



POJIŠŤOVNA
ČESKÉ SPOŘITELNY
VIENNA INSURANCE GROUP

Life Assurance SPECIALISTS

Annual Report
2018



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Key Figures

in thousands CZK	2018
Assets	25,953,353
Equity	3,859,896
Technical provisions	19,592,279
Profit (loss) of current accounting period	1,128,339
Total written premiums	7,784,604
of this: life assurance	7,195,733
non-life insurance	588,871
Total costs of insurance claims	7,271,495
of this: life assurance	7,087,776
non-life insurance	183,719

A background image showing several hands holding and fitting together colorful puzzle pieces (blue, red, grey) against a light grey background. The puzzle pieces are arranged in a cluster, with some already connected and others being held in place by the hands.

Your Easy Road to Life Assurance

Pojišťovna České spořitelny is one of the largest insurance companies in the field of life assurance on the Czech market. The comprehensive sale of products, including subsequent client service, is covered by two distribution channels.

The Branch Network of Česká spořitelna

Clients are cared for by more than 3,200 consultants at Česká spořitelna. They deliver the maximum availability of insurance products for clients as well as comprehensive sales and aftersales service at more than 513 locations in the Czech Republic.

The External Network of Pojišťovna České spořitelny

A professional client service is provided by approximately 123 external contractual partners. Consultants maintain a flexible approach to clients, adapting the time and place of appointments to suit client needs. Our products are thus always available to the client.

Company Profile

2018

Pojišťovna České spořitelny continues to offer competitive products under the banner “FLEXI Gives You More” with more favourable terms to promote insurance against grave risks, such as death, disability and serious illnesses and injuries. In 2018, the Company focused on advantageous offers of insurance against serious illness, such as those caused by ticks and cancer. These insurance policies apply not only for new clients, but also for the existing policyholders.

In the prestigious Best Insurance Company competition conducted by the Hospodářské noviny daily, Pojišťovna České spořitelny achieved the top rating in the Most Client-Friendly Insurance Company 2018 category and it took the bronze in the Best Life Assurance Company 2018 category.

Pojišťovna České spořitelny ranks among the first insurers on the Czech market to start selling life assurance online. This allows clients to take out life assurance from the comfort of home without the need to visit an advisor or a branch.

In line with the decision of the Company’s shareholder, Vienna Insurance Group (VIG), during 2018 Pojišťovna České spořitelny made preparations for a merger with the insurance company Kooperativa. Even under difficult conditions, the Company again recorded an increase in both market share and production. The merger with Kooperativa had taken effect as at 1 January 2019 as scheduled.

2017

Pojišťovna České spořitelny continued to offer competitive products under the banner “FLEXI Gives You More” with more favourable terms

to promote insurance against grave risks, such as death, disability and serious illnesses and injuries. These advantageous policies provide risk coverage not only for new clients, but also for the existing policyholders.

The Company’s flagship product – Life Assurance FLEXI – placed first in the Zlatá koruna (Golden Crown) competition for the ninth consecutive time.

Last year, Pojišťovna České spořitelny launched a new type of non-investment risk life assurance FLEXI RISK, designed for clients who do not want to take out life assurance with a unit-linked component.

Pojišťovna České spořitelny reported good results despite the tough conditions of the contracting insurance market; once again, the Company recorded an increase in both market share and production.

2016

Pojišťovna České spořitelny continued to promote competitive products under the banner “Twice as much with FLEXI”, offering more favourable terms of insurance against grave risks, such as death, disability and serious illnesses and injuries. These advantageous policies provide risk coverage not only for new clients, but also for the existing policyholders.

The Company’s flagship product – Life Assurance FLEXI – won the Zlatá koruna (Golden Crown) competition for the eighth consecutive time.

Last year, Pojišťovna České spořitelny was the first life assurance company to launch personalized online claim reporting. From the comfort of their home, clients can easily, quickly and simply report events related to their insurance policy. They can also track the status of the claim online, as well as ask questions of the loss adjuster handling the claim.

Pojišťovna České spořitelny scored success despite the tough conditions of the contracting insurance market; once again, the Company recorded an increase in both market share and production.

2015

Pojišťovna České spořitelny continued its marketing campaign “Twice as much with FLEXI”, offering more favourable terms to keep promoting insurance against serious risks – death, disability and serious illnesses and injuries. In a new promotional event, the Company offered coverage of risks not only for new clients, but also for the existing policyholders. The Company’s flagship product – life assurance FLEXI – won several awards. It placed first for the seventh consecutive time in the Zlatá koruna (Golden Crown) competition. Children’s insurance FLEXI Life Assurance – JUNIOR was awarded the bronze in the same competition. In the Fincentrum Bank of the Year 2015 contest, the Company ranked second in the category Life Assurance of the Year 2015. Pojišťovna České spořitelny took the first place in the ChytryHonza.cz website competition and received the Cena pokroku (Progress Award) 2015 for online amendments with biometric signature in the highly competitive field of IT technology innovation. In addition, the Company scored success in difficult conditions of the contracting insurance market, where it recorded an increase in both market share and production.

2014

Pojišťovna České spořitelny launched a marketing campaign under the banner “Twice as much with FLEXI”, aimed at promoting the inclusion of cover for serious risks in new insurance policies. The strategy was also reflected in an advertising spot. The Company financially supported the

Company Profile

Centrum Paraple (Paraplegic Centre) project “Mum-Dad in a Wheelchair” and moved ahead in cooperation with Nadace Jedličkova ústavu (Jedlička Institute Foundation), supporting the needs and interests of handicapped children and adolescents. The money went to the S FLEXI do života (Live life WITH FLEXI) transit programme and towards specific gifts and aids for clients of the Jedlička Institute. The Company’s employees also made financial contributions to help children and actively participated in Charity Days. Pojišťovna České spořitelny won second place in the Insurance Company of the Year 2013 awards and took first place with FLEXI Life Assurance in the category of Life Assurance of the Year in the Zlatá koruna (Golden Crown) competition. The company achieved CZK 11.9 billion in written premiums and insured more than 1.9 million clients. Since January 2015, FLEXI has also been able to insure more serious illnesses for the same price and accept more clients for insurance; it introduces decreasing annuity sums insured for serious risks and offers better security for disability at the same rates.

2013

Pojišťovna České spořitelny won two prestigious awards in the Zlatá koruna (Golden Crown) competition, this being for first place (with FLEXI Life Assurance) and third place (with FLEXI Life Assurance – JUNIOR) in the category Life Assurance of the Year. The Company was also successful in the Insurance Company of the Year 2012 survey, winning first place in the Life Assurance category. FLEXI underwent innovation at the end of the year. It now offers clients progressive daily benefits, incapacity benefits from the very first day and various risks for children insured under a single contract. Pojišťovna České spořitelny achieved a level of premiums written of CZK 11.4 billion and insured more than 1.9 million clients. The insurance company is also active in the field of CSR. Its employees actively participate in Charity Days. A financial contribution was awarded to Bambiriáda, an event which supports the active and safe spending of

leisure time by children. In cooperation with Centrum Paraple (Paraplegic Centre), the Company continues to support handicapped fellow citizens and families with children. At the end of the year, the Company established cooperation with the Jedlička Institute (an institute for handicapped children).

2012

In 2012 Pojišťovna České spořitelny defended its gold-medal place in the Zlatá koruna (Gold Crown) competition and won silver in the Hospodářské noviny competition in the category of Best Insurance Company of the Year. In March the company launched a new product on the market, funeral insurance. In October FLEXI unified the rates for insurance risks and underwent innovation. It now offers clients double indemnity for death in a car accident, it extended third-degree disability insurance to include long-term care for free, it enabled the advance payment of insurance benefits and clients who go seven years without a serious health incident are considered healthy. Pojišťovna České spořitelny attained CZK 10.7 billion of written premiums and insured more than 1.9 million clients. In cooperation with Centrum Paraple it continues to support handicapped fellow citizens and families with children. Bambiriáda, an event to support active and safe ways for children to spend their free time, also received a financial contribution. Our employees are actively involved in the Days for Charity.

2011

This year Pojišťovna České spořitelny celebrated its achievements with FLEXI Life Assurance, which won the Zlatá koruna (Golden Crown) competition. At the same time, we won the title Best Insurance Company of 2011 and Most Client Friendly Insurance Company 2011. At the

start of the year FLEXI Life Assurance underwent some innovations, in which we presented a unique programme, InSpiral, that allows the policy parameters to be modified to take advantage of the product’s other benefits. We also introduced bonuses for loyalty and no claims or insurance for recreational sports risks. We generated more than CZK 10 billion in premiums written and insured over 1.9 million clients. Working with Centrum Paraple and SPID handicap, o.p.s., we continue to support handicapped fellow citizens and families with children. We also made a donation to the Krtek (Mole) children’s cancer foundation. Our employees are actively engaged in the Days for Charity scheme.

2010

In March 2010, FLEXI Life Assurance celebrated its 10th anniversary on the Czech market with more than 900,000 people insured. The company’s long-term economic stability was strengthened by the general meeting in May, when it was decided to increase the basic capital by CZK 782.9 million to a total of CZK 1.9 billion. Pojišťovna České spořitelny also enjoyed success in various competitions. Our core product FLEXI Life Assurance defended its victory from the previous year in the Zlatá koruna (Golden Crown) competition in the Life Assurance category. We came first in place in the category Insurance Company of 2009 – Life Assurance and in one of the competition’s main categories, Insurance Company of 2009, we defended our victory for the fourth time in a row. Petr Zapletal, Chief Executive Officer of Pojišťovna České spořitelny, also won an award in the first year of the Insurance Officer of the Year competition. The success of 2010 was also underscored by the fact that for the first time in our history we managed to exceed the limit of 9 billion in written premiums.

Company Profile

2009

At the beginning of 2009, we presented the new comprehensive FLEXI Life Assurance, which merged the products FLEXI, FLEXI INVEST 2008 and FLEXI H-FIX into a single product. The quality of this insurance is testified to by the fact that more than 200,000 clients made use of FLEXI Life Assurance in 2009 and also by the number of awards the insurance product won. In the Fincentrum Bank of the Year competition FLEXI Life Assurance won the Life Assurance of 2009 category, and it won two of the highest awards in the Zlatá koruna (Golden Crown) competition, those being in the categories of Life Assurance and Innovation of the Year. In the Insurance Company of 2008 competition, we won in all categories relating to life assurance. The Association of Czech Insurance Brokers awarded us the highest award in the categories of insurance company of 2008 in Life Assurance, Innovation of Insurance Products, Cooperation with Brokers and in the category of Claims Settlement. The FLEXI Life Assurance product crowned its success with a victory in the category of Insurance Product of 2008. In 2009, the company name was changed to Pojišťovna České spořitelny, a.s., Vienna Insurance Group.

2008

In September 2008 Pojišťovna České spořitelny became a member of the Vienna Insurance Group. In the same year FLEXI INVEST 2008 unit-linked life assurance was voted winner in the category of Life Assurance of 2008 in the MasterCard Bank of the Year 2008 competition. At the same time, we won the Silver Crown in the Life Assurance category. Likewise in 2008, the Association of Czech Insurance Brokers awarded us Insurance Company of 2007 in life assurance and the FLEXI product won the highest award in the Insurance Product category. We were

awarded the title of Best Insurance Company in the area of Settlement and Innovation in Insurance Products.

2007

2007 was marked by important product changes. We innovated one of our most successful products, FLEXI Flexible Life Assurance, we introduced a new type of unit-linked life assurance, FLEXI H-FIX, and for 2008 we prepared an innovation to FLEXI INVEST unit-linked life assurance.

2006

During 2006, we strengthened our position in the life assurance market, defending thus vindicating our ranking among the five major life assurance companies. In addition, we gained the title Insurance Company of 2006 in the Life and Accident Insurance category in a survey organized by the Association of Czech Insurance Brokers. Our client numbers exceeded half a million.

2005

In 2005, we came up with several product innovations. The KVATRO and HYPOTÉKA Credit Life Assurance products made their mark among insurance representatives. At the end of the year, the product portfolio was enriched with a new insurance scheme for children, characterized by high flexibility, reflecting the needs of the child or the family. It went under the name of JUNIOR Flexible life Assurance.

2004

From 2004 onwards, we specialized in the sale of life assurance via the Česká spořitelna branch network and selected external networks. However, the Česká spořitelna Financial Group continues to offer its clients certain products through its strategic partner. We operate as the “competence centre“ of the Česká spořitelna Financial Group and, together with a strategic partner, the Kooperativa insurance company, we provide highly standardized general insurance products intended for the Česká spořitelna branch network. A significant addition to our products was FLEXI INVEST Unit-linked Life Assurance, which offers clients a choice of three investment programmes and a wide range of insurance for life risks.

2003

With regard to the development of the insurance market in the Czech Republic and the European Union, and also with regard to the fact that Česká spořitelna and the Erste Bank group specialize in the area of life assurance and bancassurance, in late 2003 the shareholders of Pojišťovna České spořitelny decided to sell the non-life insurance part of the company to Kooperativa.

Company Profile

2001

Under the influence of the transformation of Česká spořitelna and its entire financial group, as of 17 September 2001 we took on the new name of Pojišťovna České spořitelny. The change in the business name is related to the changes in the corporate colours, names and logos of the entire Česká spořitelna Financial Group, which are based on the composition of its majority owner – Erste Bank. There were also changes in the area of providing services to clients and the company's management culture. There was development in sales of our insurance products offered in Česká spořitelna's network of branches, in what is now called bancassurance.

