65% in 2014 (2013: 100.00%).

The proportion of debt securities due in more than 1 year with a variable coupon was 47.35% in 2014 (2013: 100.00%).

### 5.3 Other Assets

Other assets	31 Dec 2014	31 Dec 2013
Estimated state contribution	2,805	593
Estimated foreign dividends	27	0
Estimated payments for holding PC with pension funds	119	0
<b>Total</b>	<b>2,951</b>	<b>593</b>

Estimated state contribution represents the estimated amount of state contribution that will be transferred to the Fund's account by Penzijní společnost in April 2015.

### 5.4 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0514 (2013: CZK 1.0041) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 2,700 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.



In compliance with the Statute, the 2013 profit of CZK 31 thousand was transferred to the reinvestment fund that is part of ‘other funds created from profit’.

## 5.5 Changes in Capital Fund

	Number of pension units (items)	Total capital funds
<b>Balance at 1<sup>st</sup> Jan 2013</b>		
Pension units sold	18,255,765	18,299
Pension units purchased	605,861	608
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>17,649,904</b>	<b>17,691</b>
Pension units sold	209,777,135	218,379
Pension units purchased	5,255,385	5,213
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>204,521,750</b>	<b>230,857</b>

## 5.6 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	299	285
Liability from deduction of pension units	902	66
Settlement with state budget	87	1
Liability – state contribution	2,805	593
Derivatives	1,151	0
<b>Total</b>	<b>5,244</b>	<b>945</b>

Liabilities from deposits from pension insurance participants represent invested funds prior to their matching against the book of pension units.

Deduction of pension units represents the Fund’s liability from purchased pension units deducted from the book of pension units.

Liability – state contribution represents the estimated amount of state contribution. After the amount is credited to the Fund’s account, the contribution is credited to pension savings participants as part of the matching against the book of pension units.

## 5.7 Financial Derivatives Designated as Trading Derivatives

Fair value of the derivatives:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Positive	Negative	Positive	Negative
Currency swaps	0	1,151	0	0
<b>Total</b>	<b>0</b>	<b>1,151</b>	<b>0</b>	<b>0</b>

All financial derivatives recognized as trading derivatives are due within one year.

Receivables and payables from fixed term transactions at fair values of underlying instruments from the off-balance sheet account:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Asset	Liability	Asset	Liability
Currency swaps	51,605	52,756	0	0
<b>Total</b>	<b>51,605</b>	<b>52,756</b>	<b>0</b>	<b>0</b>

Open derivative positions accounted off-balance sheet are daily converted to fair value in absolute amounts.

## 5.8 Income from Shares and Interests

Income	31 Dec 2014	31 Dec 2013
Dividends from shares and PC – foreign	258	0
<b>Uncollected foreign dividends</b>	<b>26</b>	<b>0</b>
<b>Total</b>	<b>284</b>	<b>0</b>

## 5.9 Interest Income

Income	31 Dec 2014	31 Dec 2013
Interest on bank deposits	91	8
Interest on debt securities	690	2
Interest on term deposits	1	5
<b>Total</b>	<b>782</b>	<b>15</b>

## 5.10 Management fee, performance fee and depository's fee

In compliance with the Statute of the Fund, the management fee (“flat fee”) paid to CS PS by the Fund amounts to 0.8 per cent of the average annual value of the Fund’s equity. The performance fee amounts to 10 per cent of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund multiplied by the average annual number of pension units.

Based on the decision of CS PS, the 2014 management fee was CZK 0 (a fee holiday, see the Price List). The depository’s fee is included in the management fee.

## 5.11 Profit or Loss from Financial Operations

	2014	2013
Profit or loss from securities designated at fair value through profit or loss	4,058	17
Profit or loss from FX differences	204	0
Profit or loss from futures, forwards, swaps and options	(2,530)	0
<b>Total</b>	<b>1,732</b>	<b>17</b>

Profit or loss from securities designated at fair value through profit or loss represents the daily revaluation of securities at fair value.

Profit or loss from FX differences represents the value of realized FX gains or losses from foreign currency accounts and from the settlement of foreign currency receivables and payables as well as gains or losses arising from the revaluation of assets, with the exception of securities, and liabilities in foreign currency at fair value.

Profit or loss from derivatives includes profit or loss on the settlement of fixed term transactions (futures, forwards, swaps) with currency instruments and also the revaluation of open derivatives at fair value.

## 5.12 Other Operating Expenses and Income

	2014	2013
Other operating income	0	0
Other operating expenses	7	0

Other operating expenses serve to record subsidies for policies, which lack funds for payment due to movements in rates. The most common case involves termination of the policy from the inception as the payment shall be made at the nominal value of invested funds and credited state contributions.

### 5.13 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	91	1
<b>Total income tax</b>	<b>91</b>	<b>1</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	2,791	32
Items to add	0	0
Deductible items	975	7
Tax base	1,816	25
Tax (5%) on tax base	91	1
<b>Total tax</b>	<b>91</b>	<b>1</b>

#### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

### 5.14 Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a. s.

Receivables from related parties	31 Dec 2014	31 Dec 2013
Accrued income – state contribution – ČSPS	2,805	593
<b>Total</b>	<b>2,805</b>	<b>593</b>

The Fund will obtain the state contribution from Penzijní společnost. No related party costs were recorded in the Fund's accounting records in 2014.

### 5.15 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

Given the fact that all securities are marketable on public markets, sales can be realized within a 3-month period.

2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	23,973	0	0	0	0	23,973
Debt securities	0	0	140,386	18,978	0	159,364
Shares, participation certificates	0	0	0	0	52,544	52,544
Other assets	2,951	0	0	0	0	2,951
<b>Total assets</b>	<b>26,924</b>	<b>0</b>	<b>140,386</b>	<b>18,978</b>	<b>52,544</b>	<b>238,832</b>
<b>Liabilities</b>						
Other liabilities	(5,157)	(87)	0	0	0	(5,244)
<b>Net assets</b>	<b>21,767</b>	<b>(87)</b>	<b>140,386</b>	<b>18,978</b>	<b>52,544</b>	<b>233,588</b>

## 2013

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months –1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Not specified</b>	<b>Total</b>
Receivables from banks	16,366	700	0	0	0	17,066
Debt securities	0	0	1,008	0	0	1,008
Other assets	593	0	0	0	0	593
<b>Total assets</b>	<b>16,959</b>	<b>700</b>	<b>1,008</b>	<b>0</b>	<b>0</b>	<b>18,667</b>
<b>Liabilities</b>						
Other liabilities	(944)	(1)	0	0	0	(945)
<b>Net assets</b>	<b>16,015</b>	<b>699</b>	<b>1,008</b>	<b>0</b>	<b>0</b>	<b>17,722</b>

Liquidity risk, to which the Fund is exposed, is low as all assets are immediately convertible into cash before the expected purchases by the Fund's Participants.

### 5.16 Off-balance Sheet Assets and Liabilities

The off-balance sheet of the Fund contains values provided for management. Item "values provided for management" contains domestic securities administrated by Komerční banka, a. s., and other values (term deposits).

### 5.17 Contingent Assets and Liabilities

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

### 5.18 Other Material Disclosures

On 4<sup>th</sup> March 2014, the fund was allocated CZK 250,000. The purpose of the subsidy in the form of contribution was to compensate appreciation of the policy holders' investments for 2013, which could not be achieved due to the small volume as well as slow growth of assets in the first year of the fund's existence.

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

### 5.19 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Dynamic Participation Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Dynamic Participation Fund of the additional pension savings with government contribution Česká spořitelna – penzijní společnost, a. s. CNB issued a decision which permitted the establishment of the participation fund on 17<sup>th</sup> December 2012, reference number 2012/12486/570. The decision came into effect on 18<sup>th</sup> December 2012.

Is managed by Česká spořitelna – penzijní společnost, a. s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033

Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of the consolidation group, whose parent company is Česká spořitelna, a. s., IN: 45244782

## Fund characteristics

Investment into the Dynamic Participation Fund is suitable for those investors who want to reach as high appreciation as possible, are experienced in capital markets and are able to accept significant volatility. The portfolio of the Dynamic fund is distributed among share, bond, and money markets. The Dynamic Participation Fund is suitable for experienced investors who are able to accept longer periods of negative development of the pension unit value and who can afford to invest funds with minimum investment horizon of five years. The investment into the Dynamic Participation Fund is also suitable for less-experienced as part of broadly diversified portfolio. The goal of the investment policy is to provide to the participants long-term appreciation of funds invested placed mainly into the money market instruments, government bonds, and other debt securities and shares or similar securities representing a share on a legal entity. The credit and interest risk is actively managed; unsecured investment denominated in foreign currency can not exceed 50% of the value of Dynamic Participation Fund assets.

## Depository

The depository of the participation fund is Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a. s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial

Registry at the Municipal Court in Prague, Section B, Insert 1171. Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and is professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

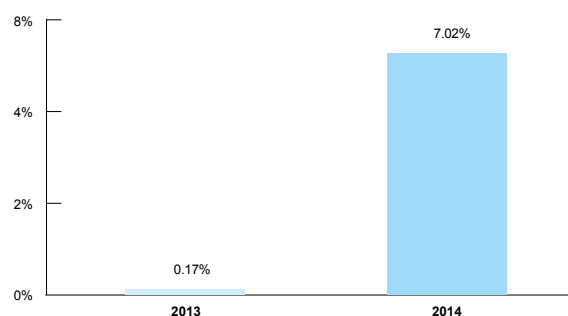
Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge management fees and asset performance fees (Fee holidays) at the expense of Dynamic Fund of Additional Pension Savings. However in 2015, an annual management fee 0.8% of the average net asset value will be charged. Also, an assets performance fee of 10% will be charged on the difference between the average value of pension unit in the relevant period and the highest average annual value of pension unit in foregoing years, multiplied by the average annual number on pension units. Fees and charges are regulated by Supplementary pension savings law no. 427/2011 Coll. Section 60 Pension companies' remuneration.

**To obtain further information on the participation fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

## Historical Performance of Dynamic Participation Fund



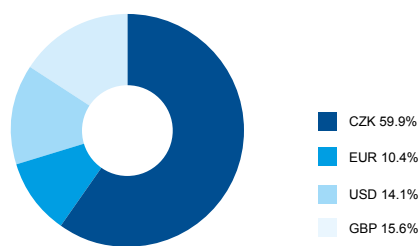
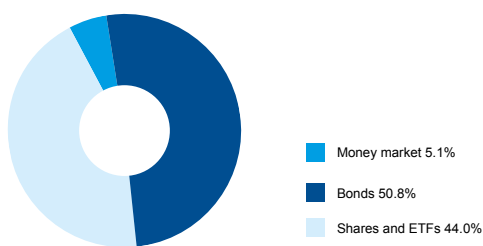
### Top holdings of Dynamic Participation Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
GOVERNMENT BOND VAR 10/27/16	CZK	40,195	40,204	27.6%
GOVERNMENT BOND 4.6 08/18/18	CZK	23,358	23,214	15.9%
ISHARE SP 500 INDEX FUND (GBP)	GBP	14,275	15,167	10.4%
ISHARES EURO STOXX UCITS ETF DE	EUR	7,575	7,862	5.4%
ISHARES CORE DAX UCITS ETF (DE)	EUR	6,408	6,781	4.6%
ISHARES MSCI EM-INC	GBP	6,557	6,451	4.4%
PRAHA 4.25 05/11/21	CZK	3,555	3,628	2.5%
NET4GAS 2.25 01/28/21	CZK	2,977	3,084	2.1%
CETELEM VAR 10/08/19	CZK	3,000	3,022	2.1%
ISHARE MSCI JAPAN INDEX FUND	USD	2,768	2,849	2.0%
ISCS SPOROTREND	CZK	2,221	2,002	1.4%
SHIRE PLC – (ADR)	USD	1,576	1,699	1.2%
ISCS TOP STOCKS	CZK	1,300	1,511	1.0%
CEZ	CZK	1,493	1,478	1.0%
Other < 1%		18,404	19,469	13.3%
Money Market		7,477	7,477	5.1%

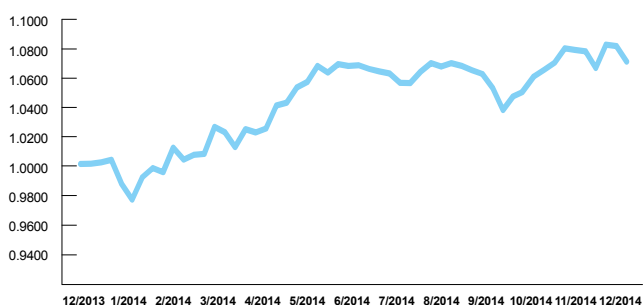
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	144,323
<b>NAV per unit of fund in CZK</b>	<b>1.0720</b>

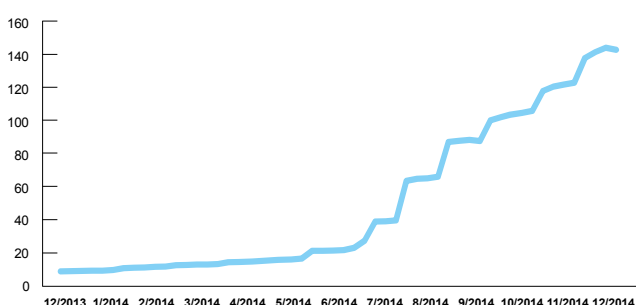
### Portfolio of the participation fund as at 31<sup>st</sup> December 2014



### The development of pension unit of the Dynamic Participation Fund (2014)



### Development of the NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s.:

- I. We have audited the financial statements of the fund Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014 presented in the annual report of the Company on pages 71 – 83 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic



# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	7,477	7,892
of which: a) on demand: aa) current accounts	02	7,477	7,772
ab) term deposits	03		120
5 Debt securities	10	74,643	
of which: a) issued by the government	11	64,793	
b) issued by other institutions	12	9,850	
6 Shares, participation certificates and other holdings	13	64,263	
11 Other assets	15	1,178	134
d) other assets	19	1,178	134
<b>Total assets</b>	<b>23</b>	<b>147,561</b>	<b>8,026</b>
4 Other liabilities	30	3,238	214
a) financial derivatives	31	1,161	
c) liabilities from taxes	33	113	
d) other liabilities	34	1,964	214
10 Reserve funds and other funds created from profit	42	3	
12 Capital funds	43	141,502	7,809
15 Profit or loss for the accounting period	49	2,818	3
<b>Total liabilities</b>	<b>50</b>	<b>147,561</b>	<b>8,026</b>
of which: Equity	51	144,323	7,812
<b>Off balance sheet accounts</b>	<b>52</b>		
4 Amounts due from fixed term transactions	54	54,824	
b) with currency instruments	56	54,824	
8 Values provided for management	62	137,745	120
a) securities	63	138,906	
c) other values	64	(1,161)	120
12 Amounts owed from fixed term transactions	67	55,985	
b) with currency instruments	69	55,985	

# Income Statement

for the period ending 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	299	3
of which: a) interest income from bonds	02	253	
3 Income from shares and holdings	07	276	
6 Profit or loss on financial operations	12	2,370	
a) profit or loss on transactions with securities	13	4,632	
b) profit or loss from FX differences	14	65	
c) profit or loss from fixed term transactions and options	15	(2,327)	
8 Other operating expense	17	7	
19 Ordinary profit or loss for the accounting period before tax	24	2,938	3
23 Profit tax	28	120	
24 Profit or loss for the accounting period after tax	29	2,818	3

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Účastnický fond – CSPS, a.s.” or the “Participation Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS”) in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12486/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as at 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 427/2011 Coll. on Supplementary Pension Savings, the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a participation fund as at the date of approval of the Statute.

### Registered Office

Dynamický účastnický fond doplňkového penzijního spoření se státním příspěvkem  
Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

CS PS collects participants’ contributions, employers’ contributions and state contributions under the Act to place them in participation funds, to manage the assets of participation funds and to pay out supplementary pension savings benefits.

The number of issued pension units (“penzijní jednotky”) or the period for which the Fund has been formed has not been restricted.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities and shares or similar securities representing shares on legal persons. The credit and interest rate risk is actively managed; the unhedged investments denominated in foreign currencies can form maximum 50% of the value of the Participation Fund’s assets.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds, bonds funds or discount certificates, shares and equity funds. The Fund may invest in securities in compliance with Section 100 of the Act.

The Participation Fund is not permitted to invest in investment securities issued by CS PS, which manages the Fund, or by any entity belonging to the same group.

The Participation Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Participation Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Fund can use financial derivatives to hedge interest and currency risks.