2000

Within the framework of privatizing Česká spořitelna we also underwent a thorough legal and financial audit. This resulted in a new shareholder entering at the end of 2000. The largest Austrian life assurance company, Sparkassen Verisicherung, a member of the Erste Bank Financial Group, acquired a 45% stake in the company by increasing the share capital by CZK 500 million. We put FLEXI Flexible Life Assurance on the market, a unique product for a new generation.

1995–1999

In 1995, we were the first insurance company in the Czech Republic to put insurance for very serious diseases onto the market, under which claims can be made if a client is diagnosed with a disease. An important milestone in the Company's history was the capital input of Česká spořitelna in 1995, which, in addition to the required capital base, brought the background of the strongest financial group in the Czech Republic. The importance of a good quality shareholder structure was demonstrated in 1997, when the whole insurance market was negatively hit by the impact of extensive flooding.

1992–1994

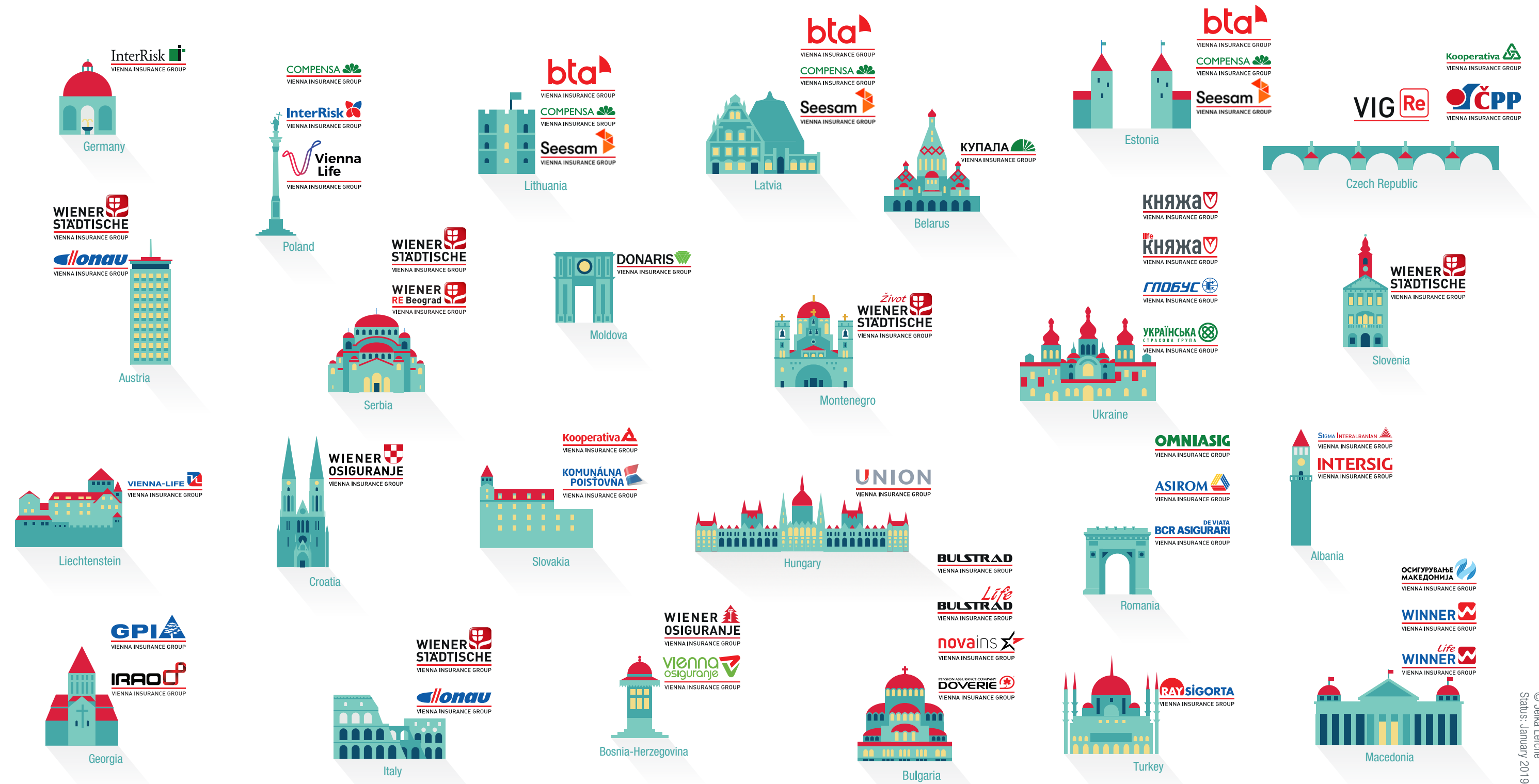
Pojišťovna České spořitelny was founded in 1992 using Czech private capital. In January 1993, we began our insurance activities under the name Živnostenská pojišťovna. Our aim was to provide insurance services, in particular to the rising entrepreneurial sphere. With the development of insurance activities, we also started to expand our offer of insurance schemes for the general public.

Information about Vienna Insurance Group

Company Profile

We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times.

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).



WE ARE THE **NUMBER ONE** IN AUSTRIA,
CENTRAL AND EASTERN EUROPE.



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Status: January 2019

Information about Vienna Insurance Group

Expertise and Stability

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

Focus on Central and Eastern Europe

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

Local Market Presence

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

Strong Fincances and Credit Rating

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

Introduction of the Chairman of the Board of Directors

The year 2018 was a period that de facto and de jure culminated in the successful journey of Pojišťovna České spořitelny through the insurance market. And it was a very demanding one, the key issue being the merger of PČS and Kooperativa, which in early 2019 resulted in the emergence of the largest entity on the Czech insurance market. It is very positive that the merger of both companies took place in line with the plan and had a minimal impact on both clients and employees. The vast majority of customers accepted the change, and Kooperativa focused on communicating the benefits that moving from a purely life assurance company to a strong and respected universal insurance company would have for clients. It was demonstrated that when the team is top-quality and determined, a very difficult and complicated endeavour can be achieved in only a few months. Dozens of people from both insurance companies were involved in the merger and just to illustrate the scope of the feat to you, the request for the Czech National Bank had a total of 980 pages.

Regarding economic results, we can say that it was a record-breaking year for PČS. It turns out that betting on a single well-known and popular product was the right move. It could even be said that FLEXI is the only insurance on the Czech market known by the name itself, because in the case of other major insurance companies, consumers are more familiar with the brand of the company than with the products themselves. The total contracted life assurance regularly paid to Pojišťovna České spořitelny amounted to almost CZK 7 billion last year, with a year-on-year increase by more than five percent. This is a remarkable result, especially considering that the overall market growth in this segment was only a fifth of that number. The result was 2nd place on the life assurance market and a total share of almost 16%.

For all of the above, I would like to thank not only those who were actively involved in the merger process but also all the other colleagues of the now former PČS. I am very glad that we can continue to work with them on the growth and cultivation of the Czech insurance market, the improvement of our products and the development of cooperation with our strategic partner – Česká spořitelna Financial Group.



Martin Diviš

Chairman of the Board of Directors of Pojišťovna České spořitelny



Economic Highlights

in thousands CZK	2016	2017	2018
Assets	30,518,146	29,627,707	25,953,353
Equity	3,848,076	4,060,289	3,859,896
Financial investments	27,283,037	25,795,781	22,417,767
Technical provisions	24,215,144	23,026,576	19,592,279
Profit (loss) of current accounting period	964,258	1,067,814	1,128,339
Total written premiums	7,023,078	7,498,236	7,784,604
of this: life assurance	6,552,370	6,898,360	7,195,733
non-life insurance	650,708	599,876	588,871
Total costs of insurance claims	5,796,558	4,862,718	7,271,495
of this: life assurance	5,620,997	4,675,758	7,087,776
non-life insurance	175,561	186,960	183,719
Number of policies concluded as at 31 December (pc)	778,382	770,649	754,675
of this: life assurance	739,368	733,923	719,757
non-life insurance	39,014	36,726	34,918
Average number of employees (FTE)	288	313	323

Headquarters and Members of the Company's Executive Bodies at 31 December 2018

Headquarters

Náměstí Republiky 115, Zelené Předměstí, 530 02 Pardubice

Supervisory Board

Vice-Chairman of the Supervisory Board

Dkfm. Hans Raumauf

Member of the Management Board of Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung, Vienna Insurance Group.

Member of the Supervisory Board

Prof. Elisabeth Stadler

Prof. Elisabeth Stadler is also a Member of the Supervisory Board of Bank Austria Real Invest Immobilien Kapitalanlage GmbH; Member of the Supervisory Board of Österreichische Post; Member of the Supervisory Board of InterRisk Lebensversicherung AG, Vienna Insurance Group; Member of the Supervisory Board of Die Österreichische Hagelversicherung; Member of the Supervisory Board of Poistovna Slovenskej Sporitelne, Vienna Insurance Group; Chair of the Board of Directors of Kooperativa pojišťovna, a.s., Vienna Insurance Group; Vice-Chair of the Supervisory Board of Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group; Vice-Chair of VIG RE zajišťovna, a.s.

Member of the Supervisory Board

KR Franz Fuchs

Mr. Franz Fuchs is a Member of the Board of Directors of Vienna Insurance Group AG Wiener Versicherung Gruppe. In addition, Mr. Fuchs serves on the supervisory boards of several VIG Group companies, notably in Poland, Croatia and Ukraine.

Member of the Supervisory Board

Mag. Harald Josef Londer

Mag. Harald Josef Londer is responsible for bancassurance in Vienna Insurance Group.

Member of the Supervisory Board

Ing. Marek Blaha

Mr. Marek Blaha is currently Director of Distribution in Česká spořitelna a.s.

Member of the Supervisory Board

Ing. Vladimír Mráz

Ing. Vladimír Mráz has worked in a total of 18 companies. Currently he is involved in the operations of six organisations, among them Kooperativa pojišťovna, a.s., Vienna Insurance Group, and the Foundation for Support of Training in Insurance.

Member of the Supervisory Board

Ing. Jiří Drahoš

Head of the Controlling and Reporting Department, Pojišťovna České spořitelny, a.s., Vienna Insurance Group.

Member of the Supervisory Board

Ing. Petr Procházka

Head of the Product Management Department, Pojišťovna České spořitelny, a.s., Vienna Insurance Group.

Board of Directors

Chairman of the Board of Directors

Ing. Martin Diviš, MBA

Vice-Chairman of the Board of Directors

Ing. Tomáš Vaníček, MBA

Member of the Board of Directors

Ing. Jaroslav Kulhánek

Headquarters and Members of the Company's Executive Bodies at 31 December 2018

Audit Committee

Audit Committee Chair

Ing. Vladimír Mráz

Date of birth: 11 April 1940

Residence: U Letenského sadu 1294/6, Prague 7 - Holešovice, 170 00, Czech Republic

Audit Committee Vice-Chair

Prof. Elisabeth Stadler

Date of birth: 1 December 1961

Residence: Hóllgasse 32, Langenlois, 3550, Austria

Audit Committee member

Dkfm. Karl Fink

Date of birth: 22 August 1945

Residence: Kurzbauergasse 5, Wien, Austria

Audit Committee member

Ing. František Dostálek

Date of birth: 23 November 1949

Residence: Hošťálkova 656/52, Prague 6 – Břevnov, 169 00, Czech Republic

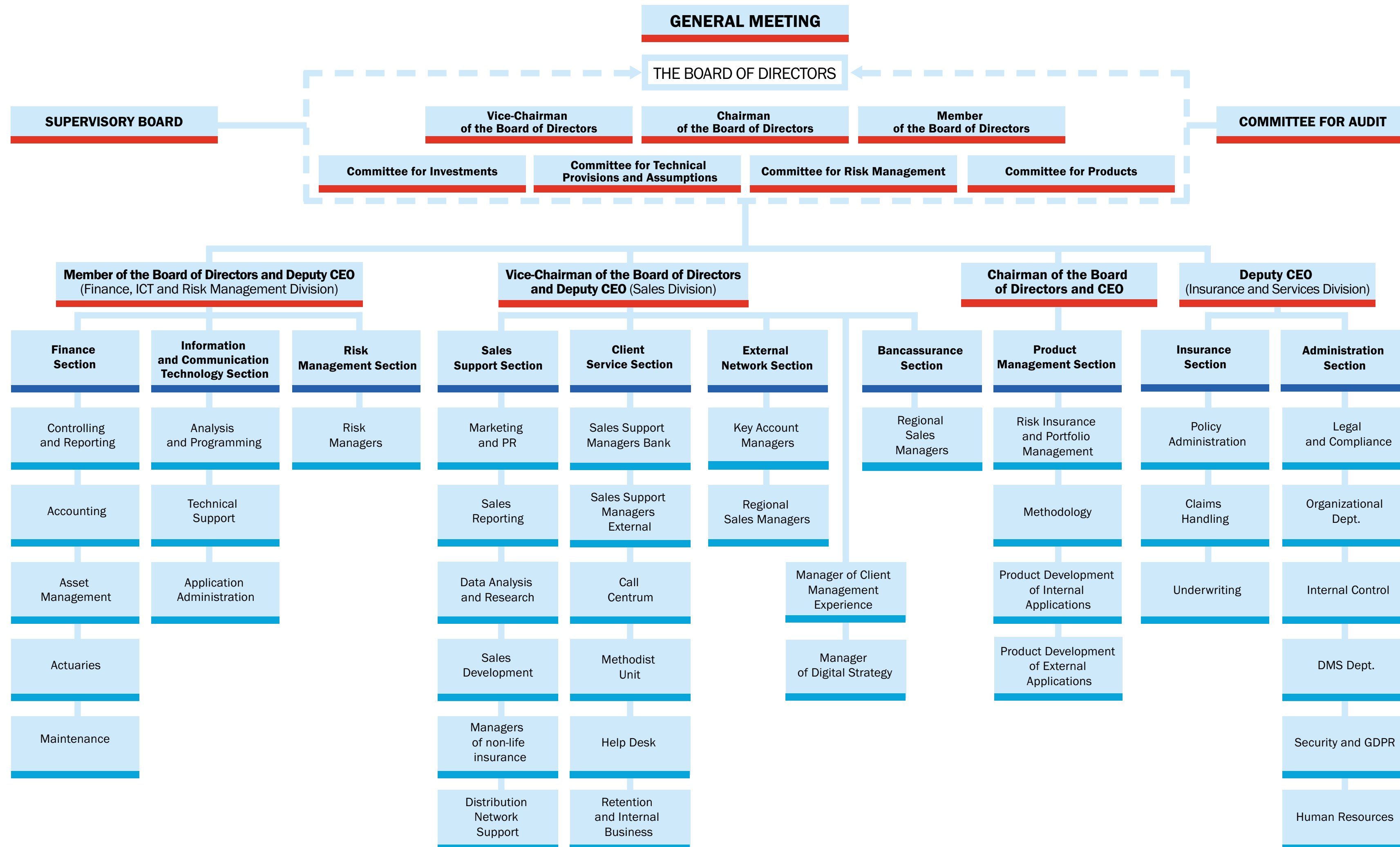
Procurator

Ing. František Mareš

Date of birth: 3 September 1953

Residence: No. 78, 533 45 Stéblová, Czech Republic

Organizational Structure at 31 December 2018



Report of the Board of Directors

The past year, 2018, was very demanding for the insurance company's Board of Directors, and it can be evaluated from two perspectives. The first, essential one, was the decision about the acquisition of Pojišťovna České spořitelny by Kooperativa pojišťovna. As at 31 December 2018, Pojišťovna České spořitelny ceased to exist and all of its assets transferred, in line with the Act on Corporate Transformation, to the successor company, Kooperativa pojišťovna as at 1 January 2019. Kooperativa pojišťovna thereby entered into the legal position of Pojišťovna České spořitelny, becoming its universal legal successor. The second aspect was ensuring regular operations, stabilising the insurance company's staff and its life assurance portfolio in a quality that was a recognised value for our clients and shareholders during the preparation and implementation of the acquisition.

In addition to the acquisition, it was necessary to build on the preparations for the implementation of new accounting standards (IFRS 17) and on the completed implementation of new personal data protection rules (GDPR) and to complete the implementation of rules for insurance distribution management (IDD).

In spite of initial pessimistic estimates of the impact of the acquisition on the development of its sales and financial plan, the insurance company was so successful from the economic and business perspective in the year under review that its results fulfilled not only the expectations of the insurance company's management, but some indicators even registered the best-ever results in the insurance company's history.

The Česká spořitelna network also maintained the previous insurance sales volume. The pressure on the quality of sale by our distributors contributed to a decline in the percentage of policy cancellations in the insurance portfolio of our external sales partners, to under 10%. This development meant an increase in the volume of regular-premium written

by 4.5% in spite of the fact that written premiums from new policies was down, year on year.

Developments in the financial markets were affected primarily by the gradual increase of the base interest rate by the Czech National Bank to a final 1.75%. This development had an adverse impact on the price of government bonds – the impact on the bond market noted in 2018 was a 1% drop. The development of stock prices was unstable and in particular their drop at the end of the year caused a loss in excess of 7%.

The continuing low-interest environment again did not bring any change in the sale of standard single-premium insurance. If the predictions of low interest rates are confirmed, we cannot expect to resume the sale of this type of insurance even in the coming years; moreover, it will be increasingly difficult to generate revenues to cover liabilities arising from the existing insurance policies. It is certain that at the very beginning, the changes caused by IDD will have an adverse effect on the recovery of the sales of standard life products, and we will have to wait longer for the expected revival in spite of the gradual increase in interest rates.

The above-mentioned realities on the insurance market determined the development in premiums written. The sale of single-premium insurance was down by another 18% year on year. The drop in this insurance is due, above all, to the unattractiveness of the insurance for clients and insurance companies alike, caused by the enduring low interest rate levels, and the corresponding economy of the insurance. The sales of regular-premium insurance were not stellar, either, and did not note any change as the year-on-year increase amounted only to 1.1%. Overall, the life assurance market was up by CZK 241 mil., to a final CZK 43,934.3 mil. This change means a year-on-year increase by 0.6%¹.

Insurance companies counteract this development by a further expansion of their offer of purely risk-based life assurance, coupled not only with a more permanent departure from the sale of standard single-premium insurance but also a reduction in the sale of life-assurance-based investment products. Changes in processes, sales documents, and protection of consumers and sensitive personal data and other requirements necessitated by an effort to improve and increase the transparency of insurance services are manifest in more complex administration and higher operating expenses. Ultimately, it must be considered whether the above measures are the best method for increasing the natural demands and responsibility of consumers for the selection of appropriate insurance and the insurance service provider.

The key tasks and objectives of the Board of Directors of Pojišťovna České spořitelny in 2018 were again based primarily on a business strategy aimed at offering profitable and innovative products with a high added value to final customers. The Company's flagship product was again the successful FLEXI Life Assurance with a broad and flexible coverage offer. What makes all products of the insurance company so attractive is guaranteed customer service throughout the duration of the insurance policy. In the year under review, insurance company management continued to implement product innovations, foster loyalty of both customers and business partners, and improve the stability of the insurance portfolio.

The principal target group for the Company's business activities was families and finding long-term solutions to the need to support the entire family and its members when tackling grave life situations. The product innovation cycle was reflected in making regular changes at the beginning of 2018. Product innovations are among the basic building blocks for the stability and development of the insurance company.

¹ Data on market trends according to Czech Insurance Association (ČAP) methodology for 2018.

Report of the Board of Directors

As in previous years, the insurance company launched spring and autumn marketing events. Both were aimed at supporting the sale of grave risk insurance. The spring promo involved a product benefit in the form of doubled indemnity in the event of a disease caused by ticks, both for new policies as well as for amendments to the FLEXI and FLEXI JUNIOR products. The autumn promo focused on the same products – double indemnity in the case of cancer were offered. The promotional events spiced up the offer of the insurance company's service offering, were included in its advertising campaigns, and undoubtedly helped increase responsibility among the general public in addressing the adverse consequences of such risks on families. New among FLEXI Life Assurance products in 2018 was insurance in the event of the need to care for an adult due to injury or illness. The agreed amount is paid out by the insurance company for up to one year. The insurance helps families address unexpected situations and shortfalls in income if an adult family member requires care, or it provides money for securing professional care. The continuing customer demand for our FLEXI Life Assurance product is testament to its long-term popularity, stemming from the fact that this product is not only able to cover a broad range of everyday risks, but is also flexible enough to swiftly respond to the changing circumstances of our clients and their loved ones. The long-term stability and high quality of the FLEXI product on the market is the keystone in building customer loyalty in the long run and brings reward through regular and steady growth of our insurance portfolio.

The quality of FLEXI products has been acknowledged by industry professionals in the Golden Crown event. The insurance company earned the Silver Crown in the life assurance category. The level of the

insurance company's services was then recognized in the 2018 Best Insurance Company of the Year competition with 1st place in the category of Client-Friendly Life Assurance Company and 3rd place in the Best Life Assurance Company category.

The insurance company's goal was to maintain business long-term continuity, while meeting its business targets and ensuring financial stability. In an environment of growing competition and tighter regulatory requirements for demonstrating the financial health of insurers as well as other requirements, meeting this goal has been increasingly demanding.

To meet the set targets, the Company uses a sophisticated risk management and control system. The process facilitates continuous improvement and innovation of the management and control systems. On the one hand, the process is manifest in the effectiveness of capacity and cost management, and on the other, this approach helps to better identify opportunities for further development.

The insurance company complies with the regulatory requirements (calculation and prediction of solvency development, consumer protection, verification of tax treatment of disbursements under FATCA and GATCA legislation, AML measures, the PRIIPs Regulation, etc.). Compliance with these duties requires substantial financial and human resources. Despite these growing requirements, the insurance company has managed to keep its operating expenses under control in the long run. The main reason is increased management efficiency and labour productivity. In business, it is the outcome of constant efforts to streamline the marketed products and improve their transparency. Evidence of this is the continuous process of improving the Company's

system of operation, supporting the development of systems focused on product support and sales. In the year under review, this innovation process, pursued in the Digitization project, culminated in further improvement of paper-less document circulation and the corresponding set-up of related processes. Distribution channels were enhanced with the addition of direct on-line distribution as part of the project.

In line with its marketing strategy, the insurance company continued with its programme of looking for solutions to very grave life situations and with supporting projects – the Jedlička Institute and the Paraple Centre. Social responsibility, as a part of which we help disabled people return their everyday lives, is thus an area of interest for us.

The insurance company continues its sustained focus on monitoring client experience and the needs of end customers. This has helped it target its innovations in all areas in which the insurance company operates. An advantage is that, by learning about the needs of our customers, we are able to make changes to match requirements of the market.

The insurance company continued to use the proven mix of distribution channels for selling its products, i.e. using external partners and the Česká spořitelna branch network. Cooperation with certain distributors was influenced, both positively and negatively, by changes in traditional sales channels and the expectations linked to the transfer of the insurance company's activities in connection with the acquisition that was under way, and, in particular, by the quality of services support provided to FLEXI products. This resulted in a decline in the sale of new insurance. In spite of these turbulent developments, the Company

Report of the Board of Directors

succeeded in surpassing the previous year's volume of total premiums written generated from the sale of regular-premium insurance by more than 5%. The sales of regular-premium production through the networks of our external partners were up by more than 3% year on year, and sales through the Česká spořitelna network were up by more than 6%. These results in the sale of regular-premium insurance are all the more valuable for being attained on a transforming market and furthermore, during preparations for the winding down of the insurance company's work as at 31 December 2018. Following the termination of the sale of single-premium insurance in 2015, sales of this type of insurance were insignificant, totalling a mere CZK 244 million in premiums written for the entire insurance company, which constitutes a year-on-year decrease of almost 14%.

The proportion of regular premiums to total written premiums thus accounted for 96.9%. The total volume of premiums written generated from regular-premium life assurance amounted to CZK 6,952 million, representing a 5.1% increase compared to 2017. Despite a further decline in the sale of single-premium policies, the total premium volume thus increased by nearly CZK 300 million compared to the previous year. The total volume of written life-assurance premiums in the amount of CZK 6,977 million, reported according to Czech Insurance Association

methodology, yielded the insurance company second place on the life assurance market – an improvement by one place since 2017. This result means an aggregate share in the life-assurance market of 15.9%².

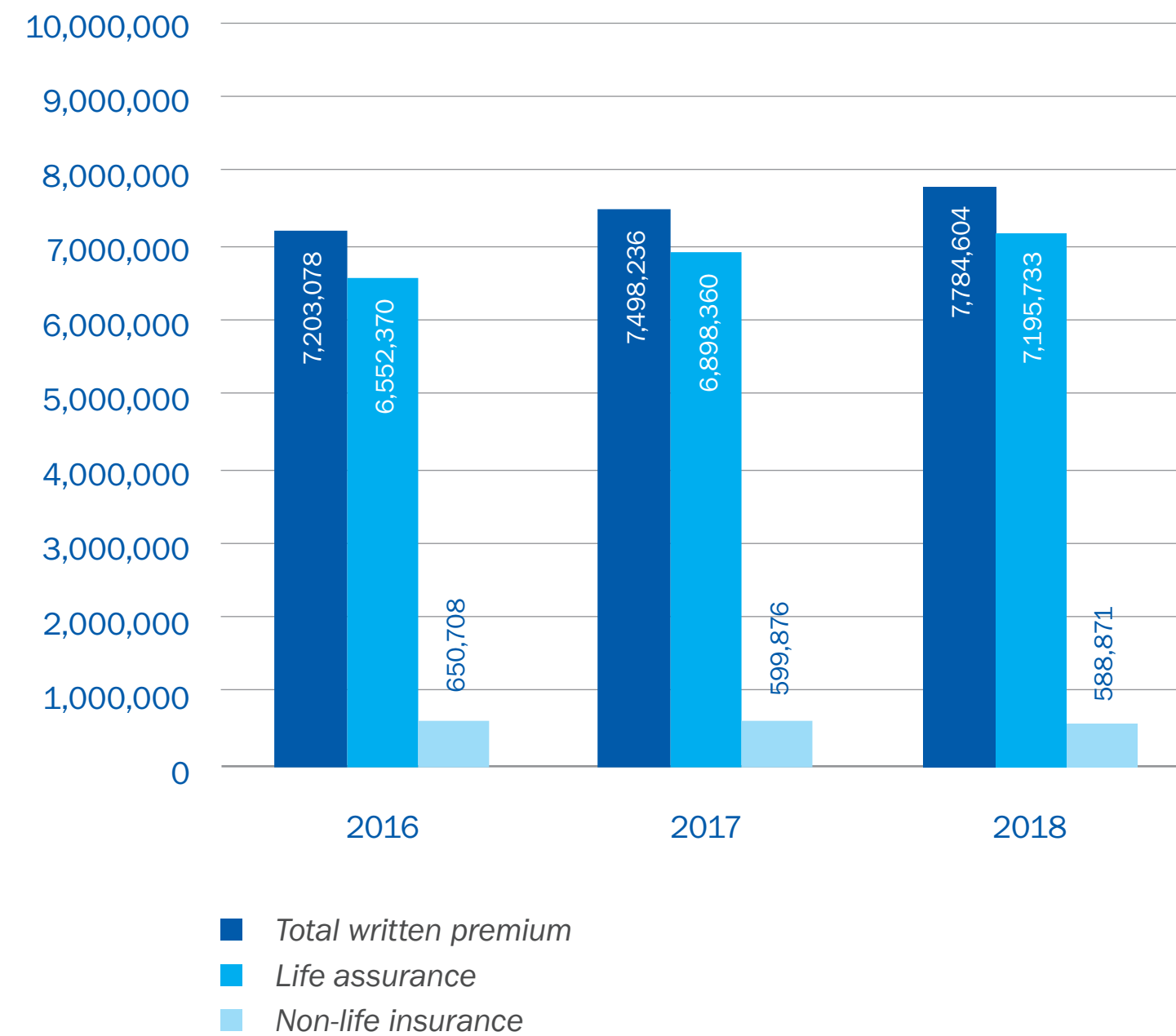
In the non-life insurance segment, the insurance company did not generate the 2017 volume of written premiums, which fell by 1.8%, corresponding to CZK 589 mil. of written premiums. Non-life insurance includes standalone personal accident insurance, as well as incapacity insurance and insurance against loss of employment, in particular for Česká spořitelna clients, and loan repayment insurance. The trend in the sale of insurance corresponds to a similar trend in the sales of consumer loans offered to clients by the bank.