The Fund uses techniques and tools for the efficient management of assets in accordance with the Statute to decrease the risk, decrease

the expenses or to reach additional income for the Fund provided that the risk undergone is demonstrably low. The Participation Fund's assets that are not secured against currency risk cannot represent more than 50% of the value of the Fund's assets.

The underlying instrument of a financial derivative must correspond to the Fund's investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Participation Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Participation Fund's assets, the reinvestment fund created from previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 108 of the Act.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Participation Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, Section 3, paragraph 36. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

The terms and conditions are stipulated in the Fund's Statute and in the Section 108 of the Act on Supplementary Pension Savings.

Pursuant to Section 36(2) of the Act, CS PS is required to establish a mandatory Conservative fund (Section 94(1)) not later than one year from the date of issuance of the authorization to carry on the activities of a pension company. CS PS must have at least 10,000 thousand participants upon the expiration of a period of 24 months from the date when the authorization to establish a mandatory Conservative fund was granted. The value of Participation Fund's assets managed by Penzijní společnost must reach at least

CZK 50 million after the expiry of 24 months from the approval to form the participation fund.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Participation Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the Participation fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the Participation fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 115 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank; the Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Participation Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the Participation funds' assets,
- b) fee for appreciation of the Participation funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 74 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs.

The fee pursuant to Paragraph a) above must not exceed 0.8% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each Participation fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of pension units in previous years since the formation of the Participation fund, multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the Participation fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the Participation fund.

The average value of a Participation fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

### Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčová
Member	Ing. Pavel Matějčíček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the

content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, the prudence concept and the going concern assumption.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

## 3. Accounting Policies

### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value,

while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are

valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Currency risk was insignificant for the Fund in 2014 as well as in 2013. The quantitative information about interest risk is given in Note 5.15.

Set out below are relative monthly values of the VaR in percentage terms for individual types of risks in 2014:

	As at 31 Dec 2014	Average VaR
Global VaR	0.76%	0.94%
Foreign currency VaR	0.06%	0.06%
Interest rate VaR	0.06%	0.06%
Equity VaR	0.75%	0.75%

The average VaR is calculated as the average of daily VaR values in the given year.

No derivative transactions were effected in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

The Participant's funds will cover the following benefits:

- a) retirement pension benefits paid for a specified period,
- b) disability pension benefits paid for a specified period,
- c) one-off settlement,
- d) surrender values,
- e) single premiums – whole life, or
- f) single premiums – variable life (fixed term and fixed pension benefit).

Supplementary pension savings benefits are paid following a written request by a participant, beneficiary or heir. A participant may request the payment of a benefit as soon as their entitlement arises.

The benefits specified under Section 19 a) through d) of the Act are required to be paid by CS PS within the time limits and in a manner agreed with the recipient of the benefit, unless the Act provides otherwise.

If requested in writing by a participant or beneficiary, benefits are paid to a participant or beneficiary to abroad.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

### One-off Settlement

If a participant is entitled to a one-off settlement, CS PS shall pay the one-off settlement following the receipt of their written request,

no later than by the end of the calendar quarter immediately following the month for which the last contribution was made.

If a beneficiary or heir is entitled to a one-off settlement, CS PS shall pay the one-off settlement within one month of the receipt of their written request, provided the death of the participant has been proven.

A participant that is entitled to a one-off settlement and who, prior to submitting the request for the one-off settlement, ceased the payment of contributions in compliance with Section 11 of the Act, shall receive the one-off settlement within one month of the receipt of their written request.

### Surrender Values

Surrender values shall be paid by CS PS within one month of the receipt of the beneficiary's request for the payment of surrender values.

### Retirement and disability pension benefits paid for a specified period

Retirement pension benefits for a specified period and disability pension benefits for a specified period shall be paid either through installments of a specified amount or through a specified number of installments, until all the participant's funds are withdrawn; payments shall be made on a regular basis at least four times per calendar year, provided the installment is at least CZK 500. If it is not the case, CS PS may reduce the number of installments to one annually.

### Single premiums – whole life and variable life

CS PS shall, no later than within seven business days of the receipt of a request for a single premium for whole life insurance or variable life insurance (fixed term and fixed pension benefit), inform a participant of the level of the participant's funds as at the date of the receipt of the request.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.16.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	7,477	7,772
Term deposits	0	120
<b>Total</b>	<b>7,477</b>	<b>7,892</b>

Balances on current accounts are payable on demand.



## 5.2 Securities

All securities held by the Fund are publicly listed on the Prague Stock Exchange or foreign stock exchanges.

<b>Debt securities</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Acquisition cost	74,086	0
Market revaluation	485	0
Aliquot interest income	72	0
<b>Total</b>	<b>74,643</b>	<b>0</b>

<b>Shares, participation certificates</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Acquisition cost	61,576	0
Market revaluation	2,687	0
Aliquot interest income	0	0
<b>Total</b>	<b>64,263</b>	<b>0</b>

The proportion of debt securities due in more than 1 year with a fixed coupon was 42.04% and with a variable coupon 57.96% in 2014 (2013: 100% with a fixed coupon).

## 5.3 Other Assets

<b>Other assets</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Estimated state contribution	1,049	134
Estimated foreign dividends	16	0
Estimated payments for holding PC with pension funds	113	0
<b>Total</b>	<b>1,178</b>	<b>134</b>

Estimated state contribution represents the estimated amount of state contribution that will be transferred to the Fund's account by Penzijní společnost in April 2015.

## 5.4 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0825 (2013: CZK 1.0017) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 2,818 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 3 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

## 5.5 Changes in Capital Fund

	<b>Number of pension units (items)</b>	<b>Total capital funds</b>
<b>Balance at 1<sup>st</sup> Jan 2013</b>		
Pension units sold	7,818,506	7,829
Pension units purchased	19,832	20
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>7,798,674</b>	<b>7,809</b>
Pension units sold	128,460,297	136,489
Pension units purchased	2,937,811	2,796
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>125,522,486</b>	<b>141,502</b>

## 5.6 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	139	80
Liability from deduction of pension units	776	0
Settlement with state budget	113	0
Liability – state contribution	1,049	134
Derivatives	1,161	0
<b>Total</b>	<b>3,238</b>	<b>214</b>

Liabilities from deposits from pension insurance participants represent invested funds prior to their matching against the book of pension units.

Deduction of pension units represents the Fund's liability from purchased pension units deducted from the book of pension units.

Liability – state contribution represents the estimated amount of state contribution. After the amount is credited to the Fund's account, the contribution is credited to pension savings participants as part of the matching against the book of pension units.

## 5.7 Financial Derivatives Designated as Trading Derivatives

Fair value of the derivatives:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Positive	Negative	Positive	Negative
Currency swaps	0	1,161	0	0
<b>Total</b>	<b>0</b>	<b>1,161</b>	<b>0</b>	<b>0</b>

All financial derivatives recognized as trading derivatives are due within one year.

Receivables and payables from fixed term transactions at fair values of underlying instruments from the off-balance sheet account:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Asset	Liability	Asset	Liability
Currency swaps	54,824	55,985	0	0
<b>Total</b>	<b>54,824</b>	<b>55,985</b>	<b>0</b>	<b>0</b>

Open derivative positions accounted off-balance sheet are daily converted to fair value in absolute amounts.

## 5.8 Interest Income

Income	31 Dec 2014	31 Dec 2013
Interest on bank deposits	46	3
Interest on debt securities	253	0
Interest on term deposits	0	0
<b>Total</b>	<b>299</b>	<b>3</b>

## 5.9 Income from Shares and Interests

Income	31 Dec 2014	31 Dec 2013
Dividends from shares and PL – foreign	260	0
Uncollected foreign dividends	16	0
<b>Total</b>	<b>276</b>	<b>0</b>

## 5.10 Management fee, performance fee and depository's fee

In compliance with the Statute of the Fund, the management fee ("flat fee") paid to CS PS by the Fund amounts to 0.8% of the average annual value of the Fund's equity. The performance fee amounts to 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund multiplied by the average annual number of pension units.

Based on the decision of CS PS, the 2014 management fee was CZK 0 (a fee holiday, see the Price List). The depository's fee is included in the management fee.

### 5.11 Profit or Loss from Financial Operations

	2014	2013
Profit or loss from securities designated at fair value through profit or loss	4,632	0
Profit or loss from FX differences	65	0
Profit or loss from futures, forwards, swaps and options	(2,327)	0
<b>Total</b>	<b>2,370</b>	<b>0</b>

Profit or loss from securities designated at fair value through profit or loss represents the daily revaluation of securities at fair value.

Profit or loss from FX differences represents the value of realized FX gains or losses from foreign currency accounts and from the settlement of foreign currency receivables and payables as well as gains or losses arising from the revaluation of assets, with the exception of securities, and liabilities in foreign currency at fair value.

Profit or loss from derivatives includes profit or loss on the settlement of fixed term transactions with currency instruments and also the revaluation of open derivatives at fair value.

These accounts served to record e.g. settlement of hedges differences.

### 5.12 Other Operating Income and Expenses

	2014	2013
Other operating income	0	0
Other operating expenses	7	0

Other operating expenses serve to record subsidies for policies, which lack funds for payment due to movements in rates. The most common case involves termination of the policy from the inception as the payment shall be made at the nominal value of invested funds and credited state contributions.

### 5.13 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	120	0
<b>Total income tax</b>	<b>120</b>	<b>0</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	2,938	3
Items to add	0	0
Deductible items	529	0
Tax base	2,409	2
Tax (5%) on tax base	120	0
<b>Total tax</b>	<b>120</b>	<b>0</b>

#### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

#### 5.14 Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a. s.

Receivables from related parties	31 Dec 2014	31 Dec 2013
Accrued income – state contribution – ČSPS	1,049	134
<b>Total</b>	<b>1,049</b>	<b>134</b>

The Fund will obtain the state contribution from Penzijní společnost. No related party costs were recorded in the Fund's accounting records in 2014 and 2013, respectively.

#### 5.15 Interest Rate Risk

The following tables show the interest rate risk that the Fund is exposed to. Assets and liabilities that bear no interest are included in the “No interest” column.

##### 2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	No interest	Total
Receivables from banks	7,477	0	0	0	0	7,477
Debt securities	0	0	67,821	6,822	0	74,643
Shares and participation certificates	0	0	0	0	64,263	64,263
Other assets	0	0	0	0	1,178	1,178
<b>Total assets</b>	<b>7,477</b>	<b>0</b>	<b>67,821</b>	<b>6,822</b>	<b>65,441</b>	<b>147,561</b>
<b>Liabilities</b>						
Other liabilities	(1,161)	(113)	0	0	(1,964)	(3,238)
<b>Net assets</b>	<b>6,316</b>	<b>(113)</b>	<b>67,821</b>	<b>6,822</b>	<b>63,477</b>	<b>144,323</b>

##### 2013

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	No interest	Total
Receivables from banks	7,852	40	0	0	0	7,892
Other assets	0	0	0	0	134	134
<b>Total assets</b>	<b>7,852</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>134</b>	<b>8,026</b>
<b>Liabilities</b>						
Other liabilities	0	0	0	0	(214)	(214)
<b>Net assets</b>	<b>7,852</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>(80)</b>	<b>7,812</b>

## 5.16 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	7,477	0	0	0	0	7,477
Debt securities	0	0	67,821	6,822	0	74,643
Shares and participation certificates	0	0	0	0	64,263	64,263
Other assets	1,178	0	0	0	0	1,178
<b>Total assets</b>	<b>8,655</b>	<b>0</b>	<b>67,821</b>	<b>6,822</b>	<b>64,263</b>	<b>147,561</b>
<b>Liabilities</b>						
Other liabilities	(3,125)	(113)	0	0	0	(3,238)
<b>Net assets</b>	<b>5,530</b>	<b>(113)</b>	<b>67,821</b>	<b>6,822</b>	<b>64,263</b>	<b>144,323</b>

2013

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	7,852	40	0	0	0	7,892
Other assets	134	0	0	0	0	134
<b>Total assets</b>	<b>7,986</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,026</b>
<b>Liabilities</b>						
Other liabilities	(214)	0	0	0	0	(214)
<b>Net assets</b>	<b>7,772</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,812</b>

Liquidity risk, to which the Fund is exposed, is very low as all the Fund's assets are cash that allows paying realized buyouts to the Fund's Participants in the shortest time possible.

## 5.17 Off-balance Sheet Assets and Liabilities

The off-balance sheet of the Fund contains values provided for management. Item "values provided for management" contains other values (term deposits).

## 5.18 Contingent Assets and Liabilities

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

## 5.19 Other Material Disclosures

On 4<sup>th</sup> March 2014, the fund was allocated CZK 250,000. The purpose of the subsidy in the form of contribution was to compensate appreciation of the policy holders' investments for 2013, which could not be achieved due to the small volume as well as slow growth of assets in the first year of the fund's existence.

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

## 5.20 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Transformed Fund of additional pension savings with government contributions Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Transformed Fund of additional pension savings with government contribution Česká spořitelna – penzijní společnost, a.s. The permit to operate the supplementary pension insurance through the Transformed Fund was granted by CNB on 3<sup>rd</sup> September 2013, with effect from 1<sup>st</sup> January 2013.

It is managed by Česká spořitelna – penzijní společnost, a.s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033 Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of a consolidation group, whose parent company is Česká spořitelna, a.s., IN: 45244782

## Fund characteristics

The goal of the investment policy to secure stable and long-term return form savings collected in the Transformed Fund while investing them and securing covering claims for supplementary pension insurance. Investments are made in such a way that it is possible to pay out the contributions from the Transformed Fund to the participants in time limits set by law and the pension plan. The funds collected in the Transformed Fund by the pension society have to be placed with diligent care so that the security, high quality, liquidity, and return of the portfolio was ensured.

## Depository

The depository of the Transformed Fund is Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a.s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171. Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and has been professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

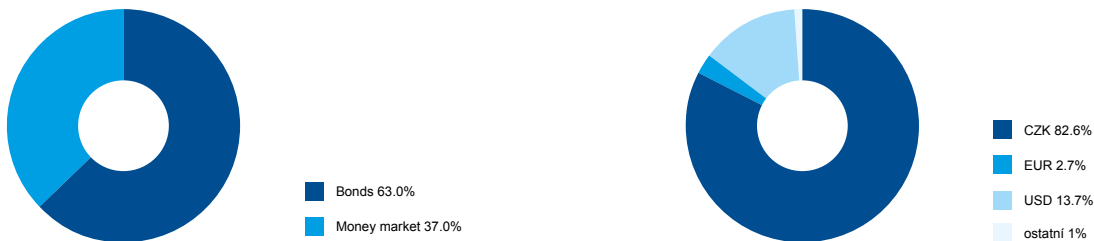
An annual management fee 0.6% of the average annual value of total assets was charged in 2014. Also, a fee for assets performance of Transformed Fund was 15% of the profit reported in the financial statements of Transformed Fund. Fees and charges are regulated by Supplementary pension savings law no. 427/2011 Coll. Section 60 Pension companies' remuneration.