² Data on market trends according to Czech Insurance Association (ČAP) methodology for 2018.

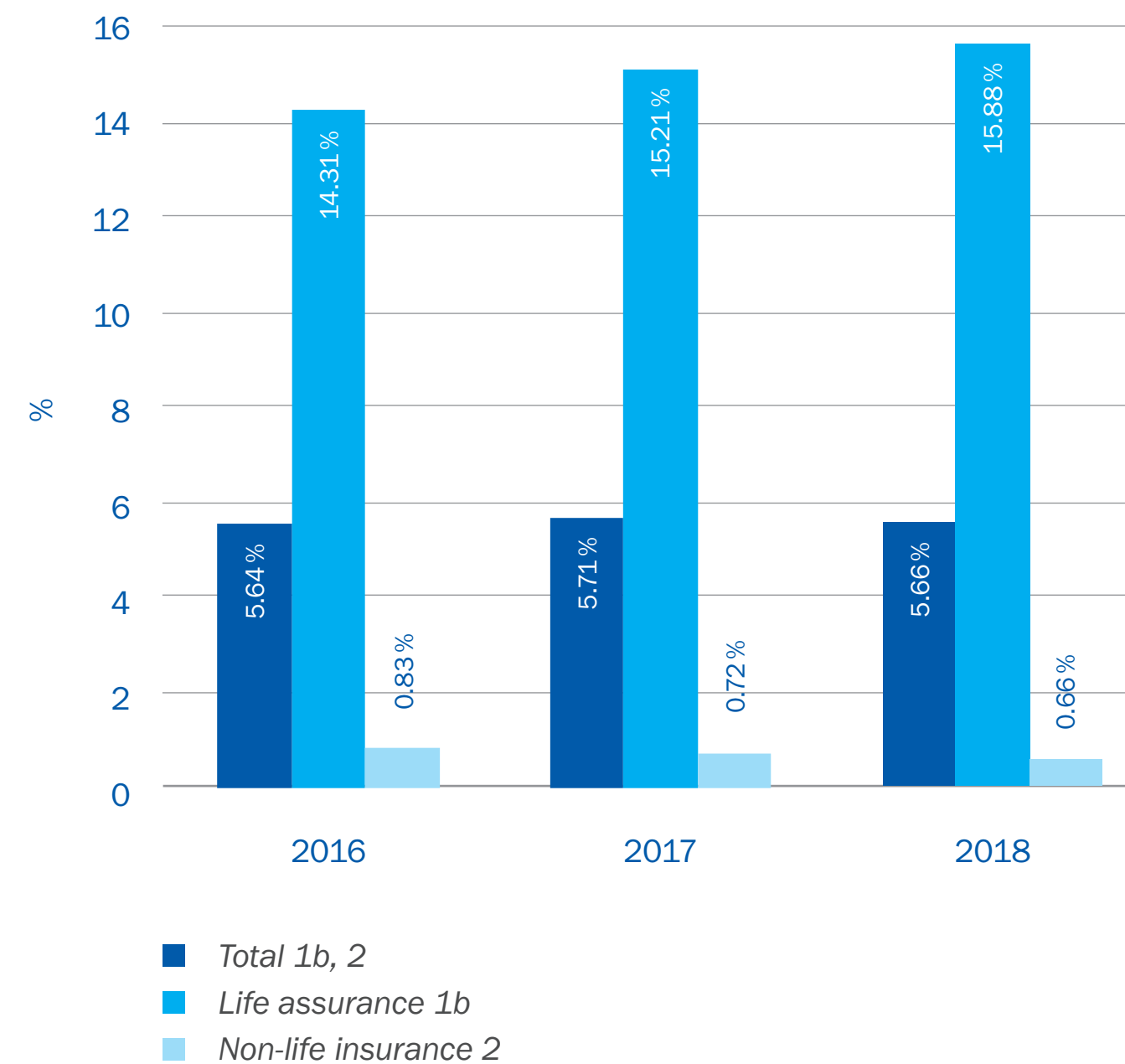
Report of the Board of Directors

The development of written premiums and market share are documented by the charts below.

Development in written premiums (CZK thous.)



Development in market share on the insurance market by premium written with adjusted single-premium on 10-year basis



- 1b) With adjusted single-premium on 10-year basis Cross-border transactions are not included.
- 2) Including premiums from non-life insurance assigned to Czech Insurance Association (ČAP) members, not including employers' liability insurance.

The 2018 sales results show that the insurance company continued to grow. The dynamics of this growth exceed the market development. The results show that the insurance services offered are constantly perceived positively by our clients. Good-quality co-operation with our clients and distributors, which is led by our joint efforts to ensure that our products reflect the simplicity, transparency and quality of the offered portfolio, contributes to this favourable development on a long-term basis.

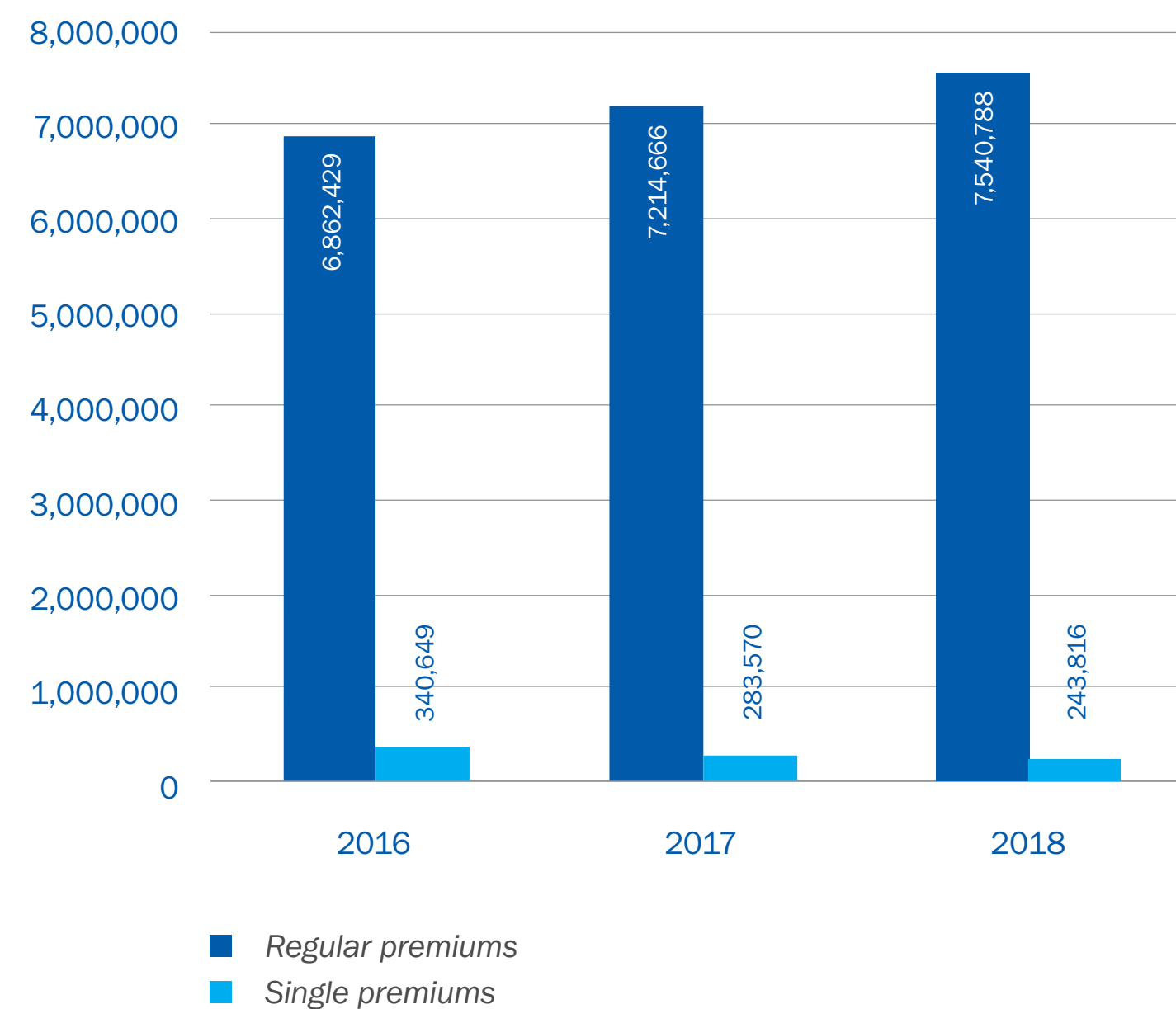
In 2018, we again rewarded our loyal clients who met the conditions for being granted a no-claims or loyalty bonus. As usual, we inform such clients about the bonus granted to them in our annual reports.

The charts below provide an overview of the development in the structure of premiums over the last three years.

Report of the Board of Directors

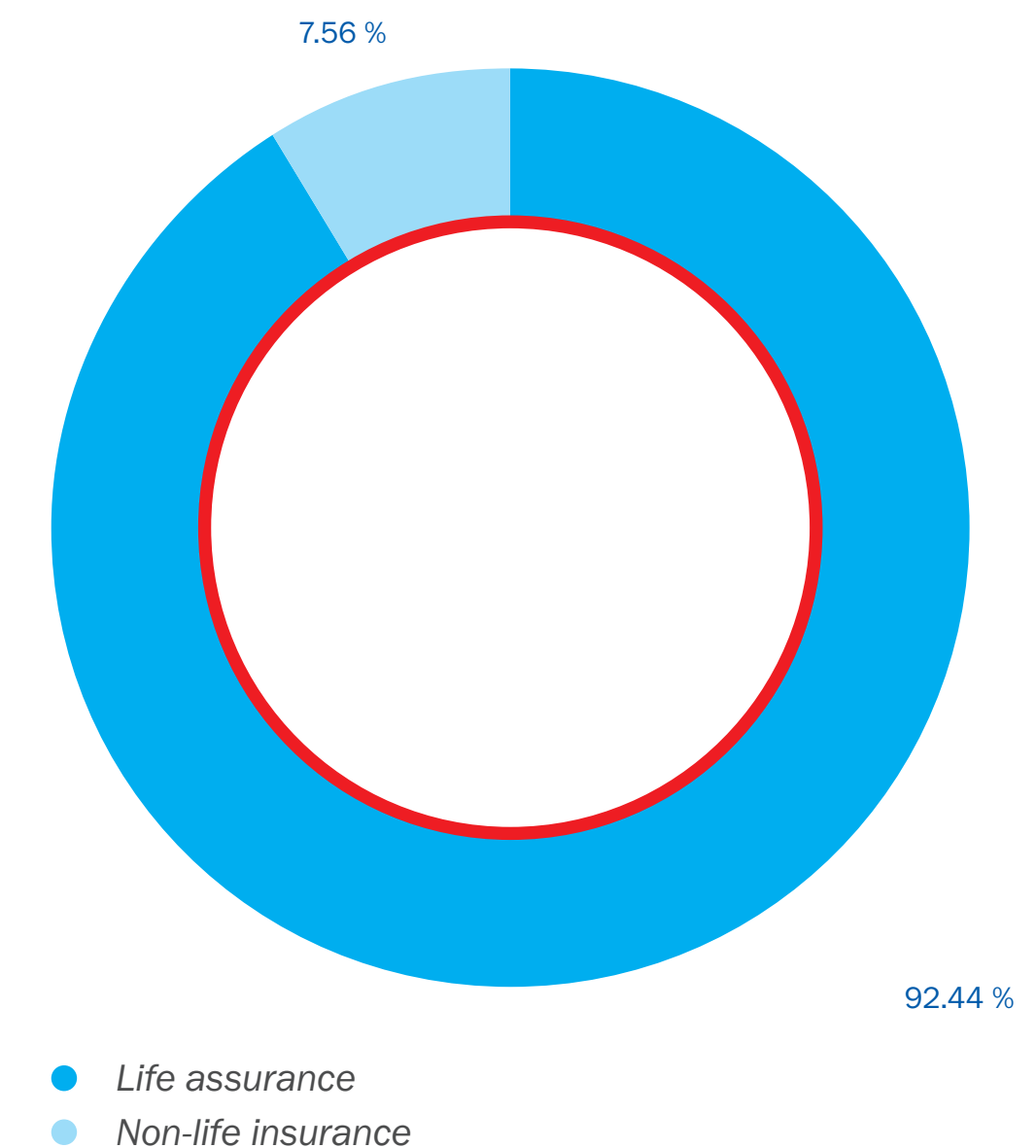
The following graphs provide an overview of the development in the structure of premiums over the past three years.

Development in written premiums (CZK thous.)



Even though 2018 carried in the spirit of the acquisition of the insurance company by Kooperativa pojišťovna, we still successfully achieved growth in the premiums written. The result was the product of two main factors. The year under review reported a cancellation percentage value that challenges the best results from recent years. This value was especially favourable for the prevalent part of external distributors. Česká spořitelna (bank-insurance) maintained its sales dynamics and played the role of a stable distribution channel. Our long-term concept focusing on support for addressing serious life situations was again confirmed as correct and was rewarded by the fact that the share of risk insurance in total regular premiums written keeps growing on a sustained basis and now amounts to more than 70%. This share guarantees financial stability for the insurance company. Non-life insurance is only represented in the portfolio by standalone personal accident insurance as well as nx incapacity insurance and insurance against loss of employment, in particular for Česká spořitelna clients, with an aggregate share of 7.6%.

Structure of written premiums in 2018



The above graph documents the Company's almost exclusive focus on the sale of life assurance.

Report of the Board of Directors

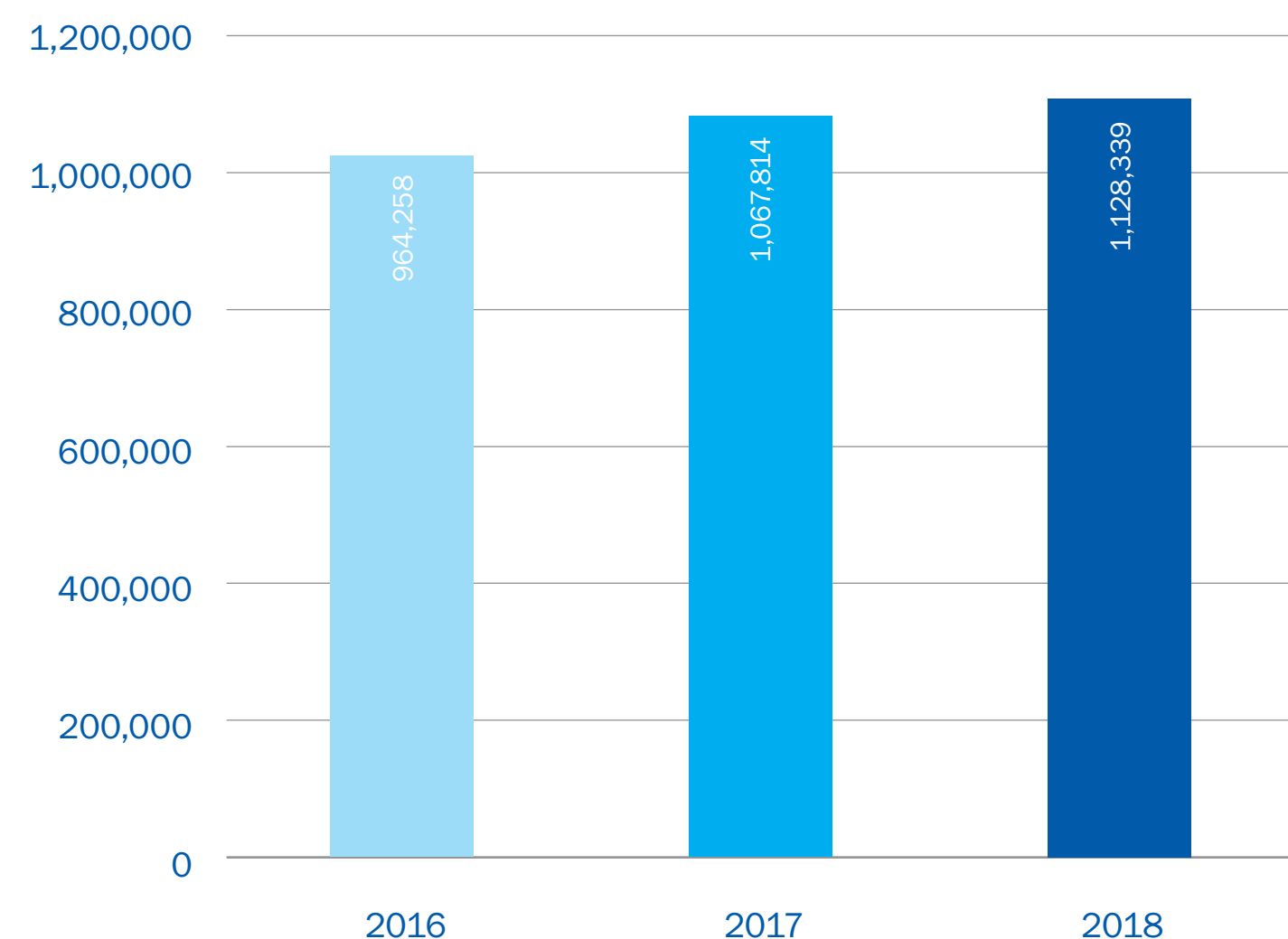
Financial results

The insurance company posted an after-tax profit of CZK 1,128.3 million according to Czech accounting standards. This result exceeded last year's result by CZK 60.5 million. The increase in profit is mostly due to better performance of the life assurance insurance segment. The Board of Directors attributes the improved insurance results primarily to the steady growth of the portfolio, with a high proportion of risk insurance. A very positive fact is that the quantitative increase in the portfolio is connected with a qualitative development, especially as a result of a decline in the share of policy cancellations.

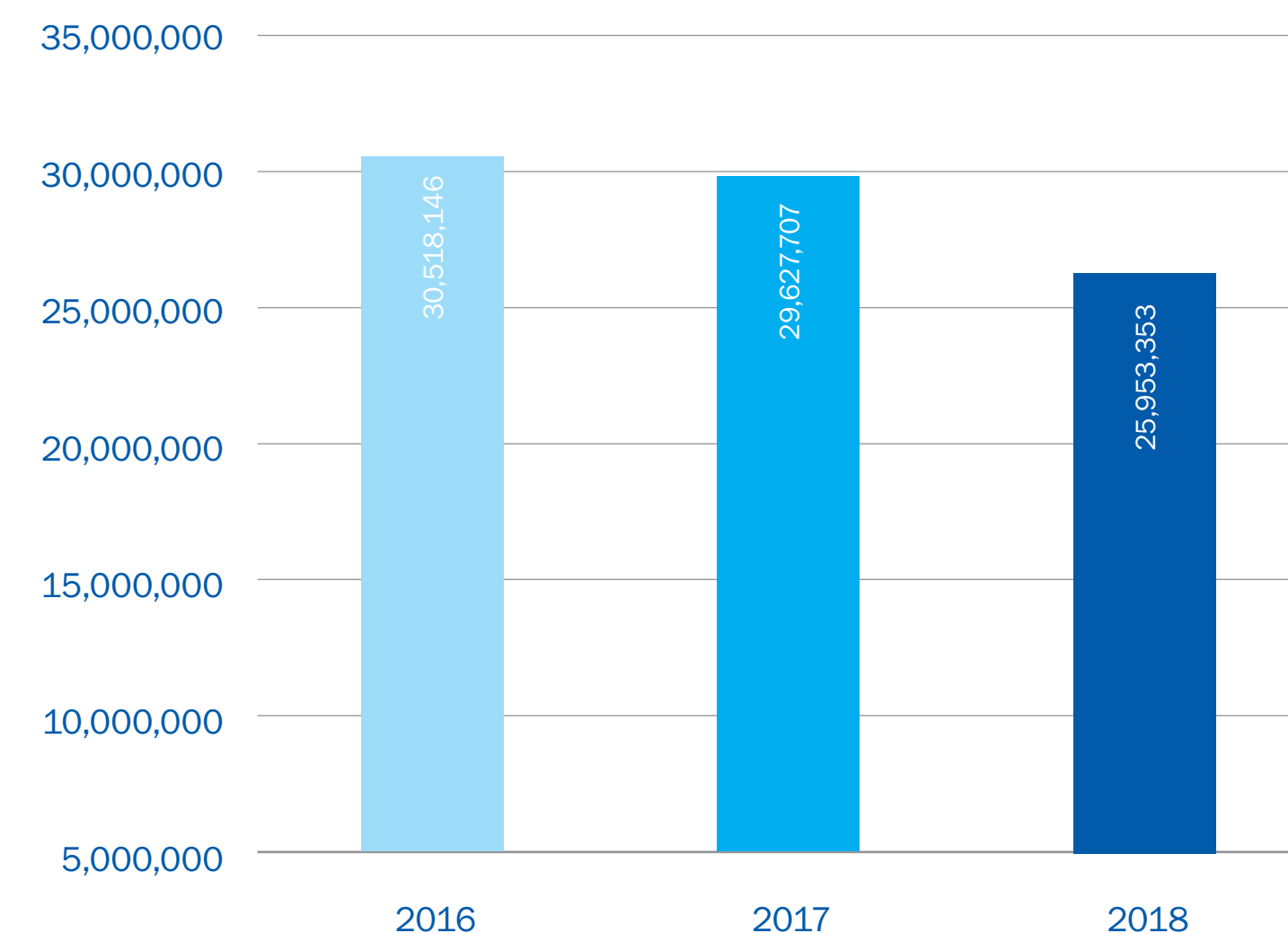
Overall technical provisions amounted to CZK 19,592.3 million, of which life assurance provisions, where the investment risk is borne by the policyholder, totalled CZK 2,043.5 million. At the balance sheet date, the structure of the provisions was as follows: a provision for unearned premiums of CZK 19.9 million, a life assurance provision of CZK 15,541.1 million, and a provision for outstanding claims of CZK 1,949.7 million. In 2018, total provisions dropped by CZK 3,434.3 million in absolute figures compared to 2017. The decline is due to the termination of insurance policies due to the expiration of the agreed term. In principle, these were single-premium insurance policies concluded in the Česká spořitelna network in previous years. The decline was also due to the termination of the sale of single-premium policies three years before. The technical provisions for life assurance, where the investment risk is borne by the policyholder, also decreased, by CZK 531.1 mil. The decrease is primarily attributable to the take-up of risk-type insurance and the reduced willingness of dealers to offer this insurance alternative, due to the expected changes in connection with insurance distribution. The resulting amount of provisions is recognised in accordance with the applicable legislation and provides the requisite security for covering future insurance claims.

The charts below show the development of earnings and the balance sum in the years up to 2018.

Development in earnings by accounting period (CZK thous.)



Development in balance sum (CZK thous.)