**To obtain further information on the Transformed Fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

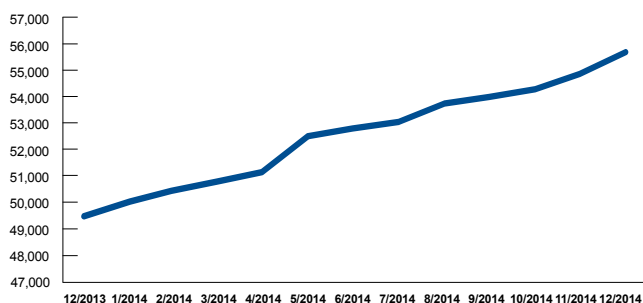
### Top holdings of the Transformed Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
GOVERNMENT BOND VAR 10/27/16	CZK	6,981,303	7,002,331	12.4%
ERSTE GROUP BANK 6.375 03/28/23	USD	4,004,822	4,546,692	8.1%
GOVERNMENT BOND 5.7 05/25/24	CZK	2,774,171	2,774,171	4.9%
GOVERNMENT BOND 2.5 08/25/28	CZK	2,762,812	2,762,812	4.9%
US TREASURY 0.75 12/31/17B	USD	2,200,641	2,259,228	4.0%
GOVERNMENT BOND VAR 07/23/17	CZK	1,985,190	1,989,506	3.5%
GOVERNMENT BOND 4.2 12/04/36	CZK	1,804,780	1,804,780	3.2%
GOVERNMENT BOND 2.4 09/17/25	CZK	1,802,961	1,802,961	3.2%
GOVERNMENT BOND 4.7 09/12/22	CZK	1,601,633	1,601,633	2.8%
ERSTE BANK VAR 07/19/17	EUR	924,859	1,006,675	1.8%
GOVERNMENT BOND 3.85 09/29/21	CZK	1,000,463	1,000,463	1.8%
SLOVAKIA GOVT 4.375 05/21/22 USD	USD	867,014	897,009	1.6%
GOVERNMENT BOND 5 04/11/19	CZK	859,843	859,843	1.5%
CESKA EXP. BANKA VAR 06/14/18	CZK	700,000	716,240	1.3%
GOVERNMENT BOND 3.75 09/12/20	CZK	636,818	636,818	1.1%
Other < 1%		3,679,967	3,819,586	6.8%
Money Market		20,879,124	20,880,362	37.0%

### Portfolio of the Transformed Fund as at 31<sup>st</sup> December 2014



### Development of the NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s.:

- I. We have audited the financial statements of the fund Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014 presented in the annual report of the Company on pages 88 – 102 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	20,891,922	19,797,428
of which: a) on demand: aa) current accounts	02	2,360,689	776,037
ab) term deposits	03	2,512,835	323,251
ac) repo operations	04	16,018,398	18,698,140
5 Debt securities	10	35,831,885	30,473,820
of which: a) issued by the government	11	29,183,214	24,513,809
b) issued by other institutions	12	6,648,671	5,960,011
6 Shares, participation certificates and other holdings	13		497,684
11 Other assets	15	374,612	435,253
a) financial derivatives	16	6,439	49,759
d) other assets	19	368,173	385,494
<b>Total assets</b>	<b>23</b>	<b>57,098,419</b>	<b>51,204,185</b>
4 Other liabilities	30	56,051,733	50,326,439
a) financial derivatives	31	285,889	52,408
c) liabilities from taxes	33	6,055	7,723
d) other liabilities	34	55,756,809	50,256,593
e) deferred tax liability	35	2,980	9,715
5 Accrued liabilities and deferred income	36	159,491	20,025
6 Provisions	37	46,716	40,525
13 Gains or losses from revaluation	44	100,995	223,083
of which: a) of assets and liabilities	45	100,995	223,083
15 Profit or loss for the accounting period	49	739,484	594,113
<b>Total liabilities</b>	<b>50</b>	<b>57,098,419</b>	<b>51,204,185</b>
of which: Equity	51	840,479	817,196
<b>Off balance sheet accounts</b>	<b>52</b>		
4 Amounts due from fixed term transactions	54	9,860,579	7,229,329
a) with interest instruments	55	450,000	450,000
b) with currency instruments	56	9,410,579	6,779,329
8 Values provided for management	62	38,065,270	31,292,106
a) securities	63	35,831,885	30,971,504
c) other values	64	2,233,385	320,602
10 Received collaterals	66	16,019,673	18,699,087
12 Amounts owed from fixed term transactions	67	10,140,029	7,231,978
a) with interest instruments	68	499,875	495,734
b) with currency instruments	69	9,640,154	6,736,244

# Income Statement

for the period ending 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
1 Interest income and similar income	01	889,190	817,307
of which: a) interest income from bonds	02	866,029	788,074
b) interest from repo operations	03	274	902
2 Interest expense and other similar expense	05	18,610	629
3 Income from shares and holdings	07	22,000	17,500
5 Fees and commissions expense	08	455,186	385,800
a) management fee	09	324,636	280,957
c) fee from profit	11	130,550	104,843
6 Profit or loss on financial operations	12	261,802	142,256
a) profit or loss on transactions with securities	13	302,294	326,813
b) profit or loss from FX differences	14	714,849	275,134
c) profit or loss from fixed term transactions and options	15	(755,341)	(459,691)
7 Other operating income	16	50,932	6,777
8 Other operating expense	17	4,762	207
17 Additions to and use of other provisions	23	6,191	3,253
19 Ordinary profit or loss for the accounting period before tax	24	739,175	593,951
23 Income tax	28	(309)	(162)
24 Profit or loss for the accounting period after tax	29	739,484	594,113

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. (the “Fund” or “Transformovaný fond – CSPS, a. s.” or the “Transformed Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a. s. (“CS – penzijní společnost” or “Penzijní společnost” or “CS PS”) in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 3<sup>rd</sup> September 2012 under Ref. No. 2012/7679/570. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a. s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a. s. and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as of 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

Pursuant to a concluded contract, Komerční banka, a. s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a. s. In compliance with Act No. 427/2011 Coll. on Supplementary Pension Savings, the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

### Registered Office

Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. Prague 4, Poláčkova 1976/2

### Principal Business

CS PS collects funds from the supplementary pension insurance scheme participants (hereinafter the “Participant”) and state

contributions made in the benefit of the Participants, manages the collected funds and pays out supplementary pension insurance allowances depending on the scheme.

### Investment Policy of the Fund

The objective of the investment policy is to ensure a long-term stable yield from investing the funds collected in the Transformed Fund and to cover the supplementary pension insurance allowance entitlements. The investment policy must allow for the payment of allowances to the Participants out of the Transformed Fund within the deadlines stipulated by law and the corresponding pension plan.

The funds collected in the Transformed Fund of CS PS must be placed with due professional care in order to ensure safety, quality, liquidity and return on the financial placement portfolio as a whole.

CS PS is not allowed to manage the assets in the Transformed Fund in a manner that would contradict or harm the interests of the Participants. Assets in the Transformed Fund may exclusively be used to meet the liabilities related to supplementary pension insurance.

The Transformed Fund’s investment plan contains two key elements:

- a) maintaining the fair value of assets that represent liabilities to supplementary pension insurance participants,
- b) increasing the fair value of these assets.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds, bond funds, bond indices, shares, share indices, share funds, real estates, commodities, commodity funds, hedge funds, hedge fund funds. The Fund may invest in securities in compliance with Section 100 of the Act.

The Fund must not invest in investment securities issued by the pension management company managing the Fund or by a person that is a member of the same holding as such pension management company.

In investing its financial assets, the Fund uses a “market-neutral investment strategy”. The market-neutral investment strategy (that determines the allocation of assets and, compared to the investment policy, is only short-term) is stipulated by CS PS Board of Directors and depends on the development of the economic cycle, interest rate cycle and the level of market risk aversion in the Transformed Fund. The market-neutral investment strategy

may change depending on the expected development of the financial market.

The assets in the Transformed Fund are always invested in compliance with the applicable legal rules and regulations and internal guidelines.

The Transformed Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Fund must always comply with the manner of investing stipulated in the Fund's Statute.

Hedge transactions, particularly derivative and option transactions, are agreed by CS PS in respect of the assets of the Transformed Fund on condition that they are used to mitigate the risks arising from securities rates, interest rates and forex rates of asset in the Fund's portfolio.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### **The Fund's Operation Principles**

The Fund's operating results arise as the difference between income and expenses connected with the management of the Fund's assets.

CS PS must manage the assets in the Transformed Fund with due professional care with the aim of ensuring a reliable yield. Liabilities arising from the supplementary pension insurance are satisfied by CS PS from the Fund's assets. If the Fund's assets are not sufficient to satisfy the above liabilities, CS PS shall satisfy the same from its other assets.

If the Fund's liabilities exceed the Fund's assets, CS PS is obliged to transfer to the Fund the assets necessary to compensate the difference within thirty days from the end of the calendar quarter in which the difference was revealed, at the latest; such transferred assets constitute the capital fund of the Transformed Fund. Upon such transfers, CS PS shall observe the rules governing the Transformed Fund's asset portfolio.

The capital fund shall be primarily used to cover the loss for the current accounting period or accumulated losses from previous years. CS PS must not manage the Fund's assets in a manner that would contradict the interests of the Participants.

CS PS is obliged to regularly record the contributions made for the benefit of each Participant as follows: Participants' contributions, Participants' contributions eligible for deduction from the income tax base by Participants who are tax payers, contributions made by employers and other contributions made for the benefit of Participants in the Transformed Fund. CS PS is further obliged to separately record the balance of state contributions of the Participants and their shares in the Transformed Fund's proceeds.

The Fund may accept a loan with maturity not exceeding 6 months. The aggregate of all received loans must not exceed 5% of the value of the assets in the Fund. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund.

The Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of such mutual fund's assets.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

### **The Fund's Statute and Management Fees**

The Fund's Statute is approved by the Czech National Bank. The Statute is binding for CS PS. The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee for operating the scheme of supplementary pension insurance through the Transformed Fund. The fee shall not exceed the following amounts:

- a) 0.6% of the average annual balance sheet amount in the Transformed Fund,
- b) 15% of profit recorded in the Transformed Fund's financial statements.

The current percentage amount of the fee is determined by the Board of Directors of Penzijní společnost.

The average annual balance sheet amount in the Transformed Fund shall be determined as a simple arithmetical average of the balance sheet amounts of the Transformed Fund for each day of the relevant period as at the last day of the period. Each day of the relevant period shall mean each day on which the balance sheet amount of the Transformed Fund was determined. The Fund's balance sheet amount shall be determined monthly, always as at the last day of the relevant month.

The fee pursuant to Paragraph a) above shall be paid to Penzijní společnost from the Transformed Fund's assets in the form of a monthly advance payment. The amount of the advance payment shall be calculated every month of the relevant accounting period as one twelfth of the product of the average balance sheet amount and the fee rate.

The annual settlement of the advance payments for the fee shall be completed and paid by the end of the first month of the following accounting period.

Any and all expenses owing to third parties by Penzijní společnost in connection with the operation of the Transformed Fund shall be

covered from the fee pursuant to Paragraph a) above, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Transformed Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost offering and mediating supplementary pension savings,
- fees paid to the person responsible for the settlement of investment instruments transactions,
- transfer points, securities brokers,
- promotion and advertising costs.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2013.

In 2014, there was a change to the Fund's Statute as at 31<sup>st</sup> March 2014.

On 31<sup>st</sup> March 2014, the change in the Statute of the Fund was approved by the Czech National Bank.

As a result of the change in the Statute concerning classification of investment portfolio (Article 4, paragraph 4), the Fund became – in a transparent manner vis-à-vis its participants – a conservative fund focused primarily on investing in quality debt securities with high ratings.

The adjustment to the Statute does not contradict the existing structure and condition of the Fund's portfolio or the approved long-term strategic allocation of the Fund's assets.

The new wording of the Statute is available on the website and in the office of the Company and then at each branch of Česká spořitelna.

### Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějčíček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable

regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, the prudence concept and the going concern assumption.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

### 3. Accounting Policies

#### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

#### Securities

In accordance with the Fund's strategy, securities are classified as securities held to maturity and securities available for sale.

Changes in the fair value of securities held for sale are reported in the 'equity' section of the balance sheet (class of accounts 56) with the exception of their impairment (see Regulation No. 501/2002 Coll. implementing certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for accounting entities that are banks and other financial institutions, as amended), dividends, exchange rate differences on debt securities and interest income from coupon, discount or bonus that are recorded directly in the relevant expense or revenue accounts while observing the accrual principle.

When the security is realized (particularly when it is sold), the gain or loss on revaluation is transferred to the relevant expense or revenue account of class of accounts 61 or 71, respectively. The profit or loss, if any, from the sale of securities, i.e. the difference (net) between the book value and the selling price of the security as at the transaction date, is also recorded in the relevant accounts of class of accounts 61 or 71.

If the loss arising from a change in the fair value of securities held for sale is recorded in equity (class of accounts 56) and there is reasonable evidence of impairment of the value of a security (the fair value of the security has been lower than 100% of its acquisition cost for a period of 18 months or the fair value is lower than the acquisition cost by more than 30% as at the assessment date), the loss is released from equity against the expense account in class of accounts 61. The amount of the loss corresponds to the

difference between the acquisition cost (reduced by the payments of principal and amortization, if any) and the current fair value, taking into account the previous impairment losses recorded in expense accounts.

Such expense is irreversible in case of impairment losses pertaining to equity securities; impairment losses pertaining to debt securities may be reversed if, after being recorded in the expense account, the fair value increases for a sound reason that can be identified by the accounting unit.

Impairment pertaining to debt securities shall be classified as permanent in the following cases:

- Issuer in default with payments of principal, coupons;
- It is very likely that the issuer will not meet the issue obligations.

The value of securities held to maturity and debt securities acquired in a primary issue and not designated for sale increases (decreases) progressively by the accrued interest income (interest expense) from the date of settlement of acquisition to their maturity or settlement of sale.

If securities held to maturity or debt securities acquired in a primary issue and not designated for sale are sold, the difference between the accrued value not adjusted by provisions and the selling price on the day on which the transaction is agreed, or on the date of settlement of the sale, is recorded in revenues or expenses as a gain or loss on the sale of securities.

During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013 (the "Act"). The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act, securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within ‘Profit or loss from financial operations’.

For debt securities, aliquot interest yield (“AIY”) accrued and the amount known as interest yield (“IY”) are recorded. AIY is the coupon yield owing to the bond holder on the day of maturity. IY on debt securities is the difference between the cost and the nominal value, using the effective interest rate to express amortization, discount and bonus.

### Reverse Repurchase Transactions

Bonds or equity securities received as a security for a provided a loan (“reverse repo operations”) are not reflected in the Fund’s balance sheet and the provided loan is recorded as “Due from banks and cooperative saving banks” or “Due from non-banking entities”. Interest is accrued over the validity of the underlying contract.

The market value of the relevant security is recorded off-balance sheet in “Collateral Payables”.

### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### State Contribution

At the end of the accounting period, state contributions are recorded on an accrual basis, on the date on which the Participant’s entitlement to state contribution arises, i.e. 31<sup>st</sup> December 2014.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the “Transformed Fund” is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.



Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Provisions

Provisions are created for future annuities and pension options.

The amount of provision is determined on the basis of the present actuarial value of committed supplementary pension insurance benefits to be paid decreased by the amount of funds recorded on behalf of pension recipients.

Provisions are recorded if the Fund is obliged (under a contract or otherwise) to perform, the obligation is the result of past events and the performance is probable and will require an outflow of funds representing economic benefits and the amount of performance can be reliably estimated.

The Fund creates provisions for future liabilities arising from supplementary pension insurance policies. The amount of provisions is determined on the basis of the Participants' funds adequacy test.

The method used for testing adequacy of provisions is the discounted cash flow model. The cash flows particularly mean the Participants' contributions, benefits paid out and the Company's costs. The result of the adequacy test is the minimum amount of liabilities to Participants calculated as the best estimate using assumptions concerning the future development of input parameters.

The Fund accounts for a provision if the minimum amount of liabilities to Participants is higher than the current value of Participants' accounts. The provision amounts to the ascertained difference.

### Equity of the Fund

The Fund's equity consists of gains/losses from revaluation of assets and liabilities relating to securities held for sale (see chapter "Securities") including a deferred tax liability.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized based on a confirmation that the Fund's account was credited with the corresponding amount. Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount as at the date of the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The level of the Fund's market risk exposure is measured using the Value at Risk ("VaR"). The VaR for the Company's Funds is calculated by the Central Risk Management Department of Česká spořitelna using the historical simulation method in the K+ KvaR system.

Set out below are relative monthly values of the VaR in percentage terms for individual types of risks:

	As at 31 Dec 2014	Average VaR
Global VaR	0.32%	0.30%
Foreign currency VaR	0.00%	0.00%
Interest rate VaR	0.23%	0.23%
Equity VaR	0.00%	0.00%

	As at 31 Dec 2013	Average VaR
Global VaR	0.23%	0.27%
Foreign currency VaR	0.03%	0.07%
Interest rate VaR	0.23%	0.21%
Equity VaR	0.00%	0.02%

The average VaR is calculated as the average of daily VaR values in the given year.

The Fund monitors Value at Risk globally and also broken down to Foreign Currency VaR, Interest Rate VaR and Equity VaR. Based on the above values, the Fund identifies critical risk segments. This identification influences the reinvestment process. The limits set the maximum acceptable VaR for the Fund.

Adherence to all the above limits and their effectiveness is monitored and assessed on an ongoing basis. The limits are reviewed, if necessary.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.19.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	2,360,689	776,037
Term deposits	2,512,835	323,251
Repo operations	16,018,398	18,698,140
<b>Total</b>	<b>20,891,922</b>	<b>19,797,428</b>

Balances on current accounts are payable on demand.

### 5.2 Securities

All securities held by the Fund are publicly listed on the Prague Stock Exchange or foreign stock exchanges. Participation certificates which are not listed on stock exchanges are purchased and administered by the company Investiční společnost.