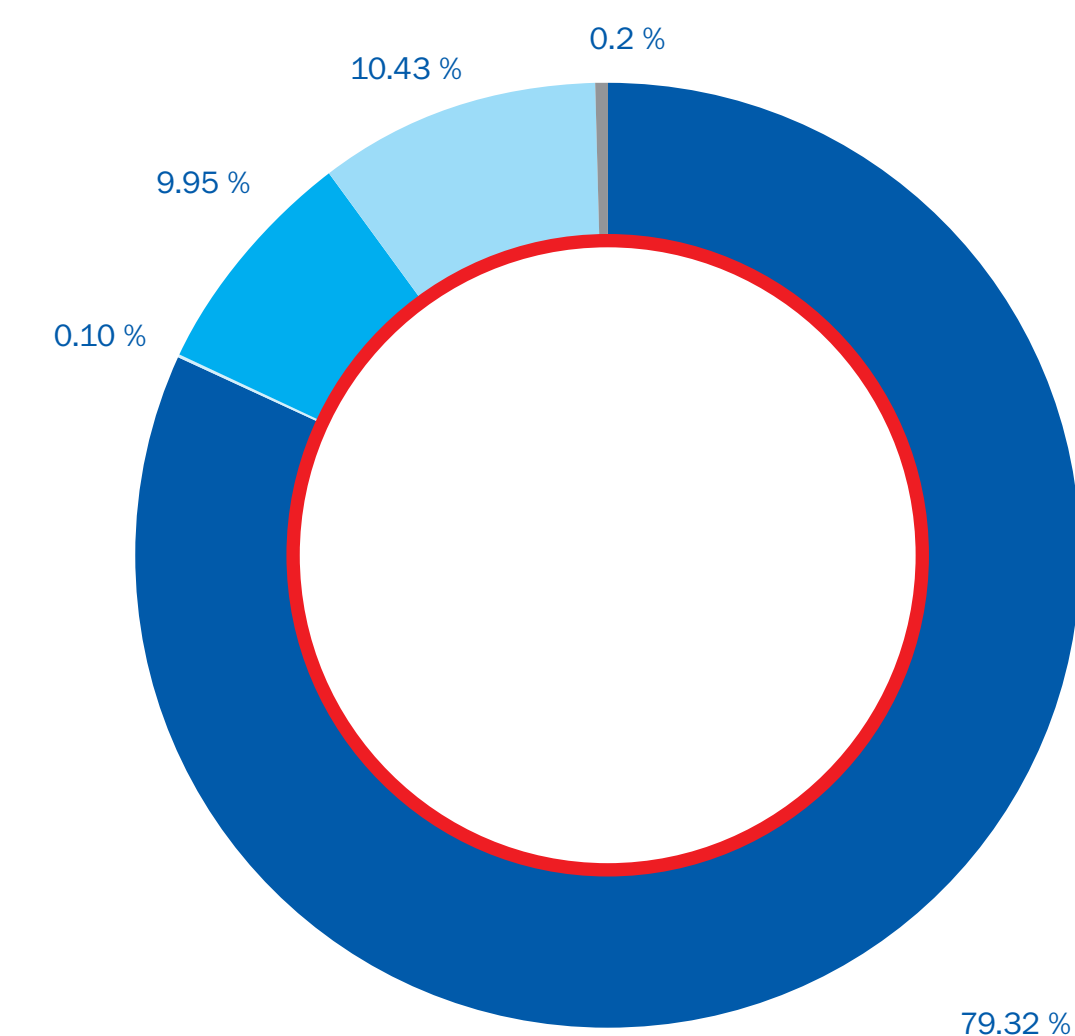


Report of the Board of Directors

The volume of technical provisions determined the amount of investments of funds; 75% of these funds represent the insurance company's assets. The investment portfolio is distributed among various types of financial instruments in order to ensure return on investment in accordance with the requirements for prudent risk management set forth by the insurance company's management. The structure of the portfolio of financial placements of funds, documented in the chart below, is designed to cover insurance liabilities in the long term, while ensuring adequate security of invested funds for our clients. Investments are managed in cooperation with Česká spořitelna's specialized investment banking units.

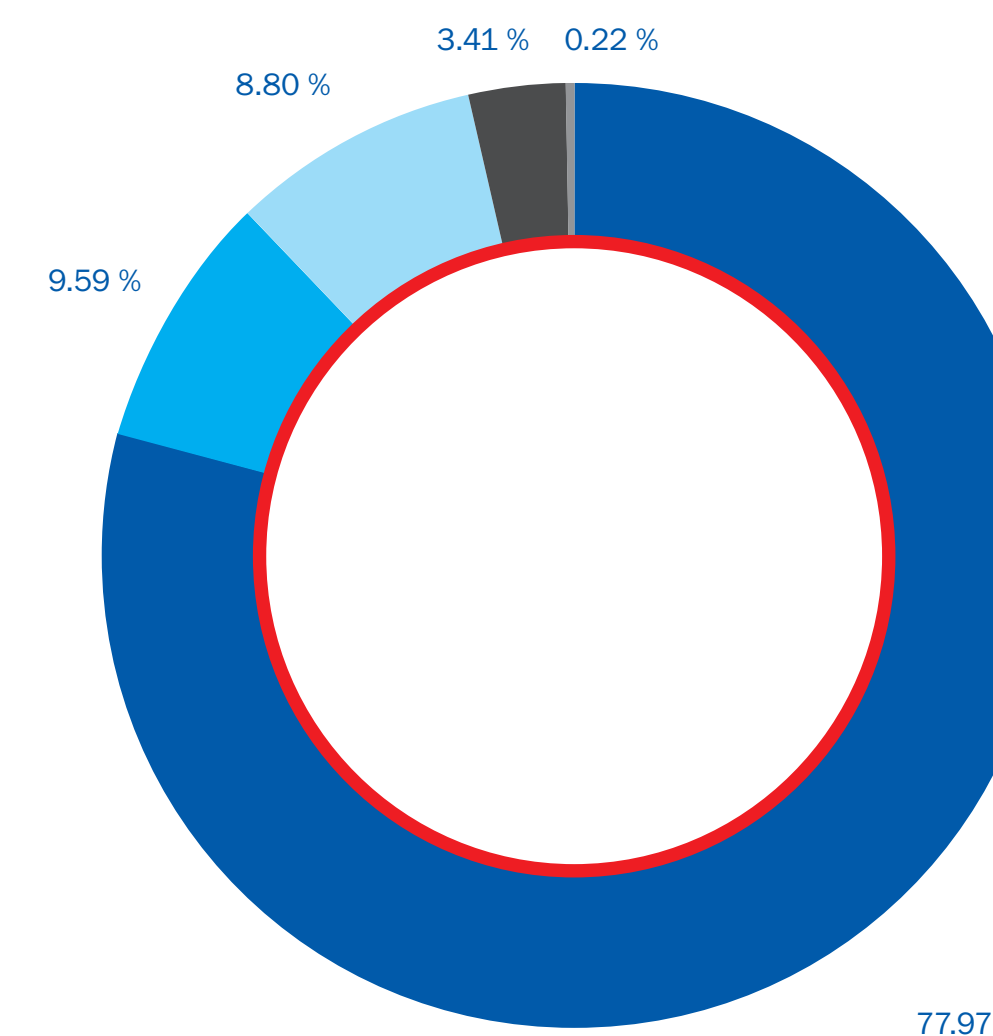
Structure of financial provisions and the corresponding structure of assets are shown in the charts below.

Structure of technical provisions in 2018



- Provision for life assurance premiums
- Provision for uneamed premiums
- Provision for outstanding claims
- Technical life assurance provision, where the investment risk is borne by the policy holder
- Other provisions

Structure of financial investments in 2018



- Fixed-income securities
- Variable-income securities (funds)
- Financial investment of life assurance, where the investment risk is borne by the policyholder
- Deposits with banks, current accounts, derivatives
- Real estate

In the present low-interest rate environment, the insurance company focuses significantly on the importance of a prudent policy on the liability side of the balance sheet, in order to ensure long-term financial stability and return on the commitments made. We credit our clients with a share of profits generated from the funds invested in the financial markets in excess of the average technical interest rate; the average appreciation of life assurance provisions for 2018 amounted to 2.88%.

Report of the Board of Directors

Management and control system of the insurance company

The Company has a management and control system, in which a system of three lines of defence against risks is fully incorporated. As part of these lines, a clear and precise distribution of responsibilities of the individual employees assigned to these lines is defined, and the principle of preventing conflicts of interest and effective control is consistently adhered to. The effectiveness and efficiency of the management and control system therefore covers all operations of the insurance company, while the management continuously monitors its functionalities and efficiency. The system is regularly monitored by an independent internal audit within the scope of its control activities, as part of which, this system is regularly evaluated and the results are reported to the Company's Board of Directors and Supervisory Board.

The basic structure of reports to the Board of Directors has been determined as part of the second pillar of Solvency II. This system of reports provides regular quarterly reports to the Board of Directors with comprehensive information about the development of the insurance company's risk profile, including an alert in the event that the threshold of the set limits is approached.

The result of the analysis and assessment of the Company's risk position is the Own Risk and Solvency Assessment (ORSA).

Its structure has gradually stabilised and provides Company management with summary information about:

- Organisational structure of the risk management system;
- Own risk profile;
- Insurance company's risk position;
- Determination of the sensitivities of solvency capital requirement;

- Projection and assessment of future capital needs based on set scenarios;
- Development of key planned indicators according to the set scenarios;
- Identification of opportunities for more efficient use of capital.

The outcome of the last ORSA analysis is an assurance of the insurance company's management as to the long-term sustainability of the solvency position, a stable structure, and shifts in individual risks and the efficiency of the entire management and control system.

The Board of Directors has fully implemented the policy of the evaluation of competence and integrity for key positions. Relevant persons have been notified about these positions.

By performing the relevant evaluations in the year under review, insurance company verified its financial stability and performance of all required solvency requirements. The insurance company's management and control system is consistent and efficient and provides the corporate governance bodies of the insurance company with sufficient information to ensure effective and prudent management.

Pardubice, 27 March 2019



Ing. Martin Diviš, MBA
Chairman of the Board of Directors



Ing. Tomáš Vaníček, MBA
Vice-Chairman of the Board of Directors



Ing. Jaroslav Kulhánek
Member of the Board of Directors



Financial Section

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Independent Auditor's Report



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This document is an English translation of the Czech auditor's report.
 Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of Pojišťovna České spořitelny, a.s., Vienna Insurance Group

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Pojišťovna České spořitelny, a.s., Vienna Insurance Group ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, the income statement, the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

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

Basis for Opinion

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

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Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, insert No. 24185

Identification No. 49619187
 VAT No. CZ99001996
 ID data box: 8N3gira



Emphasis of Matter

We draw attention to Note I.3. and IV.3. of the notes to the financial statements. Kooperativa pojišťovna, a.s., Vienna Insurance Group and Pojišťovna České spořitelny, a.s., Vienna Insurance Group are carrying out a merger by acquisition, with Pojišťovna České spořitelny, a.s., Vienna Insurance Group, the dissolving company, dissolving without liquidation and its assets and liabilities, including rights and obligations from labour law and commercial law relations, passing on to Kooperativa pojišťovna, a.s., Vienna Insurance Group, the successor company. The effective date of the merger is 1 January 2019. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

Adequacy of provision for liabilities arising from the applied technical interest rate

Key audit matter	How the audit matter was addressed
The Company recognises the provision for liabilities arising from the applied technical interest rate of MCZK 11 as part of Other technical provisions.	Our audit procedures included among others: With the help of our specialists-actuaries, we critically assessed the method of determining the provision for liabilities arising from the applied technical interest rate based on our knowledge, experience and market standards within the insurance sector.
We have designated the above issue as a key audit matter as the Company's management makes subjective and comprehensive assumptions and judgments in determining the amount of the provision for liabilities arising from the applied technical interest rate.	We assessed the key assumptions, such as the claim frequency of the relevant insurance portfolio, the expected behaviour of clients in respect of long-term life assurance contracts, the expected cost of administration of insurance contracts, and other financial and non-financial assumptions. We compared the applied assumptions with the analyses provided by the Company, available market data and assumptions applied in past periods.
In testing of the adequacy of liabilities arising from the applied technical interest rate, the Company applies the method of expected discounted cash flows. Liabilities to clients are determined using the best estimates of the future development of entry parameters adjusted by risk and uncertainty surcharges.	
The used entry parameters mainly represent the expected insurance settlements paid in the event of death or accident based on existing insurance contracts, the expected behaviour of clients in respect of long-term life assurance contracts, expected expense rate, and discount and revenue rates.	We tested the accuracy of the calculation of the provision for liabilities arising from the applied technical interest rate and critically reviewed the relevant analyses prepared by the Company's management and discussed the significant relevant year-on-year variances from the expected values.



For more information see Note II.9.c) of the notes to the Company's financial statements.

We also assessed the sufficiency of the data disclosed by the Company in the notes to financial statements.

Valuation of intangible assets in life assurance

Key audit matter	How the audit matter was addressed
The Company recognises deferred acquisition costs of MCZK 537 and accumulated debt in life assurance of MCZK 979 in assets as part of Temporary asset accounts.	Our audit procedures included, among others: Based on our knowledge, experience and market standards within the insurance sector, we critically assessed the method of recognition of both items.
We have designated the above issue as a key audit matter as the Company's management makes subjective and comprehensive assumptions and judgments in determining the amount of deferred acquisition costs and accumulated debt in life assurance.	We tested the proposal, implementation and operational effectiveness of the system and manual controls of the correct calculation of the acquisition costs. The testing was carried out through inquiries together with observation, inspection and review of the underlying documentation and selected recounts.
The amount of deferred acquisition costs is based on the value of expected future deductions from initial fees from premium income. The Company regularly calculates the recoverable amount of these deferred acquisition costs using actuarial methods and historical data and then compares the recoverable amount with their carrying amount. The recoverable amount is determined based on estimated key parameters, such as the expected lapse rate of the insurance portfolio.	Further, we involved our specialists-actuaries to assess the applied key assumptions and methods used by the Company in valuing both intangible assets in life assurance and assessed the accuracy of the calculation. For these purposes we critically assessed the relevant analyses and discussed the relevant year-on-year variances from the expected values. We assessed the key assumptions, such as the expected lapse rate of the existing insurance portfolio, its claim frequency and related expenses and compared these key assumptions with externally available data, our own estimates and assumptions applied in the previous periods.
The accumulated debt in life assurance is determined using the prospective method, taking into consideration all relevant future cash flows and using assumptions based on historical data about the lapse rate, claim frequency, expenses and other calculation assumptions.	We assessed whether both intangible assets in life assurance are adequately reflected in the liability adequacy test (LAT) which is carried out by the Company to ensure that the amount of reported liabilities is adequate or that the
For more information see Note II.7.a) of the notes to the Company's financial statements.	

Independent Auditor's Report



	<p>amount of recognised insurance liabilities reduced by the relevant intangible assets is sufficient.</p> <p>We carried out analytical procedures in the form of a year-on-year comparison of both intangible assets in life assurance, primarily their amount in terms of the volume of new business and other significant parameters, such as the expected lapse rate of the existing insurance portfolio and the rate used to discount future cash flows.</p> <p>We also assessed the sufficiency of the data concerning both items disclosed by the Company in the notes to financial statements.</p>
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Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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



Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

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

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



- may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 26 April 2018 and our uninterrupted engagement has lasted for 9 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

Independent Auditor's Report



Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of Pojišťovna České spořitelny, a.s., Vienna Insurance Group as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
27 March 2019

KPMG Česká republika Audit
KPMG Česká republika Audit, s.r.o.
Registration number 71


Jindřich Vašina
Partner
Registration number 2059

Balance Sheet as at 31 December 2018

in thousands CZK	Line No.	Gross	Adjustment	Net	Net previous year
ASSETS					
A. Receivables for subscribed registered capital	1				
B. Intangible fixed assets, thereof:	2	546,974	424,949	122,025	92,724
C. Investments	5	20,379,531	5,299	20,374 232	23,221,173
I. Land and buildings (real estate), thereof:	6	55,880	5,299	50,581	52,349
1. Land	7	1,900	0	1,900	1,900
2. Buildings		53,980	5,299	48,681	50,449
a) Land and buildings - self-occupied		55,880	5,299	50,581	52,349
II. Investments in affiliated undertakings and participating interests	8	31,997	0	31,997	30,233
1. Shares in controlled entities	9	31,997		31,997	30,233
III. Other investments	13	20,291,654	0	20,291,654	23,138,591
1. Shares and other variable-yield securities, other participating interests	14	2,194,175		2,194,175	2,788,720
2. Bonds and other fixed-income securities	15	18,097,683		18,097,683	20,331,571
a) Securities valued at fair value through profit and loss		5,886,408		5,886,408	6,661,250
b) Held to maturity		12,211,275		12,211,275	13,670,321
7. Other investments	19	(204)		(204)	18,300
D. Investments for the benefit of life assurance policyholders who bear the investment risk	21	2,043,535		2,043,535	2,574,608

in thousands CZK	Line No.	Gross	Adjustment	Net	Net previous year
E. Debtors	22	909,480	83,767	825,713	624,124
I. Receivables arising from direct insurance operations	23	144,269	83,767	60,502	62,628
1. Receivables due from the policyholders	24	132,492	72,546	59,946	62,072
2. Receivables due from intermediaries	25	11,777	11,221	556	556
II. Receivables arising from reinsurance operations	26	374,865		374,865	341,354
III. Other receivables	27	390,346	0	390,346	220,142
F. Other assets	28	963,707	88,793	874,914	1,380,313
I. Tangible fixed assets other than those listed under "C.I. Land and buildings", and inventories	29	171,499	88,793	82,706	73,101
II. Cash on accounts in financial institutions and cash in hand	30	792,208		792,208	1,300,712
IV. Other assets	31	0	0	0	6,500
G. Temporary asset accounts	32	1,712,934	0	1,712,934	1,734,765
II. Deferred acquisition costs, thereof:	34	1,516,687	0	1,516,687	1,553,905
a) in life-assurance business	35	1,516,493		1,516,493	1,553,782
b) in non-life insurance	36	194		194	123
III. Other temporary asset accounts	37	196,247		196,247	180,860
TOTAL ASSETS	39	26,556,161	602,808	25,953,353	29,627,707

Balance Sheet as at 31 December 2018

in thousands CZK	Line No.	Gross	Adjustment	Net	Net previous year
LIABILITIES					
A. Equity	40			3,859,896	4,060,289
I. Registered capital, thereof:	41			1,900,100	1,900,100
IV. Other capital funds	46			183,555	586,196
V. Reserve fund and other funds from profit	47			5,015	4,971
VI. Profit or loss brought forward	48			642,887	501,208
VII. Profit or loss for the financial year	49			1,128,339	1,067,814
C. Technical provisions	51	18,815,307	1,266,563	17,548,744	20,451,968
1. Provision for unearned premiums	52	37,062	17,117	19,945	21,779
a) Provision for unearned premiums relating to life assurance classes	53	13,528	5,337	8,191	9,454
b) Provision for unearned premiums relating to non-life insurance classes	54	23,534	11,780	11,754	12,325
2. Life assurance provision	55	15,541,056	0	15,541,056	18,479,349
3. Provision for outstanding claims	56	3,118,377	1,168,664	1,949,713	1,893,147
a) Provision for outstanding claims relating to life assurance classes	57	2,904,234	1,018,696	1,885,538	1,808,077
b) Provision for outstanding claims relating to non-life insurance classes	58	214,143	149,968	64,175	85,070
4. Provision for bonuses and rebates	59	108,085	80,782	27,303	25,572
a) Provision for bonuses and rebates relating to life assurance classes	60	27,095	0	27,095	25,340
b) Provision for bonuses and rebates relating to non-life insurance classes	61	80,990	80,782	208	232
6. Other technical provisions		10,727		10,727	32,121

in thousands CZK	Line No.	Gross	Adjustment	Net	Net previous year
D. Life assurance technical provision where the investment risk is borne by the policyholders	71	2,043,535		2,043,535	2,574,608
E. Provisions for other risks and losses	72			317,545	264,299
2. Provisions for taxation	74			299,495	264,299
3. Other provisions	75			18,050	0
F. Deposits received from reinsurers	76			1,087,894	1,142,392
G. Creditors	77			749,854	740,435
I. Payables arising from direct insurance operations	78			285,880	277,294
II. Payables arising from reinsurance operations	79			411,383	403,870
V. Other payables, thereof:	83			52,591	59,271
a) Tax liabilities and payables due to social security and health insurance institutions	84			19,111	14,525
H. Temporary liability accounts	86			345,885	393,716
I. Accrued expenses and deferred income	87			3	64
II. Other temporary liability accounts	88			345,882	393,652
TOTAL LIABILITIES	90			25,953,353	29,627,707

Income Statement as at 31 December 2018

in thousands CZK	Line No.	Base	Subtotal	Result	Result previous year
I. TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE					
1. Earned premiums, net of reinsurance:	1	x	x	x	x
a) gross premiums written	2	588,871	x	x	x
b) outward reinsurance premiums (-)	3	535,977	52,894	x	x
c) change in the gross provision for unearned premiums (+/-)	4	(1,148)	x	x	x
d) change in the provision for unearned premiums, reinsurance share (+/-)	5	(577)	(571)	53,465	57,161
2. Allocated investment return transferred from the non-technical account (item III.6.)	6	x	x	1,944	3,722
3. Other technical income, net of reinsurance	7	x	x	573	497
4. Claims incurred, net of reinsurance:	8	x	x	x	x
a) claims paid:	9	x	x	x	x
aa) gross amount	10	183,719	x	x	x
ab) reinsurance share (-)	11	152,837	30,882	x	x
b) change in the provision for outstanding claims (+/-):	12	x	x	x	x
ba) gross amount	13	(38,865)	x	x	x
bb) reinsurance share (-)	14	(17,970)	(20,895)	9,987	46,881
5. Change of other technical reserv, net of reinsurance (+/-)	15	x	x	0	0
6. Bonuses and rebates, net of reinsurance	16	x	x	2,609	3,005
7. Net operating expenses:	17	x	x	x	x
a) acquisition costs	18	x	4,860	x	x
b) change in deferred acquisition costs (+/-)	19	x	(71)	x	x
c) administrative expenses	20	x	9,626	x	x
d) reinsurance commissions and profit participation (-)	21	x	37,281	(22,866)	(21,652)
8. Other technical expenses, net of reinsurance	22	x	x	180	179
10. Sub-total, balance (result) on the technical account for non-life insurance (item III.1.)	24	x	x	66,072	32,967

in thousands CZK	Line No.	Base	Subtotal	Result	Result previous year
II. TECHNICAL ACCOUNT FOR LIFE ASSURANCE					
1. Earned premiums, net of reinsurance:	25	x	x	x	x
a) gross premiums written	26	x	7,195,733	x	x
b) outward reinsurance premiums	27	x	1,436,476	x	x
c) change in the provision for unearned premiums, net of reinsurance (+/-)	28	x	(1,263)	5,760,520	5,500,884
2. Income from investments:	29	x	x	x	x
a) income from participating interests, with a separate indication of that derived from controlling influence	30	x	x	x	x
b) income from other investments, with a separate indication of that derived from controlling influence, of which:	31	x	x	x	x
ba) income from land and buildings	32	0	x	x	x
bb) income from other investments	33	675,938	675,938	x	x
c) value adjustments on investments	34	x	0	x	x
d) income from disposal of investments	35	x	1,845,579	2,521,517	1,901,019
3. Unrealised gains on investments	36	x	x	739,130	798,933
4. Other technical income, net of reinsurance	37	x	x	52,690	69,330
5. Claims incurred, net of reinsurance:	38	x	x	x	x
a) claims paid:	39	x	x	x	x
aa) gross amount	40	7,087,776	x	x	x
ab) reinsurance share (-)	41	654,402	6,433,374	x	x
b) change in the provision for outstanding claims (+/-):	42	x	x	x	x
ba) gross amount	43	38,177	x	x	x
bb) reinsurance share (-)	44	(39,284)	77,461	6,510,835	4,061,710
6. Changes in other technical provisions, net of reinsurance (+/-):	45	x	x	x	x
a) life assurance provisions:	46	x	x	x	x

Income Statement as at 31 December 2018

in thousands CZK	Line No.	Base	Subtotal	Result	Result previous year
aa) gross amount	47	(2,938,293)	x	x	x
ab) reinsurance share (-)	48	0	(2,938,293)	x	x
b) other technical provisions, net of reinsurance	49	x	(552,468)	(3,490,761)	(1,236,034)
7. Bonuses and rebates, net of reinsurance	50	x	x	281,646	266,104
8. Net operating expenses:	51	x	x	x	x
a) acquisitions costs	52	x	1,669,423	x	x
b) change in deferred acquisition costs (+/-)	53	x	37,289	x	x
c) administrative expenses	54	x	553,445	x	x
d) reinsurance commissions and profit participation	55	x	712,050	1,548,107	1,743,457
9. Expenses connected with investments:	56	x	x	x	x
a) investment management charges, including interest	57	x	352,511	x	x
b) value adjustments on financial placements	58	x	0	x	x
c) book value of disposed investments	59	x	1,646,450	1,998,961	1,382,351
10. Unrealised losses on investments	60	x	x	846,665	737,086
11. Other technical expenses, net of reinsurance	61	x	x	13,141	21,823
12. Allocated investment return transferred to the non-technical account (item III.4.)	62	x	x	x	x
13. Sub-total, balance (result) on the technical account for life assurance (item III.2.)	63	x	x	1,365,263	1,293,669

in thousands CZK	Line No.	Base	Subtotal	Result	Result previous year
III. NON-TECHNICAL ACCOUNT					
1. Result of the technical account for non-life insurance (item I.10.)	64	x	x	66,072	32,967
2. Result of the technical account for life assurance (item II.13.)	65	x	x	1,365,263	1,293,669
3. Income from investments:	66	x	x	x	x
a) income from participating interests, with a separate indication of that derived from controlling influence	67	x	x	x	x
b) income from other investments, with a separate indication of that derived from controlling influence:	68	x	x	x	x
ba) income from land and buildings	69	18	x	x	x
bb) income from other investments	70	3,292	3,310	x	x
c) value adjustments on investments	71	x	0	x	x
d) income from disposal of investments	72	x	19,238	22,548	16,388
5. Expenses connected with investments:	74	x	x	x	x
a) investment management charges, including interest	75	x	5,172	x	x
b) value adjustments on investments	76	x	0	x	x
c) book value of disposed investments	77	x	19,077	24,249	18,522
6. Allocated investment return transferred to the technical account for non-life insurance (item I.2.)	78	x	x	1,944	3,722
7. Other income	79	x	x	10,356	17,901
8. Other expenses	80	x	x	35,694	15,006
9. Income tax on ordinary activities	81	x	x	273,560	255,514
10. Profit or loss on ordinary activities after tax	82	x	x	1,128,792	1,068,161
15. Other taxes not shown under the preceding items	87	x	x	453	347
16. Profit or loss for the financial year	88	x	x	1,128,339	1,067,814

Statement of Changes in Equity for the Year 2018

in thousands CZK	Registered capital	Other funds from profit	Changes in valuation	Retained earnings	Profit (loss) for the current year	Total
Balance at 1/1/2017	1,900,100	4,228	565,436	414,054	964,258	3,848,076
Additions to funds		7,471		956,787	(964,258)	0
Utilisation of funds		(6,728)				(6,728)
Change in valuation of investments			20,760			20,760
Payment of dividends				(869,633)		(869,633)
Profit/loss for the current year					1,067,814	1,067,814
Balance at 31/12/2017	1,900,100	4,971	586,196	501,208	1,067,814	4,060,289
Balance at 1/1/2018	1,900,100	4,971	586,196	501,208	1,067,814	4,060,289
Additions to funds		5,647		1,062,167	(1,067,814)	0
Utilisation of funds		(5,603)				(5,603)
Change in valuation of investments			(402,641)			(402,641)
Payment of dividends				(920,488)		(920,488)
Profit/loss for the current year					1,128,339	1,128,339
Balance at 31/12/2018	1,900,100	5,015	183,555	642,887	1,128,339	3,859,896

Notes to the Financial Statements as at 31 December 2018

I. GENERAL CONTENTS

I.1. Description and principal activities

Pojišťovna České spořitelny, a.s., Vienna Insurance Group („the Company“) was entered into the Commercial Register on 1 October 1992 (Identification number: 47452820).