Shares, participation certificates and other holdings held for sale (AFS)	31 Dec 2014	31 Dec 2013
Acquisition cost	0	440,000
Market revaluation	0	57,684
<b>Total</b>	<b>0</b>	<b>497,684</b>

Debt securities held for sale (AFS)	31 Dec 2014	31 Dec 2013
Acquisition cost	20,978,951	19,956,276
Market revaluation (gains and losses)	160,759	227,013
Market revaluation (profit and loss account)	732,710	68,413
Aliquot interest income	131,003	170,266
Interest income	(64,521)	(33,292)
<b>Total</b>	<b>21,938,902</b>	<b>20,388,676</b>

The proportion of debt securities due within 1 year in the total volume of debt securities was 43.92% in 2014 (2013: 6.41%).

The proportion of debt securities due in more than 1 year with a variable coupon in the total volume of debt securities was 29.63% in 2014 (2013: 54.14%).

The proportion of debt securities due in more than 1 year with a fixed coupon was 26.45% in 2014 (2013: 39.45%).

<b>Debt securities held to maturity (HTM)</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Acquisition cost	13,885,872	10,087,376
Aliquot interest income	220,135	205,040
Interest income	(213,024)	(207,272)
<b>Total</b>	<b>13,892,983</b>	<b>10,085,144</b>

The proportion of debt securities due within 1 year in the total volume of debt securities was 0.00% in 2014 (2013: 20.29%).

The proportion of debt securities due in more than 1 year with a fixed coupon was 100.00% in 2014 (2013: 79.71%).

### 5.3 Other Assets

<b>Other assets</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Receivables – domestic coupons	12,554	13,940
Positive fair values of financial derivatives	6,439	49,759
Unbilled revenue – state contribution	355,319	371,554
Unbilled revenue – loyalty bonus for PC	300	0
<b>Total</b>	<b>374,612</b>	<b>435,253</b>

The caption ‘Receivables – domestic coupons’ includes a receivable from domestic coupons (CP CZ0001003438 GOVERNMENT BOND) due in January next year.

### 5.4 Equity

The Fund has no registered capital.

The Fund’s equity amounts to CZK 840,479 thousand (2013: CZK 817,196 thousand) and consists of profit and gains/losses on revaluation.

The 2014 profit of CZK 739,484 thousand will be distributed among the Participants of the Transformed Fund.

The 2013 profit of CZK 594,113 thousand was be distributed among the Participants of the Transformed Fund.

### Gains/losses on Revaluation of Assets

<b>Gains/losses on revaluation</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Gains/losses on revaluation of assets and liabilities	100,995	223,083
<b>Total</b>	<b>100,995</b>	<b>223,083</b>

### 5.5 Other Liabilities

<b>Other liabilities</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Negative fair values of financial derivatives	285,889	52,408
Liabilities to pension insurance scheme participants	55,756,809	50,151,749
Unbilled deliveries – fee from profit	0	104,844
Settlement with state budget	6,055	7,723
Deferred tax liability	2,980	9,715
<b>Total</b>	<b>56,051,733</b>	<b>50,326,439</b>

The deferred tax liability consists of the deferred tax liability of CZK 5,315 thousand (2013: CZK 11,741 thousand) which is reduced by the deferred tax asset of CZK 2,335 thousand (2013: CZK 2,026 thousand). The deferred tax liability arises from gains /losses on revaluation

of securities valued using the AFS method. The deferred tax asset arises from the insurance technical reserve for liabilities under pension insurance policies.

In 2013, unbilled deliveries – fee from profit were recorded at 15% of profit in compliance with the Fund's Statute and were due to Penzijní společnost pursuant to the Act.

In 2014, the fee from profit was recorded as accrued liabilities of CZK 130,550 thousand due to the exactly known amount of the Fund's profit subject to an approval by CS PS (see Note 5.7).

## 5.6 Provisions

Provisions	Balance at 31 Dec 2013	Additions	Use	Balance at 31 Dec 2014
Insurance technical reserve for liabilities under pension insurance policies	40,525	6,191	0	46,716
<b>Total</b>	<b>40,525</b>	<b>6,191</b>	<b>0</b>	<b>46,716</b>

Provisions	Balance at 1 Jan 2013	Additions	Use	Balance at 31 Dec 2013
Insurance technical reserve for liabilities under pension insurance policies	37,272	3,253	0	40,525
<b>Total</b>	<b>37,272</b>	<b>3,253</b>	<b>0</b>	<b>40,525</b>

The Company creates a provision for the payment of retirement benefits in compliance with the methods stipulated in Note 3. The adequacy test showed that, based on the adopted assumptions, the value of the provision for the payment of retirement benefits and the provision for pension options as at 31<sup>st</sup> December 2014 was sufficient to cover all future liabilities of the Company related to the payment of retirement benefits.

## 5.7 Accrued Liabilities and Deferred Income

Accrued liabilities consist of the management fee of CZK 28,941 thousand for December (2013: CZK 20,025 thousand) and the fee from profit of CZK 130,550 thousand (2013: fee from profit as unbilled deliveries of CZK 104,844 thousand; see Note 5.6). In 2014, the fee from profit was recorded at 15% of profit in compliance with the Fund's Statute and is due to Penzijní společnost pursuant to the Act.

## 5.8 Financial Derivatives Designated as Hedging Derivatives

Fair value of the derivatives:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Positive	Negative	Positive	Negative
Currency swaps	6,439	236,014	49,759	6,674
Interest swaps	0	49,875	0	45,734
<b>Total</b>	<b>6,439</b>	<b>285,889</b>	<b>49,759</b>	<b>52,408</b>

All financial derivatives recognized as hedging derivatives are due within one year.

Receivables and payables from fixed term transactions at fair values of underlying instruments from the off-balance sheet account:

	31 <sup>st</sup> December 2014		31 <sup>st</sup> December 2013	
	Asset	Liability	Asset	Liability
Currency swaps	9,410,579	9,640,154	6,779,329	6,736,244
Interest swaps	450,000	499,875	450,000	495,734
<b>Total</b>	<b>9,860,579</b>	<b>10,140,029</b>	<b>7,229,329</b>	<b>7,231,978</b>

Open derivative positions accounted off-balance sheet are daily converted to fair value in absolute amounts.

## 5.9 Residual Maturity of Interest Rate Derivatives

2014

Interest rate derivatives at 31 <sup>st</sup> December 2014	Nominal value		Fair value	
	Asset	Liability	Positive	Negative
Due in 1-5 years	450,000	499,875	0	49,875
<b>Total</b>	<b>450,000</b>	<b>499,875</b>	<b>0</b>	<b>49,875</b>

2013

Interest rate derivatives at 31 <sup>st</sup> December 2013	Nominal value		Fair value	
	Asset	Liability	Positive	Negative
Due in 1-5 years	450,000	495,734	0	45,734
<b>Total</b>	<b>450,000</b>	<b>495,734</b>	<b>0</b>	<b>45,734</b>

## 5.10 Interest Income and Interest Expense

Income	2014	2013
Interest on bank deposits	6,127	4,766
Interest on term deposits	14,371	19,287
Interest on debt securities	866,029	788,074
Interest on repo operations	274	902
Income from interest rate hedging derivatives	2,389	4,278
<b>Total</b>	<b>889,190</b>	<b>817,307</b>

Expense	2014	2013
Interest on hedging derivatives	18,610	629
<b>Total</b>	<b>18,610</b>	<b>629</b>

## 5.11 Income from Shares and Interests

	2014	2013
Income from shares and interests – foreign dividends – AFS	22,000	17,500
<b>Total</b>	<b>22,000</b>	<b>17,500</b>

## 5.12 Fees and Commissions

	2014	2013
Management fee (flat fee)	324,636	280,957
Fee from profit	130,550	104,843
<b>Total</b>	<b>455,186</b>	<b>385,800</b>

In compliance with the Statute of the Fund, the management fee (“flat fee”) paid to CS PS by the Fund amounts to 0.60% of the average annual net asset value. The performance fee amounts to 15% of the profit recorded in the financial statements of the Fund. The depository’s fee is included in the management fee.

## 5.13 Profit or Loss from Financial Operations

	2014	2013
Profit or loss from securities transactions	302,294	326,813
Profit or loss from FX differences	714,849	275,134
Profit or loss from futures, forwards, swaps	(755,341)	(459,691)
<b>Total</b>	<b>261,802</b>	<b>142,256</b>

Profit or loss from securities primarily comprises the profit or loss from realized sales of securities, from securities due.

Profit or loss from derivatives includes profit or loss on the settlement of fixed term transactions (futures, forwards, swaps) with currency instruments and also the revaluation of open derivatives at fair value.

Profit or loss from FX differences represents the value of realized FX gains or losses from foreign currency accounts and from the settlement of foreign currency receivables and payables as well as gains or losses arising from the revaluation of assets, with the exception of securities, and liabilities in foreign currency at fair value, FX gains or losses from the valuation of the shell and aliquot interest yield on bonds held for sale.

#### 5.14 Other Operating Income and Expenses

Income	2014	2013
Settlement of account – due to Participants	50,932	6,777
<b>Total</b>	<b>50,932</b>	<b>6,777</b>

This account serves to record e.g. revenues from state contributions upon the payment of surrender value and additional surrender value, remaining life-long pensions after the client's death, settlement of hedges differences on all types of payments and items subject to statute of limitations.

Expenses	2014	2013
Settlement of account – subsidies for payments to Participants	4,762	207
<b>Total</b>	<b>4,762</b>	<b>207</b>

This account serves to record subsidies for the payment of life-long pension, where the client's own funds have already been used up.

#### 5.15 Additions to and Use of Other Provisions

Expenses	2014	2013
Insurance technical reserve for liabilities under pension insurance policies	6,191	3,253
<b>Total</b>	<b>6,191</b>	<b>3,253</b>

#### 5.16 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	0	0
<b>Total income tax</b>	<b>0</b>	<b>0</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	739,175	593,951
Items to add	220,501	108,096
Deductible items	1,050,998	1,007,485
Tax base	0	0
Tax (5%) on tax base	0	0
<b>Total tax</b>	<b>0</b>	<b>0</b>

#### Deferred tax

As at 31<sup>st</sup> December 2014, the Fund determined deferred tax asset of CZK 2,335 thousand arising from the insurance technical reserve under the pension insurance policies.

As at 31<sup>st</sup> January 2013, the Fund determined deferred tax asset of CZK 2,026 thousand. The year-on-year difference of CZK 309 thousand was recorded in the Fund's revenues.

As at 31<sup>st</sup> December 2014, the deferred tax asset arising from the tax loss for the current accounting period was not recorded due to the tax rate of 0% since 1<sup>st</sup> January 2015.

As at 31<sup>st</sup> December 2013, the deferred tax asset was CZK 15,272 thousand arising from the tax loss for the current accounting period.

In compliance with the Income Taxes Act, it is possible to carry forward tax losses generated and assessed in the previous accounting periods or part thereof for up to five years immediately following the period for which the loss was assessed. The tax loss from 2014 amounted to CZK 91,322 thousand (2013: CZK 227,424 thousand).

### 5.17 Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a. s.

Payables to related parties	31 Dec 2014	31 Dec 2013
Expenditures – management fee – ČSPS, a. s.	28,941	20,025
Unbilled deliveries – fee from profit – ČSPS, a. s.	0	104,843
Expenditures – fee from profit – ČSPS, a. s.	130,550	0
Negative fair value of interest rate derivatives	49,875	45,734
<b>Total payables to related parties</b>	<b>209,366</b>	<b>170,602</b>

The costs charged by CS PS amounted to CZK 455,186 thousand in 2014 (2013: CZK 385,800 thousand), i.e. the annual flat fee and performance fee – 15% of the Fund's profit.

Receivables from related parties	31 Dec 2014	31 Dec 2013
Accrued income – state contribution – ČSPS	355,319	371,554
Accrued income – loyalty bonus for holding PC	0	0
Term deposit with ČS	0	300,000
<b>Total receivables from related parties</b>	<b>355,319</b>	<b>671,554</b>

### 5.18 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

2014

Assets	Less than 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	20,891,922	0	0	0	0	20,891,922
Debt securities	0	651,188	16,061,047	19,119,650	0	35,831,885
Shares and participation certificates	0	0	0	0	0	0
Prepaid expenses	0	0	0	0	0	0
Derivatives	6,439	0	0	0	0	6,439
Other assets	368,173	0	0	0	0	368,173
<b>Total assets</b>	<b>21,266,534</b>	<b>651,188</b>	<b>16,061,047</b>	<b>19,119,650</b>	<b>0</b>	<b>57,098,419</b>
<b>Liabilities</b>						
Other liabilities	(404,540)	0	(49,875)	0	(55,756,809)	(56,211,224)
<b>Net assets</b>	<b>20,861,994</b>	<b>651,188</b>	<b>16,011,172</b>	<b>19,119,650</b>	<b>(55,756,809)</b>	<b>887,195</b>
<b>Available capital</b>	<b>(887,195)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(887,195)</b>
<b>Difference</b>	<b>19,974,799</b>	<b>651,188</b>	<b>16,011,172</b>	<b>19,119,650</b>	<b>(55,756,809)</b>	<b>0</b>

## 2013

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months –1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Not specified</b>	<b>Total</b>
Receivables from banks	19,797,428	0	0	0	0	19,797,428
Debt securities	2,046,655	1,307,707	14,104,702	13,014,756	0	30,473,820
Shares and participation certificates	0	0	0	0	497,684	497,684
Prepaid expenses	0	0	0	0	0	0
Derivatives	49,759	0	0	0	0	49,759
Other assets	385,494	0	0	0	0	385,494
<b>Total assets</b>	<b>22,279,336</b>	<b>1,307,707</b>	<b>14,104,702</b>	<b>13,014,756</b>	<b>497,684</b>	<b>51,204,185</b>
<b>Liabilities</b>						
Other liabilities	(148,981)	0	(45,734)	0	(50,151,749)	(50,346,464)
<b>Net assets</b>	<b>22,130,355</b>	<b>1,307,707</b>	<b>14,058,968</b>	<b>13,014,756</b>	<b>(49,654,065)</b>	<b>857,721</b>
<b>Available capital</b>	<b>(857,721)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(857,721)</b>
<b>Difference</b>	<b>21,272,634</b>	<b>1,307,707</b>	<b>14,058,968</b>	<b>13,014,756</b>	<b>(49,654,065)</b>	<b>0</b>

Liquidity risk, to which the Fund is exposed, is low as all assets are immediately convertible into cash before the expected purchases by the Fund's Participants.

#### 5.19 Off-balance Sheet Assets and Liabilities

The Fund's off-balance sheet accounts include receivables and payables from fixed term transactions and assets transferred for management. The item 'Assets provided for management' shows foreign and domestic securities administered by Česká spořitelna, a. s., and other values (term deposits and derivatives).

#### 5.20 Contingent Assets and Liabilities

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

#### 5.21 Other Material Disclosures

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

#### 5.22 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.



# Government Bonds Pension Fund of pension savings Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Government Bonds Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s. CNB issued a decision which permitted the establishment of the pension fund on 17<sup>th</sup> December 2012, reference number 2012/12421/570. The decision came into effect on 18<sup>th</sup> December 2012.

It is managed by Česká spořitelna – penzijní společnost, a.s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033 Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of a consolidation group, whose parent company is Česká spořitelna, a.s., IN: 45244782

## Fund characteristics

Investment into the pension fund of government bonds is suitable for those participants who are neither interested nor informed about events on capital markets and are looking for the complex solution of their investment distributed between the currency and bond market with as low risk as possible. The Pension fund of government bonds is designed for those participants who prefer fixed income financial instruments and for less-experienced investors with minimum investment horizon of one year. The goal of the investment policy is to provide to the participants long-term appreciation of the funds invested placed mainly into the money market instruments, government bonds, and other debt securities of international financial institutions. The interest risk is actively managed, the investment denominated in foreign currency are fully hedged.

## Depository

The depository of the pension fund is Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a.s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171. Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and has been professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

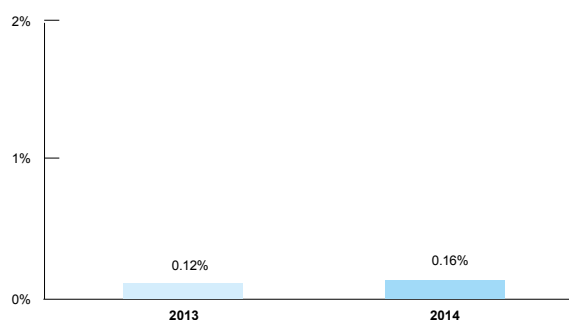
Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge a management fee and an asset performance fee (Fee holidays) at the expense of Government bonds Fund of Pension Savings. By Decision of the Board, fees and charges will not be applied on Pension Savings funds. In 2015, management of savings in Pension Savings funds continues for our clients free of charge.

To obtain further information on the pension fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).

## Historical Performance of Government Bonds Pension Fund



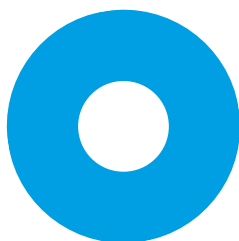
### Top holdings of the Government Bonds Pension Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
Money Market		4,984	4,984	100.0%

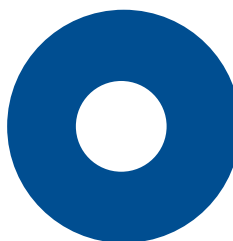
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	4,984
<b>NAV per unit of fund in CZK</b>	<b>1.0028</b>

### Portfolio of the pension fund as at 31<sup>st</sup> December 2014

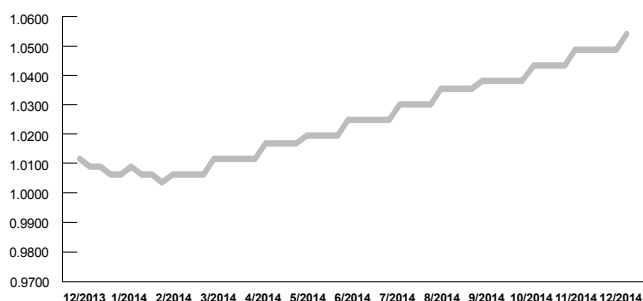


■ Money market 100%

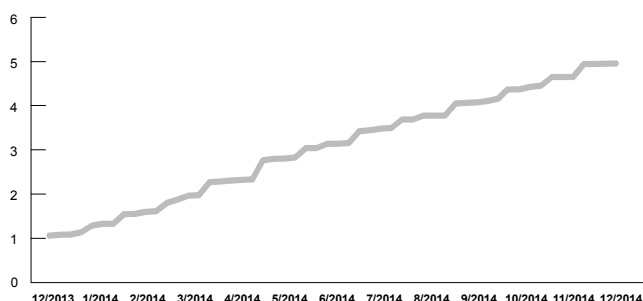


■ CZK 100%

### The development of pension unit of Government Bonds Pension Fund (2014)



### Development of the fund NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s.:

- I. We have audited the financial statements of the fund Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014 presented in the annual report of the Company on pages 107 – 116 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	4,984	1,068
of which: a) on demand: aa) current accounts	02	4,984	1,068
<b>Total assets</b>	<b>23</b>	<b>4,984</b>	<b>1,068</b>
4 Other liabilities	30		19
d) other liabilities	34		19
10 Reserve funds and other funds created from profit	42	1	
12 Capital funds	43	4,977	1,048
15 Profit or loss for the accounting period	49	6	1
<b>Total liabilities</b>	<b>50</b>	<b>4,984</b>	<b>1,068</b>
of which: Equity	51	4,984	1,049
<b>Off balance sheet accounts</b>	<b>52</b>		

# Income Statement

for the period ending 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	7	1
5 Fees and commissions expense	08	1	
a) management fee	09	1	
19 Ordinary profit or loss for the accounting period before tax	24	6	1
24 Profit or loss for the accounting period after tax	29	6	1

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Důchodový fond státních dluhopisů důchodového spoření Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Důchodový fond – CSPS, a.s.” or the “Pension Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS” or the “Company”) in accordance with Act No. 426/2011 Coll. on Retirement Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12421/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Supplementary Pension Savings Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as at 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 426/2011 Coll. on Retirement Savings (the “Act”), the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a pension fund as at the date of approval of the Statute.

### Registered Office

Důchodový fond státních dluhopisů důchodového spoření  
Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

Penzijní společnost collects funds to the Pension Fund from the following sources:

- a) parts of income from insurance premiums assignable to participants and transferred to the account that serves for acceptance of insurance premiums, transfer of participants’ funds and making of payments,
- b) participants’ funds transferred from another pension fund.

The number of issued pension units (“důchodové jednotky”) and the period for which the Fund has been formed have been restricted due to foreseen termination of pension savings funds (as described in Note 5.12.).

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities of international financial institutions. The interest rate risk is actively managed, the investments denominated in foreign currencies are fully hedged.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, bonds or discount certificates. The Fund may invest in securities in compliance with Section 46 of the Act.

The Pension Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Pension Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Fund can use financial derivatives to hedge the interest and currency risks.

The Fund’s assets must be fully secured against the currency risk.

The underlying instrument of a financial derivative must correspond to the Fund’s investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Pension Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Pension Fund's assets, the reinvestment fund created from previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 57(2) of the Act on Pension Savings.

The Pension Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, Section 3, paragraph 21. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

The terms and conditions are stipulated in the Fund's Statute and in the Section 57 of the Act on Pension Savings.

Pursuant to Section 29(2), the equity of Penzijní společnost that is a pension savings scheme operator pursuant to the Act must equal a minimum of the aggregate of CZK 300 million and 0.05% of the value of assets in the operated pension funds, participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings exceeding CZK 500 million; after the aggregate reaches CZK 700 million, it is no longer increased. The calculation shall include the entire value of assets in all pension funds, all participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings managed by CS PS. Pursuant to Section 30, after the expiry of 24 months from the approval to form the pension funds, the number of participants in the pension funds managed by CS PS must reach at least 50 thousand participants.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Pension Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the pension fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the pension fund,
- c) explanation of the risks connected with pension savings, periods and deadlines for valuation of assets and liabilities pursuant to Section 63 of the Act, and other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank. The Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Pension Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the fee for the management of the pension funds' assets.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 91 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs,
- costs of mediating pension savings contracts.

The fee pursuant to Paragraph a) above must not exceed 0.3% of the average annual value of the Fund's equity.

The average annual value of each pension fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The average value of a pension fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collec-



tive investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

### Česká spořitelna – penzijní společnost, a. s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, and the prudence concept.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform.

No revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

## 3. Accounting Policies

### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- the date upon which the related contract was entered into;
- the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

## Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts.

During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within „Profit or loss from financial operations“.

Accrued interest relating to assets is included in the total balance of these assets.

## Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

## Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

## Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

## Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Market risk was insignificant for the Fund in 2014 as well as in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Pursuant to the Act, Penzijní společnost is obliged to purchase a pension unit and credit the relevant account with cash as at the following dates:

- the date of receipt of an application to pay one-off insurance premium for pension insurance pursuant to Section 14 of the Act,
- the date of receipt of a request to transfer 60% of the participant's funds to state budget pursuant to Section 15 of the Act,
- the date of receipt of an application to transfer funds or make payment pursuant to Section 16 of the Act,
- the date of receipt of an application to transfer the participant's funds to another pension management company's pension fund,
- the date of receipt of the Central Register Administrator's notice of registration of another pension savings contract.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.9.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	4,984	1,068
<b>Total</b>	<b>4,984</b>	<b>1,068</b>

Balances on current accounts are payable on demand.

### 5.2 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0028 (2013: CZK 1.0012) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 6 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 1 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

### 5.3 Changes in Capital Fund

	Number of pension units (items)	Total capital funds
<b>Balance at 1<sup>st</sup> Jan 2013</b>		
Pension units sold	1,047,172	1,048
Pension units purchased	0	0
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>1,047,172</b>	<b>1,048</b>
Pension units sold	3,939,100	3,945
Pension units purchased	(16,115)	(16)
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>4,922,985</b>	<b>4,977</b>

### 5.4 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	0	19
<b>Total</b>	<b>0</b>	<b>19</b>

Liabilities from contributions by pension insurance scheme participants represent invested funds prior to their matching against the book of pension units.

### 5.5 Interest Income

Income	2014	2013
Interest on bank deposits	7	1
<b>Total</b>	<b>7</b>	<b>1</b>

## 5.6 Management fee and depository's fee

In compliance with the Statute of the Fund, the management fee ("flat fee") paid to CS PS by the Fund amounts to 0.3% of the average annual value of the Fund's equity. In the period from 1<sup>st</sup> January 2014 to 31<sup>st</sup> March 2014, the management fee totaled CZK 1 thousand. Pursuant to the decision of the Board of Directors of Penzijní společnost, no management fee was charged for the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> December 2014 due to foreseen termination of pension savings funds and decrease in rates caused by the fee.

Based on the decision of CS PS, the 2014 and 2013 management fee was CZK 1 and CZK 0, respectively (a fee holiday, see the Price List).

The depository's fee is included in the management fee.

## 5.7 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	0	0
<b>Total income tax</b>	<b>0</b>	<b>0</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	6	1
Items to add	0	0
Deductible items	0	0
Tax base	6	0
Tax (5%) on tax base	0	0
<b>Total tax</b>	<b>0</b>	<b>0</b>

### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5.8 Related Party Transactions

Related parties include Česká spořitelna, a.s., and Česká spořitelna – penzijní společnost, a.s.

The related party costs recorded in the Fund's accounting records amounted to CZK 1 thousand in 2014. The costs include CS PS management fee. No related party costs were recorded in the Fund's accounting records in 2013.

## 5.9 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

2013

Assets	Less than 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	1,068	0	0	0	0	1,068
<b>Total assets</b>	<b>1,068</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,068</b>
Liabilities						
Other liabilities	19	0	0	0	0	19
<b>Net assets</b>	<b>1,049</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,049</b>

2014

<b>Assets</b>	<b>Less than 3 months</b>	<b>3 months – 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Not specified</b>	<b>Total</b>
Receivables from banks	4,984	0	0	0	0	4,984
<b>Total assets</b>	<b>4,984</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,984</b>
<b>Liabilities</b>						
Other liabilities	0	0	0	0	0	0
<b>Net assets</b>	<b>4,984</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,984</b>

Liquidity risk, to which the Fund is exposed, is very low as all the Fund's assets are cash that allows paying realized buyouts to the Fund's Participants in the shortest time possible.

### 5.10 Off-balance Sheet Assets and Liabilities

The Fund has no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2014.

The Fund had no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2013.

### 5.11 Contingent Assets and Liabilities

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

### 5.12 Other Material Disclosures

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform. Consequently, the Fund will not continue as a going concern. However, no revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

### 5.13 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Conservative Pension Fund of pension savings Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Conservative Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s. CNB issued a decision which permitted the establishment of the pension fund on 17<sup>th</sup> December 2012, reference number 2012/12421/570. The decision came into effect on 18<sup>th</sup> December 2012.

It is managed by Česká spořitelna – penzijní společnost, a. s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4, Identification number (IN): 61672033, Commercial Registry: Municipal Court in Prague, Section B, Insert 2927, which is part of a consolidation group, whose parent company is Česká spořitelna, a. s., IN: 45244782

## Fund characteristics

Investment into the Conservative fund is suitable for those participants who are neither interested nor informed of the events on capital markets and at the same time are looking for a complex solution for their investment distributed among money and bond markets. The Conservative Pension Fund is designed for the participants who prefer fixed income financial instruments and for less-experienced investors with a minimum investment horizon of one year. The goal of the investment policy is to provide participants with a long-term appreciation of the funds invested allocated especially into the money market instruments, government bonds and other debt securities rated on the investment level permitted by law on pension savings. The interest rate risk is actively managed, investments denominated in foreign currency are fully hedged.

## Depository

The depository of the pension fund is Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a. s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171. Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and has been professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

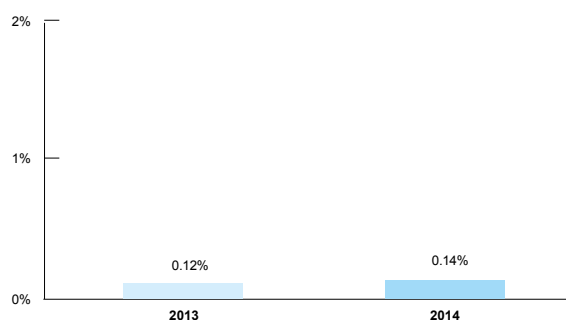
Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge a management fee and an asset performance fee (Fee holidays) at the expense of Conservative Fund of Pension Savings. By Decision of the Board, fees and charges will not be applied on Pension Savings funds. In 2015, management of savings in Pension Savings funds continues for our clients free of charge.

To obtain further information on the pension fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).

## Historical Performance of Conservative Pension Fund



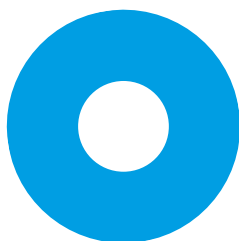
### Top holdings of the Conservative Pension Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
Money Market	CZK	106,485	106,485	100.0%

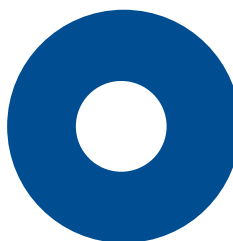
### NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	106,473
<b>NAV per unit of fund in CZK</b>	<b>1.0026</b>

### Portfolio of the pension fund as at 31<sup>st</sup> December 2014

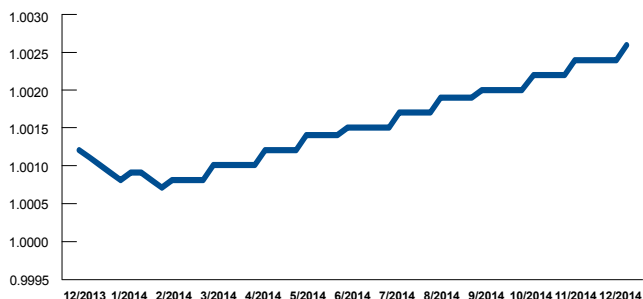


■ Money market 100%

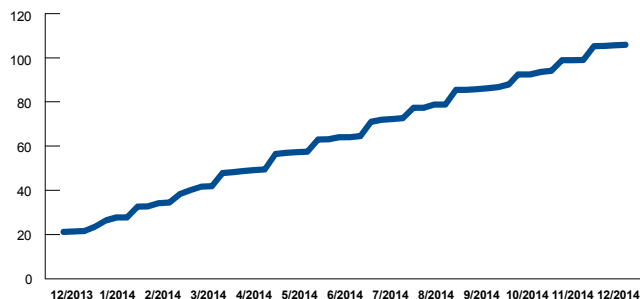


■ CZK 100%

### The development of pension unit of Conservative Pension Fund (2014)



### Development of the fund NAV in millions CZK (2014)





(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.:

- I. We have audited the financial statements of the fund Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014 presented in the annual report of the Company on pages 121 – 130 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	106,484	21,728
of which: a) on demand: aa) current accounts	02	106,484	21,728
<b>Total assets</b>	<b>23</b>	<b>106,484</b>	<b>21,728</b>
4 Other liabilities	30	11	295
c) liabilities from taxes	33	6	
d) other liabilities	34	5	295
10 Reserve funds and other funds created from profit	42	9	
12 Capital funds	43	106,341	21,424
15 Profit or loss for the accounting period	49	123	9
<b>Total liabilities</b>	<b>50</b>	<b>106,484</b>	<b>21,728</b>
of which: Equity	51	106,473	21,433
<b>Off balance sheet accounts</b>	<b>52</b>		

# Income Statement

for the period ending 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	147	9
5 Fees and commissions expense	08	18	
a) management fee	09	18	
19 Ordinary profit or loss for the accounting period before tax	24	129	9
23 Income tax	28	6	
24 Profit or loss for the accounting period after tax	29	123	9

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Konzervativní důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Důchodový fond – CSPS, a.s.” or the “Pension Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS” or the “Company”) in accordance with Act No. 426/2011 Coll. on Retirement Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12421/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Supplementary Pension Savings Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as at 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 426/2011 Coll. on Retirement Savings (the “Act”), the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a pension fund as at the date of approval of the Statute.

### Registered Office

Konzervativní důchodový fond důchodového spoření  
Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

Penzijní společnost collects funds to the Pension Fund from the following sources:

- a) parts of income from insurance premiums assignable to participants and transferred to the account that serves for acceptance of insurance premiums, transfer of participants’ funds and making of payments,
- b) participants’ funds transferred from another pension fund.

The number of issued pension units (“důchodové jednotky”) and the period for which the Fund has been formed have been restricted due to foreseen termination of pension savings funds as described in Note 5.12.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities with investment grade ratings endorsed by the Act on Pension Savings. The interest rate risk is actively managed, the investments denominated in foreign currencies are fully hedged.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds or discount certificates. The Fund may invest in securities in compliance with Section 47 of the Act.

The Pension Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Pension Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Fund uses financial derivatives to hedge against interest rate risk and currency risk. The Fund’s assets must be fully secured against the currency risk. The underlying instrument of a financial derivative must correspond to the Fund’s investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Pension Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Pension Fund's assets, the reinvestment fund created from previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Pension Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 57(2) of the Act on Pension Savings.

The Pension Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, Section 3, paragraph 31. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

The terms and conditions are stipulated in the Fund's Statute and in the Section 57 of the Act on Pension Savings.

Pursuant to Section 29(2), the equity of Penzijní společnost that is a pension savings scheme operator pursuant to the Act must equal a minimum of the aggregate of CZK 300 million and 0.05% of the value of assets in the operated pension funds, participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings exceeding CZK 500 million; after the aggregate reaches CZK 700 million, it is no longer increased. The calculation shall include the entire value of assets in all pension funds, all participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings managed by CS PS. Pursuant to Section 30, after the expiry of 24 months from the approval to form the pension funds, the number of participants in the pension funds managed by CS PS must reach at least 50 thousand participants.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Pension Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the pension fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the pension fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 63 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank. The Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Pension Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the pension funds' assets,
- b) fee for appreciation of the pension funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 91 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs,
- costs of mediating pension savings contracts.

The fee pursuant to Paragraph a) above must not exceed 0.4% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each pension fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of pension units in previous years since the formation of the pension fund,

multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the pension fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the pension fund.

The average value of a pension fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

## Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějčík

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, and the prudence concept.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform.

No revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

## 3. Accounting Policies

### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and

the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes



changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Market risk was insignificant for the Fund in 2014 as well as in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet

its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Pursuant to the Act, Penzijní společnost is obliged to purchase a pension unit and credit the relevant account with cash as at the following dates:

- a) the date of receipt of an application to pay one-off insurance premium for pension insurance pursuant to Section 14 of the Act,
- b) the date of receipt of a request to transfer 60% of the participant's funds to state budget pursuant to Section 15 of the Act,
- c) the date of receipt of an application to transfer funds or make payment pursuant to Section 16 of the Act,

- d) the date of receipt of an application to transfer the participant's funds to another pension management company's pension fund,
- e) the date of receipt of the Central Register Administrator's notice of registration of another pension savings contract.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.9.

## 5. Additional Information on the Financial Statements

### 5.1. Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	106,484	21,728
<b>Total</b>	<b>106,484</b>	<b>21,728</b>

Balances on current accounts are payable on demand.

### 5.2. Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0026 (2013: CZK 1.0012) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 123 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 9 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

### 5.3. Changes in Capital Fund

	Number of pension units (items)	Total capital funds
<b>Balance at 1<sup>st</sup> Jan 2013</b>	<b>0</b>	<b>0</b>
Pension units sold	21,448,264	21,464
Pension units purchased	40,018	40
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>21,408,246</b>	<b>21,424</b>
Pension units sold	84,930,877	85,056
Pension units purchased	138,507	139
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>84,792,370</b>	<b>106,341</b>

#### 5.4. Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	5	295
Settlement with state budget	6	0
<b>Total</b>	<b>11</b>	<b>295</b>

Liabilities from contributions by pension insurance scheme participants represent invested funds prior to their matching against the book of pension units.

#### 5.5. Interest Income

Income	2014	2013
Interest on bank deposits	147	9
<b>Total</b>	<b>147</b>	<b>9</b>

#### 5.6. Management fee, performance fee and depository's fee

In compliance with the Statute of the Fund, the management fee ("flat fee") paid to CS PS by the Fund amounts to 0.4% of the average annual value of the Fund's equity. The performance fee amounts to 10 per cent of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund, multiplied by the average annual number of pension units.

In the period from 1<sup>st</sup> January 2014 to 31<sup>st</sup> March 2014, the management fee totaled CZK 18 thousand. Pursuant to the decision of the Board of Directors of Penzijní společnost, no management fee was charged for the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> December 2014 due to foreseen termination of pension savings funds and decrease in rates caused by the fee.

Based on the decision of CS PS, the 2013 management fee was CZK 0 (a fee holiday, see the Price List). The depository's fee is included in the management fee.

#### 5.7. Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	6	0
<b>Total income tax</b>	<b>6</b>	<b>0</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	129	9
Items to add	0	0
Deductible items	0	0
Tax base	129	9
Tax (5%) on tax base	6	0
<b>Total tax</b>	<b>6</b>	<b>0</b>

#### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5.8. Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a.s.

The related party costs recorded in the Fund's accounting records amounted to CZK 18 thousand in 2014. The costs include CS PS management fee.

No related party costs were recorded in the Fund's accounting records in 2013.

## 5.9. Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

### 2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	106,484	0	0	0	0	106,484
<b>Total assets</b>	<b>106,484</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>106,484</b>
<b>Liabilities</b>						
Other liabilities	(5)	(6)	0	0	0	(11)
<b>Net assets</b>	<b>106,479</b>	<b>(6)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>106,473</b>

### 2013

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	21,728	0	0	0	0	21,728
<b>Total assets</b>	<b>21,728</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,728</b>
<b>Liabilities</b>						
Other liabilities	(295)	0	0	0	0	(295)
<b>Net assets</b>	<b>21,433</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,433</b>

Liquidity risk, to which the Fund is exposed, is very low as all the Fund's assets are cash that allows paying realized buyouts to the Fund's Participants in the shortest time possible.

## 5.10. Off-balance Sheet Assets and Liabilities

The Fund has no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2014.

The Fund had no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2013.

## 5.11. Contingent Assets and Liabilities

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

## 5.12. Other Material Disclosures

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform. Consequently, the Fund will not continue as a going concern. However, no revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

## 5.13. Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Balanced Pension Fund of pension savings Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Balanced Pension Fund of pension savings Česká spořitelna – penzijní společnost, a. s. CNB issued a decision which permitted the establishment of the pension fund on 17<sup>th</sup> December 2012, reference number 2012/12421/570. The decision came into effect on 18<sup>th</sup> December 2012.

It is managed by Česká spořitelna – penzijní společnost, a. s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4,  
Identification number (IN): 61672033 Commercial Registry:  
Municipal Court in Prague, Section B, Insert 2927, which is  
part of the consolidation group, whose parent company is Česká  
spořitelna, a. s., IN: 45244782

## Fund characteristics

Investment into the Balanced Pension Fund is suitable for those participants who are looking for a complex and long-term solution for their investment, distributed in a ratio among currency, bond, and stock markets. With regard to the nature of the investment, the participants should be aware of the fact that their investment can fall below the initial value in the medium term. The Balanced Pension Fund is thus suitable for rather experienced investors who prefer fixed income financial instruments, yet want to invest also in share markets with minimum investment horizon of three years. Investment into the Balanced Pension Fund is also suitable for less-experienced participants as part of broadly diversified portfolio. The goal of the investment policy is to provide to the participants with long-term appreciation of the funds invested allocated mainly into the currency market instruments, government bonds, and other debt securities or shares or similar securities representing a share on a legal entity. The credit and interest risk is actively controlled; unsecured investment denominated in foreign currency can not exceed 25% of the value of the fund assets.

## Depository

The depository of the pension fund is Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a. s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171.

Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and has been professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

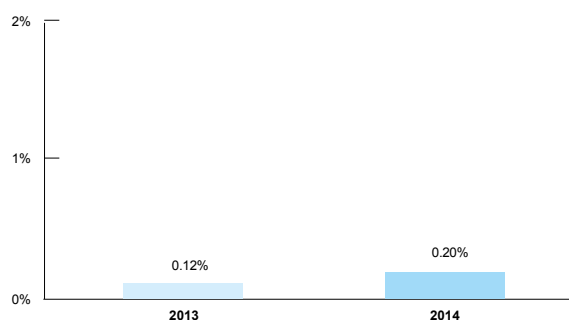
Komerční banka, a. s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge a management fee and an asset performance fee (Fee holidays) at the expense of Balanced Fund of Pension Savings. By Decision of the Board, fees and charges will not be applied on Pension Savings funds. In 2015, management of savings in Pension Savings funds continues for our clients free of charge.

**To obtain further information on the pension fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

## Historical Performance of Balanced Pension Fund



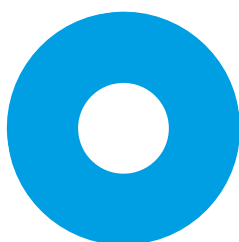
### Top holdings of Balanced Pension Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
Money Market	CZK	136,108	136,108	100.0%

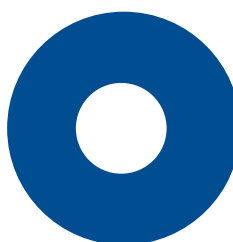
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	136,093
<b>NAV per unit of fund in CZK</b>	<b>1.0032</b>

### Portfolio of the pension fund as at 31<sup>st</sup> December 2014

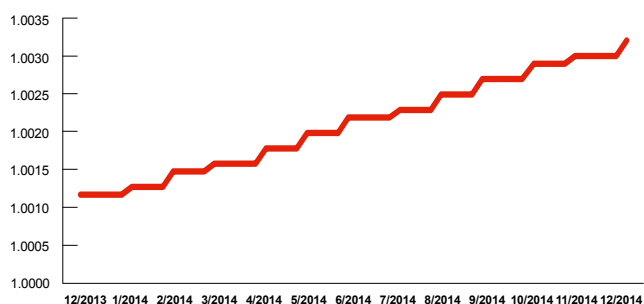


■ Money market 100%

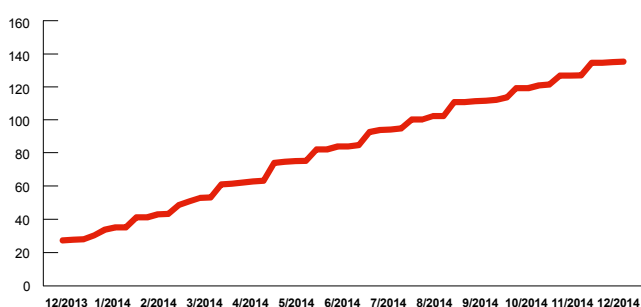


■ CZK 100%

### The development of pension unit of Balanced Pension Fund (2014)



### Development of the fund NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.:

- I. We have audited the financial statements of the fund Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014 presented in the annual report of the Company on pages 135 – 144 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic



# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	136,108	27,651
of which: a) on demand: aa) current accounts	02	136,108	27,651
<b>Total assets</b>	<b>23</b>	<b>136,108</b>	<b>27,651</b>
4 Other liabilities	30	15	502
c) liabilities from taxes	33	9	1
d) other liabilities	34	6	501
10 Reserve funds and other funds created from profit	42	12	
12 Capital funds	43	135,901	27,137
15 Profit or loss for the accounting period	49	180	12
<b>Total liabilities</b>	<b>50</b>	<b>136,108</b>	<b>27,651</b>
of which: Equity	51	136,093	27,149
<b>Off balance sheet accounts</b>	<b>52</b>		

# Income Statement

for the period ending 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	189	13
19 Ordinary profit or loss for the accounting period before tax	24	189	13
23 Income tax	28	9	1
24 Profit or loss for the accounting period after tax	29	180	12

# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Vyvážený důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Důchodový fond – CSPS, a.s.” or the “Pension Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS” or the “Company”) in accordance with Act No. 426/2011 Coll. on Retirement Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12421/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Supplementary Pension Savings Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as at 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 426/2011 Coll. on Retirement Savings (the “Act”), the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a pension fund as at the date of approval of the Statute.

### Registered Office

Vyvážený důchodový fond důchodového spoření  
Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

Penzijní společnost collects funds to the Pension Fund from the following sources:

- a) parts of income from insurance premiums assignable to participants and transferred to the account that serves for acceptance of insurance premiums, transfer of participants’ funds and making of payments,
- b) participants’ funds transferred from another pension fund.

The number of issued pension units (“důchodové jednotky”) and the period for which the Fund has been formed have been restricted due to foreseen termination of pension savings funds as described in Note 5.12.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities, shares or other securities representing share in company. The credit and interest rate risk is actively managed; the unhedged investments denominated in foreign currencies can form maximum 25% of the value of the Fund’s assets.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds, bond funds, discount certificates, shares and equity funds. The Fund may invest in securities in compliance with Section 48 of the Act.

The Pension Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Pension Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Pension Fund uses techniques and tools for efficient management of assets in accordance with the Statute only to manage interest rate risk and currency risk. Pension Fund’s assets that are not secured against currency risk cannot represent more than 25% of the value of the Fund’s assets.

The underlying instrument of a financial derivative must correspond to the Fund's investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Pension Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Pension Fund's assets, the reinvestment fund created from previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 57(2) of the Act on Pension Savings.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Pension Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, paragraph 31. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

The terms and conditions are stipulated in the Fund's Statute and in the Section 57 of the Act on Pension Savings.

Pursuant to Section 29(2), the equity of Penzijní společnost that is a pension savings scheme operator pursuant to the Act must equal a minimum of the aggregate of CZK 300 million and 0.05% of the value of assets in the operated pension funds, participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings exceeding CZK 500 million; after the aggregate reaches CZK 700 million, it is no longer increased. The calculation shall include the entire value of assets in all pension funds, all participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings managed by CS PS. Pursuant to Section 30, after the expiry of 24 months from the approval to form the pension funds, the number of participants in the pension funds managed by CS PS must reach at least 50 thousand participants.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Pension Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the pension fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the pension fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 63 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank. The Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Pension Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the pension funds' assets,
- b) fee for appreciation of the pension funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 91 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs,
- costs of mediating pension savings contracts.

The fee pursuant to Paragraph a) above must not exceed 0.5% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each pension fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of pension units in previous years since the formation of the pension fund, multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the pension fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the pension fund.

The average value of a pension fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

## Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the

content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, and the prudence concept.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform.

No revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

### 3. Accounting Policies

#### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

#### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

#### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

#### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at

fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Market risk was insignificant for the Fund in 2014 as well as in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Pursuant to the Act, Penzijní společnost is obliged to purchase a pension unit and credit the relevant account with cash as at the following dates:

a) the date of receipt of an application to pay one-off insurance premium for pension insurance pursuant to Section 14 of the Act,

b) the date of receipt of a request to transfer 60% of the participant's funds to state budget pursuant to Section 15 of the Act,  
c) the date of receipt of an application to transfer funds or make payment pursuant to Section 16 of the Act,  
d) the date of receipt of an application to transfer the participant's funds to another pension management company's pension fund,  
e) the date of receipt of the Central Register Administrator's notice of registration of another pension savings contract.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.9.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	136,108	27,651
<b>Total</b>	<b>136,108</b>	<b>27,651</b>

Balances on current accounts are payable on demand.

### 5.2 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0032 (2013: CZK 1.0012) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 180 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 12 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

### 5.3 Changes in Capital Fund

	Number of pension units (items)	Total capital funds
<b>Balance at 1<sup>st</sup> Jan 2013</b>		
Pension units sold	27,157,451	27,177
Pension units purchased	39,913	40
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>27,117,538</b>	<b>27,137</b>
Pension units sold	108,877,484	109,101
Pension units purchased	336,663	337
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>108,540,821</b>	<b>135,901</b>



## 5.4 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	6	501
Settlement with state budget	9	1
<b>Total</b>	<b>15</b>	<b>502</b>

Liabilities from contributions by pension insurance scheme participants represent invested funds prior to their matching against the book of pension units.

## 5.5 Interest Income

Income	2014	2013
Interest on bank deposits	189	13
<b>Total</b>	<b>189</b>	<b>13</b>

## 5.6 Management fee, performance fee and depository's fee

In compliance with the Statute of the Fund, the management fee ("flat fee") paid to CS PS by the Fund amounts to 0.5% of the average annual value of the Fund's equity. The performance fee amounts to 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund, multiplied by the average annual number of pension units.

Based on the decision of CS PS, the 2014 and 2013 management fee was CZK 0, respectively (a fee holiday, see the Price List). The depository's fee is included in the management fee.

## 5.7 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	9	1
<b>Total income tax</b>	<b>9</b>	<b>1</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	189	13
Items to add	0	0
Deductible items	0	0
Tax base	189	12
Tax (5%) on tax base	9	1
<b>Total tax</b>	<b>9</b>	<b>1</b>

### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5.8 Related Party Transactions

Related parties include Česká spořitelna, a. s., and Česká spořitelna – penzijní společnost, a. s.

No related party costs were recorded in the Fund's accounting records in 2014.

No related party costs were recorded in the Fund's accounting records in 2013.

## 5.9 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

2014

Assets	Less than 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	136,108	0	0	0	0	136,108
<b>Total assets</b>	<b>136,108</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>136,108</b>
<b>Liabilities</b>						
Other liabilities	(6)	(9)	0	0	0	(15)
<b>Net assets</b>	<b>136,102</b>	<b>(9)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>136,093</b>

2013

Assets	Less than 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	27,651	0	0	0	0	27,651
<b>Total assets</b>	<b>27,651</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27,651</b>
<b>Liabilities</b>						
Other liabilities	(501)	(1)	0	0	0	(502)
<b>Net assets</b>	<b>27,150</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27,149</b>

Liquidity risk, to which the Fund is exposed, is very low as all the Fund's assets are cash which allow paying realized buyouts to the Fund's Participants in the shortest time possible.

## 5.10 Off-balance Sheet Assets and Liabilities

The Fund has no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2014.

The Fund had no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2013.

## 5.11 Contingent Assets and Liabilities

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

## 5.12 Other Material Disclosures

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform. Consequently, the Fund will not continue as a going concern. However, no revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

## 5.13 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.

# Dynamic Pension Fund of pension savings Česká spořitelna – penzijní společnost, a. s.

## Basic information

The Dynamic Pension Fund of pension savings Česká spořitelna – penzijní společnost, a.s. CNB issued a decision which permitted the establishment of the pension fund on 17<sup>th</sup> December 2012, reference number 2012/12421/570. The decision came into effect on 18<sup>th</sup> December 2012.

It is managed by Česká spořitelna – penzijní společnost, a.s.

Registered office at Poláčkova 1976/2, 140 21 Prague 4,  
Identification number (IN): 61672033 Commercial Registry:  
Municipal Court in Prague, Section B, Insert 2927, which is  
part of a consolidation group, whose parent company is Česká  
spořitelna, a.s., IN: 45244782

## Fund characteristics

Investment into the Dynamic Pension Fund is suitable for those participants who want to reach as high appreciation of their funds as possible, are experienced in capital markets and are able to accept significant volatility. The portfolio of the Dynamic fund is diversified among share, bond, and money markets. The Dynamic Pension Fund is suitable for experienced investors who are able to accept longer periods of negative development of the pension unit value and who can afford to invest funds with minimum investment horizon of five years. Investment into the Dynamic Pension Fund is also suitable for less-experienced investors as part of a broadly diversified portfolio. The goal of the investment policy is to provide participants with long-term appreciation of funds invested which are allocated mainly into money market instruments, government bonds, and other debt securities or shares or similar securities representing a share of a legal entity. Credit and interest risk is actively managed; unsecured investment denominated in foreign exchanges can not exceed 50% of the value of the fund's assets.

## Depository

The depository of the pension fund is Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Portfolio manager

Česká spořitelna, a.s., registered office at Prague 4, Olbrachtova 1929/62, 140 00, IN: 452 44 782, registered in the Commercial Registry at the Municipal Court in Prague, Section B, Insert 1171.

Senior portfolio manager of the fund is Mgr. Marcel Kostovski, who is a graduate of broker examinations, CFA Institute and has been professionally engaged in investments, portfolio management and asset management since 1995.

## Person responsible for safeguarding and control of assets of the participation fund

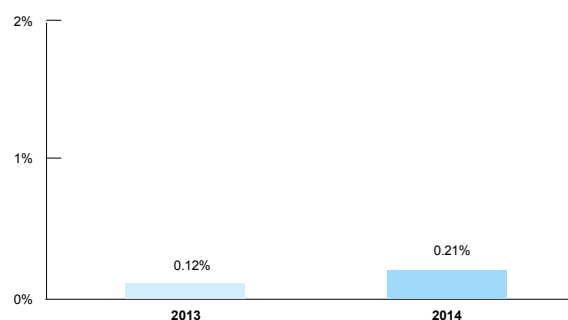
Komerční banka, a.s., registered office at Na Příkopě 33/969, 114 07 Prague 1, IN: 45317054

## Fees and Charges

In 2014, Česká spořitelna – penzijní společnost did not charge management fee and asset performance fee (Fee holidays) at the expense of Dynamic Fund of Pension Savings. By Decision of the Board, fees and charges will not be applied on Pension Savings funds. In 2015, management of savings in Pension Savings funds continues for our clients free of charge.

**To obtain further information on the pension fund please visit our office at Poláčkova 1976/2, Prague 4, 140 21, call free 956 777 444, or visit [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz) or [info@cs-ps.cz](mailto:info@cs-ps.cz).**

## Historical Performance of Dynamic Pension Fund



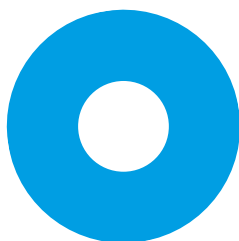
### Top holdings of Dynamic Pension Fund as at 31<sup>st</sup> December 2014

Name	Currency	Amortised purchase price in ths CZK	Market value in ths CZK	%
Money Market	CZK	58,538	58,538	100.0%

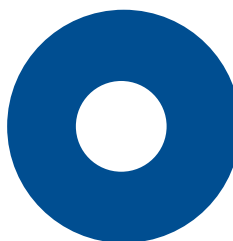
### NAV and NAV per pension unit as at 31<sup>st</sup> December 2014

Name	Value
NAV in thousands CZK	<b>58,532</b>
<b>NAV per unit of fund in CZK</b>	1.0033

### Portfolio of the pension fund as at 31<sup>st</sup> December 2014

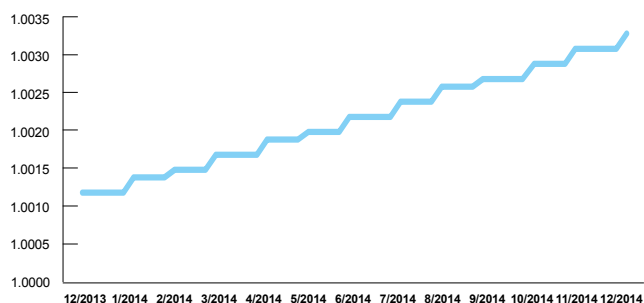


■ Money market 100%

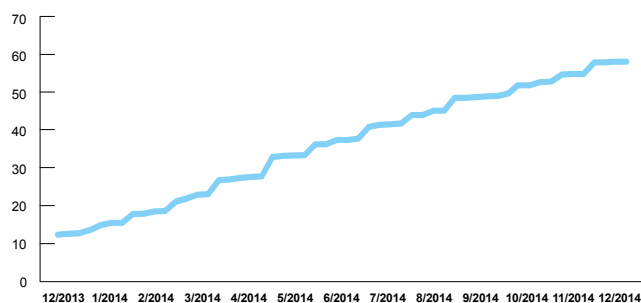


■ CZK 100%

### The development of pension unit of Dynamic Pension Fund (2014)



### Development of the fund NAV in millions CZK (2014)



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

### INDEPENDENT AUDITOR'S REPORT

To the Participants of the fund Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s.:

- I. We have audited the financial statements of the fund Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. as at 31 December 2014 presented in the annual report of the Company on pages 149 – 158 and our audit report dated 13 March 2015 stated the following:

“We have audited the accompanying financial statements of the fund Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. which comprise the balance sheet as at 31 December 2014, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. see Note 1 to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management 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 and International Standards on Auditing as amended by implementation 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 an 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 entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of 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 present fairly, in all material respects, the financial position of the fund Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a. s. as at 31 December 2014, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.”

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of the fund Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

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



Roman Hauptfleisch, Auditor  
License No. 2009

17<sup>th</sup> April 2015  
Prague, Czech Republic

# Balance Sheet

at 31<sup>st</sup> December 2014

CZK thousand	Line	Current	Previous
3 Receivables from banks and credit unions	01	58,538	12,290
of which: a) on demand: aa) current accounts	02	58,538	12,290
<b>Total assets</b>	<b>23</b>	<b>58,538</b>	<b>12,290</b>
4 Other liabilities	30	6	216
c) liabilities from taxes	33	4	
d) other liabilities	34	2	216
10 Reserve funds and other funds created from profit	42	6	
<b>12 Capital funds</b>	<b>43</b>	<b>58,448</b>	<b>12,068</b>
15 Profit or loss for the accounting period	49	78	6
Total liabilities	50	58,538	12,290
of which: Equity	51	58,532	12,074
<b>Off balance sheet accounts</b>	<b>52</b>		

# Income Statement

for the period ending 31<sup>st</sup> December 2014

<b>CZK thousand</b>	<b>Line</b>	<b>Current</b>	<b>Previous</b>
1 Interest income and similar income	01	82	6
19 Ordinary profit or loss for the accounting period before tax	24	82	6
23 Income tax	28	4	
24 Profit or loss for the accounting period after tax	29	78	6



# Notes to the Financial Statements

for the period ending 31<sup>st</sup> December 2014

## 1. Organisation and Description of Business

### Formation and Description of the Business

Dynamický důchodový fond důchodového spoření Česká spořitelna – penzijní společnost, a.s. (the “Fund” or “Důchodový fond – CSPS, a.s.” or the “Pension Fund”) is an accounting entity without legal entity status, formed by Česká spořitelna – penzijní společnost, a.s. (“Penzijní společnost” or “CS PS” or the “Company”) in accordance with Act No. 426/2011 Coll. on Retirement Savings. The Czech National Bank (“CNB”) approved the formation of the Fund in a decision issued on 17<sup>th</sup> December 2012 under Ref. No. 2012/12421/570. The decision came into force on 18<sup>th</sup> December 2012. The Fund commenced its activities on 1<sup>st</sup> January 2013.

### Transformation Process

On 20<sup>th</sup> February 2012, the Company prepared a transformation project in accordance with Act No. 427/2011 Coll. on Supplementary Pension Savings (the “Supplementary Pension Savings Act”); the project was submitted for approval to the Czech National Bank on 27<sup>th</sup> February 2012. The Czech National Bank approved the project on 7<sup>th</sup> September 2012. As at 31<sup>st</sup> December 2012, based on the transformation project, Penzijní fond České spořitelny, a.s. (“PFCS”) was dissolved and Česká spořitelna – penzijní společnost, a.s. (“CS PS”) and Transformovaný fond Česká spořitelna – penzijní společnost (“CS TF”) were incorporated. The incorporation of the companies took effect as of 1<sup>st</sup> January 2013, which is the effective date stipulated by the transformation project.

In compliance with the Act, the Company subsequently created participation funds and pension funds.

Pursuant to a concluded contract, Komerční banka, a.s. (“KB”) acts as the depository of the Fund.

The Fund is managed by Česká spořitelna – penzijní společnost, a.s. In compliance with Act No. 426/2011 Coll. on Retirement Savings (the “Act”), the above company is responsible for the management of the assets of the Fund, which involves the administration and handling of the assets.

Pursuant to the classification which is binding for the members of the Czech Pension Management Companies Association (“APS CR”), the Fund may be designated as a pension fund as at the date of approval of the Statute.

### Registered Office

Dynamický důchodový fond důchodového spoření  
Česká spořitelna – penzijní společnost, a.s.  
Prague 4, Poláčkova 1976/2

### Principal Business

Penzijní společnost collects funds to the Pension Fund from the following sources:

- parts of income from insurance premiums assignable to participants and transferred to the account that serves for acceptance of insurance premiums, transfer of participants’ funds and making of payments,
- participants’ funds transferred from another pension fund.

The number of issued pension units (“důchodové jednotky”) and the period for which the Fund has been formed have been restricted due to foreseen termination of pension savings funds as described in Note 5.12.

Pension units of the Fund are offered in the Czech Republic.

### Investment Policy of the Fund

The objective of the investment policy is to seek a long-term appreciation of the participants’ funds investing primarily in money market instruments, state bonds and other debt securities and shares or similar securities representing shares on legal persons. The credit and interest rate risk is actively managed; the unhedged investments denominated in foreign currencies can form maximum 50% of the value of the Fund’s assets.

The Fund’s portfolio particularly comprises (or may comprise) treasury bills, money market funds, bonds, bond funds, discount certificates, shares and equity funds. The Fund may invest in securities in compliance with Section 49 of the Act.

The Pension Fund may use techniques and tools relating to investment securities and money market instruments on condition that they are used for effective management of the assets. In using the techniques and instruments, the Pension Fund must always comply with the manner of investing stipulated in the Fund’s Statute.

The Fund can use financial derivatives to hedge the interest and currency risks.

The Fund uses techniques and tools for efficient management of assets in accordance with the Statute to decrease the risk, decrease the expenses or to reach additional income for the Fund provided

that the risk undergone is demonstrably low. Pension Fund's assets that are not secured against currency risk cannot represent more than 50% of the value of the Fund's assets.

The underlying instrument of a financial derivative must correspond to the Fund's investment policy and risk profile.

The limits of the Fund are adhered to on the basis of the Act, or they are regulated in the Fund's Statute in compliance with the Act.

### The Fund's Operation Principles

The Fund's operating results arise as the difference between income and expenses relating to the management of the Fund's assets.

The full amount of the generated profit is retained in the Pension Fund, in the reinvestment fund, as a source for further investments and increases the value of the pension unit. If a loss arises from CS PS's management of the Pension Fund's assets, the reinvestment fund created from previous years' profits is used to cover the loss. If the reinvestment fund is not sufficient to cover the loss, the loss shall be covered by reducing the capital fund.

The Fund's assets must not be used to provide a loan or a gift, to secure a third party liability or to satisfy a liability that does not relate to the management of the Fund pursuant to Section 57(2) of the Act on Pension Savings.

Upon managing the Fund's assets, the Fund must not enter into a contract for the sale of an investment instrument that does not constitute part of the Fund's assets.

The Pension Fund may accept a bank loan or another loan with maturity not exceeding 6 months in order to complement liquidity under the terms and conditions stipulated in the Fund's Statute, paragraph 32. The Fund is not allowed to accept a loan for the purposes of purchasing an investment instrument.

The aggregate of all received loans must not exceed 5% of the value of the Fund's assets.

Pursuant to Section 29(2), the equity of Penzijní společnost that is a pension savings scheme operator pursuant to the Act must equal a minimum of the aggregate of CZK 300 million and 0.05% of the value of assets in the operated pension funds, participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings exceeding CZK 500 million; after the aggregate reaches CZK 700 million, it is no longer increased. The calculation shall include the entire value of assets in all pension funds, all participation funds and the Transformed Fund pursuant to the Act on Supplementary Pension Savings managed by CS PS. Pursuant to Section 30, after the expiry of 24 months from the approval to form the pension funds, the number of participants in the pension funds managed by CS PS must reach at least 50 thousand participants.

### The Fund's Statute and Management Fees

The Fund's Statute is the key binding document of the Fund.

The Pension Fund's Statute stipulates, in a clear manner, the following:

- a) information concerning the manner of investing the pension fund,
- b) other information necessary for a participant to correctly and accurately assess the decision to place his/her funds in the pension fund,
- c) explanation of the risks connected with pension savings,
- d) periods and deadlines for valuation of assets and liabilities pursuant to Section 63 of the Act, and
- e) other information required by implementing regulations.

The Fund's Statute is approved by the Czech National Bank. The Statute is binding for CS PS.

The information stipulated in the Fund's Statute must be regularly updated.

Penzijní společnost is entitled to a fee from the assets in the Pension Fund; the amount of the fee must be stipulated in the Fund's Statute. The fee consists of the following:

- a) fee for the management of the pension funds' assets,
- b) fee for appreciation of the pension funds' assets, i.e. performance fee.

Any and all expenses owing to third parties by Penzijní společnost in connection with pension savings schemes shall be covered from the fee, in particular the following:

- fees for the exercise of the activities of the depository and auditor of the Fund,
- fees paid to the bank,
- fees paid to persons other than Penzijní společnost for the exercise of activities pursuant to Section 91 of the Act and for the administration of pension savings contracts and related activities,
- fees paid to the person responsible for the settlement of investment instruments transactions, transfer points, securities brokers,
- promotion and advertising costs,
- costs of mediating pension savings contracts.

The fee pursuant to Paragraph a) above must not exceed 0.6% of the average annual value of the Fund's equity; such fee shall be reduced by the costs of purchase, sale and holding of the securities issued by the collective investment fund.

The average annual value of each pension fund's equity is determined as at the last day of the relevant period as a simple arithmetic average of the values of a particular fund's equity for each day of the relevant period.

The fee pursuant to Paragraph b) above must not exceed 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of pension units in previous years since the formation of the pension fund, multiplied by the average annual number of pension units in the relevant period.

Penzijní společnost is not entitled to the fee pursuant to Paragraph b) above if the average annual value of the pension fund's pension unit in the relevant period is lower than or equal to the highest average annual value of the pension unit in previous years since the formation of the pension fund.

The average value of a pension fund's pension unit is determined as at the last day of the relevant period as a simple arithmetic average of the values of the fund's pension units for each day of the relevant period.

For the purposes of determining the fee, the costs of holding the securities issued by the collective investment fund shall particularly include the proportion of total costs covered from the collective investment fund's assets that is adequate to the investment in such fund.

### Change in the Fund's Statute

There were no changes to the Fund's Statute in 2014 and 2013, respectively.

### Česká spořitelna – penzijní společnost, a.s. Board of Directors and Supervisory Board

#### Board of Directors

Chairman	Ing. Aleš Poklop
Vice Chairman	Ing. Martin Kopejtko
Member	Ing. Jakub Krkoška, MBA

#### Supervisory Board

Chairperson of the Board:	RNDr. Monika Laušmanová, CSc.
Vice Chairman	Ing. Aleš Sedlák
Member	Ing. Petr Valenta
Member	Ing. Jiří Škorvaga, CSc.
Member	Renáta Kováčková
Member	Ing. Pavel Matějček

## 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with Accounting Act No. 563/1991 Coll., and applicable regulations, decrees and internal standards in compliance with and in the scope defined in Czech Finance Ministry Regulation No. 501/2002 of 6<sup>th</sup> November 2002, as subsequently amended, which sets out the overall framework for the presentation of the financial statements, and guidelines for the structure and minimum requirements for the

content of the financial statements of banks and certain financial institutions, and the Czech Accounting Standards for Financial Institutions, which establish the accounting principles and policies.

The relevant previous year data are recorded in the conditions of the period to which the financial statements relate.

The Fund is obliged to comply with the regulatory requirements of the Act.

The presented financial statements are based on the accrual principle, under which accounting transactions and other facts are recognized when they arise and accounted for in the period to which they relate as to time and content. The financial statements are presented in compliance with general accounting principles, specifically the accrual principle, and the prudence concept.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform.

No revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

The financial statements contain the balance sheet, profit and loss account, off balance sheet accounts, and notes to the financial statements.

The presentation of the financial statements requires that the Company makes estimates which have an impact on the reported amounts of assets and liabilities as at the date of the financial statements as well as expenses and income in the relevant accounting period. These estimates are based on information available as at the date of the financial statements and may differ from the actual results.

The financial statements have been prepared based on the current best estimates using all relevant and available information as at the date of the financial statements.

These financial statements are not consolidated.

All amounts are stated in thousands of Czech crowns (CZK), unless indicated 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.

### 3. Accounting Policies

#### Transaction Recognition Date

Purchases and sales of securities are recognized using trade date accounting provided that the period between the trade date and the satisfaction of the liability arising from the contract does not exceed a period typical for the relevant type of transaction.

The transaction recognition date for derivative contracts is:

- a) the date upon which the related contract was entered into;
- b) the date when the fulfilment was delivered based on the relevant contract.

The transaction recognition date also is the date when money in circulation is paid or received, the date when foreign currency is purchased or sold, the date when a payment is made, the date when ownership is acquired or terminated, when a receivable or payable arises, changes or ceases to exist, when assets move within an accounting entity, and the date when other matters to be included in the accounting records occur, or when the documents supporting these other matters are available, or when other matters are a consequence of internal conditions of the accounting entity and/or special regulations.

#### Securities

In accordance with the Fund's strategy, all securities are classified as securities valued at fair value against expense or revenue accounts. During the accounting period, securities are re-measured at fair value on a daily basis pursuant to the Act No. 240/2013 Coll., on investment companies and investment funds which entered into force on 3<sup>rd</sup> July 2013. The Finance Ministry Regulation No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment has been replaced by Government Decree of 31<sup>st</sup> July 2013 on investment funds' investment activities and administration techniques.

In the Fund's accounting, securities are recorded at fair value against expense and revenues accounts. The fair value of the securities from investment activities is determined in accordance with the International Financial Reporting Standards with an exception, that an average price between the most favorable binding offer and demand (MID price) is used for bonds.

Pursuant to the Act No. 240/2013 Coll., securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Act. If the market value is unavailable, the Fund uses a value determined by the Company using valuation models based on discounted future cash flows according to the yield curve calculated using the Reuters and Kondor+ systems.

Securities are measured at cost upon initial recognition using the weighted average method. The acquisition cost includes direct transaction costs related to the acquisition of securities.

Realized capital gains or losses are recorded in the profit and loss account within 'Profit or loss from financial operations'.

Accrued interest relating to assets is included in the total balance of these assets.

#### Receivables and Payables

The Fund records receivables arising from its transactions with securities and other operating receivables at their nominal value, while receivables from positive fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date. Pursuant to the prudence principle, provisions are created based on the aging of receivables.

The Fund records payables arising from its transactions with securities and operating payables at their nominal value, while payables from negative fair values of derivatives are recorded at the fair value of the derivatives at the balance sheet date.

#### Financial Derivatives and Hedging Transactions

In the normal course of business, the Fund enters into hedging contracts with financial derivatives to hedge against foreign currency and interest exposures associated with its transactions on financial markets. The method of fair value hedges is applied to hedging derivatives.

The Fund designates certain derivatives as hedges provided that the following criteria are met:

- the Fund has developed a risk management strategy;
- at the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, and it defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- the hedge is effective, that is, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Nominal values of derivative financial instruments are recognized in the off-balance sheet accounts that are restated at fair value on a daily basis. Changes in the fair value of derivatives that are designated and qualify as hedges (see above) are recorded as income or expense. Changes in the fair value of the hedging derivatives attributable to the risk hedged are recognized in the same income or expense accounts as differences from revaluation of a hedged instrument.

All financial derivatives are recorded as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are derived from valuation models.

Derivatives that are not designated as hedging derivatives are treated as trading derivatives. These derivatives are measured at

fair value on a daily basis and gains and losses on revaluation are posted to derivative expense and income accounts.

Certain derivatives are embedded in compound financial instruments, which comprise the host instrument and the derivative. Pursuant to the applicable regulations, the Fund recognizes changes in assets and liabilities arising from the movements in rates or prices of securities or changes in exchange rates through expense and income accounts. Given that the assets of the Fund are valued at fair value and changes of fair values are reported within expenses and income from derivatives, embedded derivatives are not accounted for separately.

### Income Tax

Under effective tax regulations, the corporate income tax rate applicable to the funds managed by Penzijní společnost is 5%.

Since 1<sup>st</sup> January 2015, the applicable tax rate has been 0% based on an amendment to the Act No. 586/1992 Coll.

### Deferred Tax

Deferred tax is provided using the liability method on all temporary differences between the carrying amount of assets and liabilities reported in the balance sheet and their value for tax purposes. Deferred tax assets are recognized only up to the amount of probable future taxable income against which the deferred tax asset can be offset.

### Foreign Currency Translations

Foreign currencies are translated using the exchange rate promulgated by the Czech National Bank as at the relevant date. As at the balance sheet date, assets and liabilities denominated in foreign currencies are translated on the same basis.

Foreign exchange rate gains and losses from the daily translation of assets and liabilities in foreign currencies are posted to expense or income accounts.

### Capital Funds

The selling price of a pension unit is calculated by dividing the Fund's equity by the relevant number of pension units. Pension units are sold to the pension savings scheme participants for the selling price set on a weekly basis.

### Interest Income and Expense and Dividend Income

Interest income and expense are recognized using the accrual principle.

Dividend income is recognized as at the date when the right to receive the payment is established (ex-dividend date). Dividend income from domestic securities is presented after withholding tax. Dividend income from foreign securities is presented in gross amount prior to the deduction of withholding tax.

### Subsequent Events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

## 4. Risk Management

### Credit Risk

In accordance with the Statute and the investment strategy, the Company establishes rules and policies for selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the risk management function together with the specification of limits for positions pertaining to these instruments. Specific emphasis is placed on an appropriate rating structure and a relatively detailed diversification of portfolios (especially in relation to interest bearing securities).

Credit risk was insignificant for the Fund in 2014 as well as in 2013.

### Market Risk

The Fund uses a wide range of tools to eliminate risk exposures attached to its portfolios. Significant attention is paid to market risks. Apart from statutory restrictions, the Fund is subject to a set of internal limits having a direct impact on the FX exposure, interest rate exposure (the modified duration range of the Fund), equity allocation on individual markets according to their volatility, portfolio rating structure (see above), and other characteristics of the Fund. The relevant limits are appropriately applied to correspond with the type of the Fund.

Whenever the Fund purchases new types of instruments, these instruments are first analysed to assess the potential credit risk, as well as the market risk that the instruments might bring to or help eliminate from the portfolio. Subsequently, their appropriateness and, if appropriate, the acceptable proportion of these instruments in the portfolio is evaluated.

The portfolio's risk of unfavourable development of foreign exchange rates, interest rates, and other market factors is hedged, to an appropriate extent, by financial derivatives. Financial derivatives are traded on the OTC market as this market enables the trading of contracts whose parameters and nature appropriately satisfy the requirements of a hedge. Portfolios primarily include currency swaps, currency forwards and interest rate swaps.

Market risk was insignificant for the Fund in 2014 as well as in 2013.

### Liquidity Risk

Another monitored risk is the liquidity risk. Liquidity risk is a risk that the Fund will not have enough available resources to meet its obligations arising from financial contracts. Liquidity is monitored and managed based on expected cash flows, with appropriate adjustments made to the structure of securities and term placements portfolios.

Pursuant to the Act, Penzijní společnost is obliged to purchase a pension unit and credit the relevant account with cash as at the following dates:

a) the date of receipt of an application to pay one-off insurance premium for pension insurance pursuant to Section 14 of the Act,

b) the date of receipt of a request to transfer 60% of the participant's funds to state budget pursuant to Section 15 of the Act,  
c) the date of receipt of an application to transfer funds or make payment pursuant to Section 16 of the Act,  
d) the date of receipt of an application to transfer the participant's funds to another pension management company's pension fund,  
e) the date of receipt of the Central Register Administrator's notice of registration of another pension savings contract.

Penzijní společnost agrees to pay the amount for deducted pension units within the periods and by the deadlines stipulated in the Act.

The quantitative information about the residual maturity of assets and liabilities is given in Note 5.9.

## 5. Additional Information on the Financial Statements

### 5.1 Receivables from Banks

Receivables from banks	31 Dec 2014	31 Dec 2013
Current accounts	58,538	12,290
<b>Total</b>	<b>58,538</b>	<b>12,290</b>

Balances on current accounts are payable on demand.

### 5.2 Equity

The Fund has no registered capital. The initial value of a pension unit is CZK 1. The total value of all pension units is recorded in the 'Capital Funds' account.

The selling price of a pension unit is determined by dividing the Fund's equity by the number of issued pension units.

As at the last business day of 2014, the value of a pension unit was CZK 1.0033 (2013: CZK 1.0012) being the last published value of a pension unit in the year in which purchases and buyouts of the Fund's pension units were realized.

In compliance with the Statute, the 2014 profit of CZK 78 thousand will be transferred to the reinvestment fund that is part of 'other funds created from profit'.

In compliance with the Statute, the 2013 profit of CZK 6 thousand was transferred to the reinvestment fund that is part of 'other funds created from profit'.

### 5.3 Changes in Capital Fund

	Number of pension units (items)	Total capital funds
<b>Balance at 1<sup>st</sup> Jan 2013</b>		
Pension units sold	12,063,495	12,072
Pension units purchased	4,179	4
<b>Balance at 31<sup>st</sup> December 2013</b>	<b>12,059,316</b>	<b>12,068</b>
Pension units sold	46,552,265	46,650
Pension units purchased	269,252	270
<b>Balance at 31<sup>st</sup> December 2014</b>	<b>46,283,013</b>	<b>58,448</b>

## 5.4 Other Liabilities

Other liabilities	31 Dec 2014	31 Dec 2013
Liabilities from contributions by pension insurance scheme participants	2	216
Settlement with state budget	4	0
<b>Total</b>	<b>6</b>	<b>216</b>

Liabilities from contributions by pension insurance scheme participants represent invested funds prior to their matching against the book of pension units.

## 5.5 Interest Income

Income	2014	2013
Interest on bank deposits	82	6
<b>Total</b>	<b>82</b>	<b>6</b>

## 5.6 Management fee, performance fee and depository's fee

In compliance with the Statute of the Fund, the management fee ("flat fee") paid by the Fund amounts to 0.6% of the average annual value of the Fund's equity. The performance fee amounts to 10% of the difference between the average annual value of a pension unit in the relevant period and the highest average annual value of the pension unit in previous years since the formation of the Fund, multiplied by the average annual number of pension units.

Based on the decision of CS PS, the 2014 and 2013 management fee was CZK 0, respectively (a fee holiday, see the Price List). The depository's fee is included in the management fee.

## 5.7 Income Tax

The principal income tax components are as follows:

	2014	2013
Tax due – current year	4	0
<b>Total income tax</b>	<b>4</b>	<b>0</b>

Current income tax – analysis:

	2014	2013
Profit (Loss) before tax	82	6
Items to add	0	0
Deductible items	0	0
Tax base	82	6
Tax (5%) on tax base	4	0
<b>Total tax</b>	<b>4</b>	<b>0</b>

### Deferred tax

As at 31<sup>st</sup> December 2014, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As at 31<sup>st</sup> December 2013, no temporary differences existed between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 5.8 Related Party Transactions

Related parties include Česká spořitelna, a.s., and Česká spořitelna – penzijní společnost, a.s.

No related party costs were recorded in the Fund's accounting records in 2014.

No related party costs were recorded in the Fund's accounting records in 2013.

## 5.9 Liquidity

The following tables show the residual maturity of assets and liabilities broken down by major classes.

2014

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	58,538	0	0	0	0	58,538
<b>Total assets</b>	<b>58,538</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58,538</b>
<b>Liabilities</b>						
Other liabilities	(2)	(4)	0	0	0	(6)
<b>Net assets</b>	<b>58,536</b>	<b>(4)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58,532</b>

2013

Assets	Less than 3 months	3 months –1 year	1 – 5 years	Over 5 years	Not specified	Total
Receivables from banks	12,290	0	0	0	0	12,290
<b>Total assets</b>	<b>12,290</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,290</b>
<b>Liabilities</b>						
Other liabilities	(216)	0	0	0	0	(216)
<b>Net assets</b>	<b>12,074</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,074</b>

Liquidity risk, to which the Fund is exposed, is very low as all the Fund's assets are cash that allows paying realized buyouts to the Fund's Participants in the shortest time possible.

## 5.10 Off-balance Sheet Assets and Liabilities

The Fund has no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2014.

The Fund had no off-balance sheet assets or liabilities as at 31<sup>st</sup> December 2013.

## 5.11 Contingent Assets and Liabilities

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

## 5.12 Other Material Disclosures

An amendment to the Act No. 586/1992 Coll. came into force on 1<sup>st</sup> January 2015, exempting the funds (Transformed Fund – retirement benefit schemes, participation funds – supplementary pension savings and pension funds – pension savings) from income tax.

On 12<sup>th</sup> November 2014, the Government of the Czech Republic approved the proposal made by the Expert Committee on Pension Reform and decided to abolish the so-called second pillar of the pension reform. Consequently, the Fund will not continue as a going concern. However, no revaluation or classification of closing balances adjustments, which could result from this fact, were necessary based on accounting policies applied and the ensuing valuation method.

## 5.13 Subsequent Events

No significant events occurred after the date of the financial statements, which would have a material impact on the Fund's financial statements.



## **Česká spořitelna – penzijní společnost, a. s.**

Poláčkova 1976/2, 140 21 Praha 4  
IČ: 61672033

**Information tel:** 956 777 444

**E-mail:** [info@cs-ps.cz](mailto:info@cs-ps.cz)

**Internet:** [www.ceskapenzijni.cz](http://www.ceskapenzijni.cz)

### **Portfolio manager:**

Česká spořitelna, a. s., registered office at Prague 4,  
Olbrachtova 1929/62, 140 00, IN: 452 44 782,  
registered in the Commercial Registry at the Municipal Court  
in Prague, Section B, Insert 1171

Senior portfolio manager of the funds is Mgr. Marcel Kostovski,  
who is a graduate of broker examinations, CFA Institute and  
has been professionally engaged in investments, portfolio  
management and asset management since 1995.

### **Annual Report 2014**

#### **Production:**

Omega Design, s. r. o.