The corporation has conformed to Act No. 90/2012 Coll., on Corporations and Cooperatives, as a whole in accordance with Section 777 (5) of the Act.

The Company's shareholders as at 31 December 2018 are:

Kooperativa pojišťovna, a.s., Vienna Insurance Group	100%
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The Company received a license to carry on insurance activities on 16 December 1992. The Company commenced its insurance activities on 1 January 1993.

The Company carries on the following classes/groups of insurance:

Life assurance

- Assurance on death, assurance on survival to a certain age, assurance on survival to a certain age or on earlier death, joint life assurance, assurance with return of premiums
- Pension insurance
- Accident or sickness insurance as a supplement to the above types of insurance
- Marriage insurance and savings insurance to provide funds to raise children
- Insurance connected with an investment fund / unit-linked insurance

Non-life insurance

- Accident insurance
- Sickness insurance
- Insurance for various financial losses

Apart from the above, the Company's principal activities include also non-life insurance business, which the Company has not been actively providing since 2 January 2004. These are non-life insurance classes No. 3, 5, 7, 8, 9, 11, 13, 15 and 18 listed in Part B of Appendix No. 1 to the Insurance Act, and groups e) and f) of non-life insurance listed in Part C of the Appendix to the Insurance Act.

The Company's principal activities include also activities relating to insurance business pursuant to Section 3 (1) (f) of Act No. 277/2009 Coll., on insurance, as amended.

Registered office of the Company

Pojišťovna České spořitelny, a.s., Vienna Insurance Group
Nám. Republiky 115, Zelené Předměstí
530 02 Pardubice

Members of the Board of Directors, Supervisory Board and Audit Committee as at 31 Dec 2018:

Members of the Board of Directors

Chairman: [Ing. Martin Diviš, MBA](#), Divoká Šárka 39/4, Liboc, Praha 6 (from 13 February 2018)
Vice-chairman: [Ing. Tomáš Vaníček, MBA](#), Donínská 1778, Újezd nad Lesy, Praha 9 (from 13 February 2018; until 15 January 2018 [Ing. Jaroslav Kulhánek](#), Zalomená 175/22, Roudnička, Hradec Králové)
Member: [Ing. Jaroslav Kulhánek](#), Zalomená 175/22, Roudnička, Hradec Králové (from 16 January 2018; until 12 February 2018 [Ing. Tomáš Vaníček, MBA](#), Donínská 1778, Újezd nad Lesy, Praha 9)

Statements of will and signing of documents on behalf of the Company must always be conducted jointly by two members of the Board. No authorisation for individual representation in any matter related to operation of the Company is possible. When signing documents on behalf of the Company, the required number of representatives shall add their signatures and state their offices to the printed or written name of the Company.

Notes to the Financial Statements as at 31 December 2018

Proxy

Ing. František Mareš, č. p. 78, 533 45 Stéblová

Members of the Supervisory Board

Chairman: Ing. Martin Diviš, MBA, Divoká Šárka 39/4, Liboc, Praha 6 (until 31 January 2018)

Vice-chairman: Dkfm. Hans Raumauf, 2362 Biedermannsdorf, Borromäumstrasse 38, Austria

Members: Mag. Harald Josef Londer, 2333 Leopoldsdorf, Feuerwehrstraße 7, Austria (from 1 May 2018; until 30 April 2018 Mag. Erwin Hammerbacher, 2201 Seyring, Helmaweg 29, Austria)

Ing. Vladimír Mráz, U letenského sadu 1294/6, Holešovice, Praha 7

Ing. Jiří Drahoš, č. p. 181, Cerekvice nad Loučnou

Ing. Petr Procházka, Věry Junkové 92, Studánka, Pardubice

Prof. Elisabeth Stadler, 3550 Langenlois, Höllgasse 32, Austria

KR Franz Fuchs, 2344 Maria Enzersdorf, Fürstenstraße 43, Austria

Marek Blaha, Bratislava, V Záhradách 2037/22, Slovakia

Audit Committee

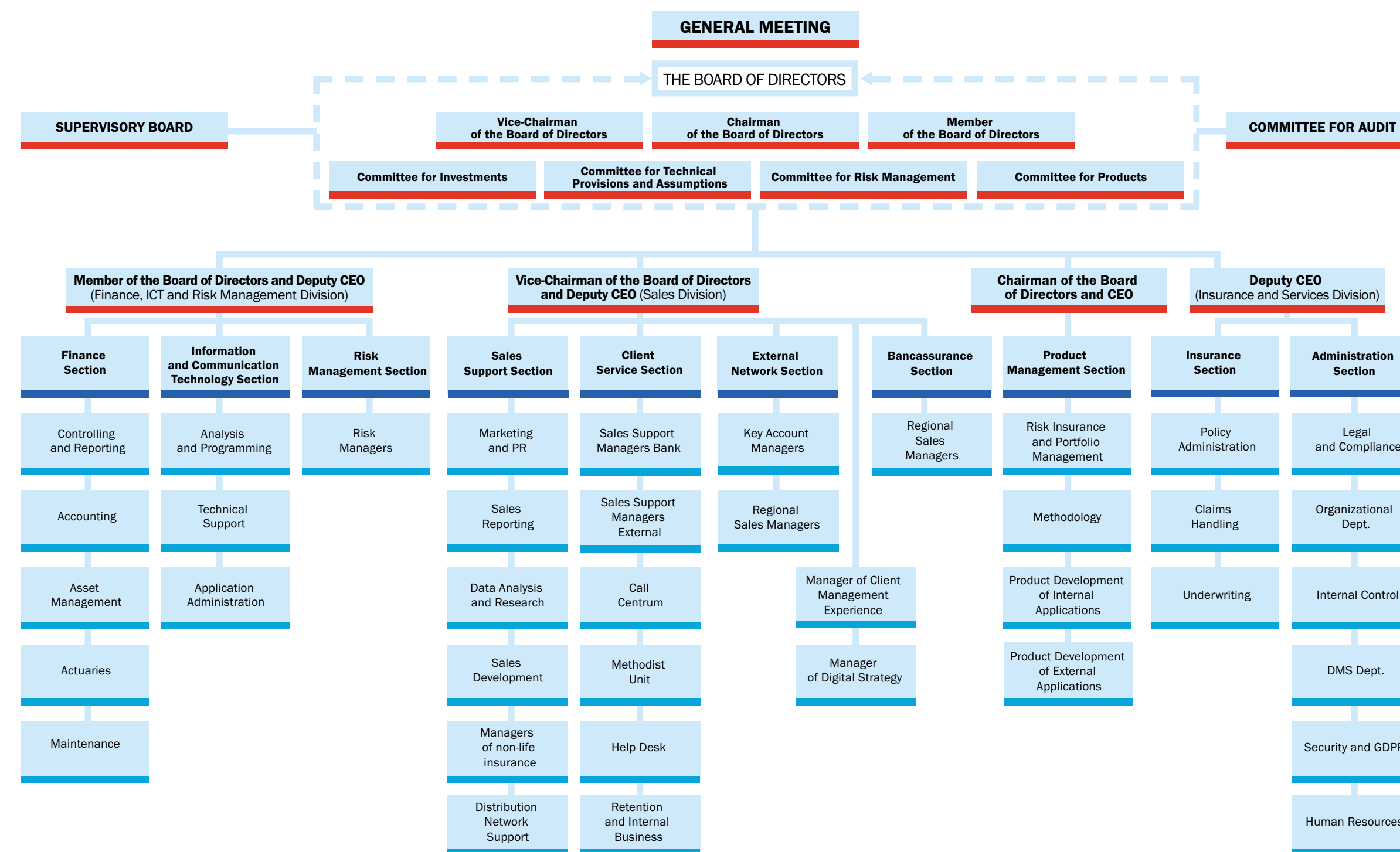
Ing. Vladimír Mráz, U Letenského sadu 1294/6, Praha 7 Holešovice

Prof. Elisabeth Stadler, Höllgasse 32, Langenlois, Austria

Ing. František Dostálek, Hošťálkova 656/52, Praha 6 – Břevnov

Dkfm. Karl Fink, Kurzbauergasse 5, Wien, Austria

Organizational Structure at 31 December 2018



Company does not have any branch abroad.

Notes to the Financial Statements as at 31 December 2018

I.2. Compliance with legislation

At the balance sheet date the Company fully complied with Act No. 277/2009 Coll., on Insurance, as amended (“the Insurance Act”), Act No. 89/2012 Coll., Civil Code, as amended, Act No. 170/2018 Coll., on Distribution of Insurance and Reinsurance, as amended, including the applicable implementing regulations, and with other legislation in force.

I.3. Basis of preparation of the financial statements

The accounting records of the Company are maintained and its financial statements have been prepared in accordance with Act No. 563/1991 Coll., on Accounting, as amended; Decree No. 502/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for entities that are insurance companies, as amended (“Decree No. 502/2002 Coll.”); Czech Accounting Standards for entities that maintain their accounting records in compliance with Decree No. 502/2002 Coll., as amended; and other relevant legislation.

The accounting records of the Company are maintained in such a manner that the financial statements prepared based on these records present a true and fair view of the accounting and financial position of the Company.

The financial statements have been prepared based on the assumption that the Company will continue as a going concern even after a merger with Kooperativa pojišťovna, a.s., Vienna Insurance Group (hereinafter “Kooperativa”) and that no events are expected to occur to restrict or prevent Kooperativa to continue to carry out its business activities in the foreseeable future.

All amounts are presented in thousands of Czech crowns (TCZK), except when indicated otherwise.

These financial statements are non-consolidated.

I.4. Significant accounting policies and procedures

(a) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost and depreciated using the straight-line basis over their estimated useful lives.

Tangible fixed assets costing less than TCZK 40 and intangible fixed assets costing less than TCZK 60 are charged to the income statement in the year in which they are acquired. The annual depreciation rate reflects the assets’ expected useful lives.

The following depreciation rates are used for the individual asset classes:

Fixed assets	Method	Depreciation period in years
Software	Straight-line	4
Motor vehicles	Straight-line	4
IT equipment	Straight-line	3
Fixtures and fittings	Straight-line	8
Other	Straight-line	15

(b) Investments

Land and buildings (real estate)

Land and buildings (real estate) are initially recorded at their acquisition cost. Land is not subsequently depreciated while buildings are subsequently depreciated using the straight-line basis over their estimated useful lives. In the income statement, respective impairment is presented in „Value adjustments on investments“.

Debt securities

At the acquisition date debt securities are stated at acquisition cost.

Acquisition cost is the amount for which a debt security has been acquired and includes a proportionate part of any accrued interest and expenses directly associated with the acquisition

Notes to the Financial Statements as at 31 December 2018

The Company amortises premiums and discounts on all debt securities. Premiums and discounts are released to the income statement using the effective interest rate method from the date of acquisition to their maturity.

Amortised debt securities are revalued at their fair value as at the balance sheet date with the exception of bonds held to maturity.

The Company recognises bonds held to maturity at their amortised cost as at the balance sheet date.

Fair value means the price derived from quoted market mid prices published by domestic or foreign stock exchanges or other public (organised) markets. The Company applies the most recently published market price as at the date of the financial statements (balance sheet date). If no market price is available or if it does not sufficiently represent the fair value, the fair value is determined on the basis of a qualified estimate.

Amortised cost means the price used when first recognised (the acquisition cost), which is gradually increased by accrued interest income, adjusted by amortisation of the discount/premium and decreased by the amount of adjustments.

Debt securities are categorised as follows: securities valued at fair value through profit and loss, securities available for sale and securities held to maturity.

Changes in the fair value of available-for-sale debt securities are reported in Other capital funds in the balance sheet. At the time of sale, the above valuation differences are recognised in the income statement, i.e. in expenses or revenues.

Where debt securities are denominated in a foreign currency, their value is translated to Czech crowns using the current exchange rate published by the Czech National Bank ("CNB"). The appropriate exchange rate difference is included in the fair value.

Shares and other variable-yield securities

At the acquisition date, shares and other variable-yield securities are accounted for at acquisition cost.

Acquisition cost is the amount for which the shares or other variable-yield securities were acquired and includes all expenses directly associated with the acquisition.

At the balance sheet date, shares and other variable-yield securities are revalued at their fair value.

Fair value means the price published by domestic or foreign stock exchanges or other public (organised) markets. The Company applies the most recently published market price as at the date of the financial statements (balance sheet date). If no market price is available or if it does not sufficiently represent the fair value, the fair value is determined on the basis of a qualified estimate.

Shares and other variable-yield securities are classified as securities valued at fair value through profit and loss or securities available for sale.

Changes in the fair value of shares and other variable-yield securities are reported in Other capital funds in the balance sheet. At the time of sale, the above valuation differences are recognised in the income statement, i.e. in expenses or revenues.

Where shares and other variable-yield securities are denominated in a foreign currency, their value is translated based on the current exchange rate published by CNB. The appropriate exchange rate difference is included in the fair value.

Investments in affiliated undertakings and participating interests

Participating interests in controlled persons are participations in another enterprise in which the Company holds a controlling influence. In addition, other cases where the Company is a controlling person are reported under this item.

Participating interests with significant influence are participations in another enterprise in which the Company holds a significant influence. Unless proven to the contrary, significant influence is considered to be a holding of at least 20% of the voting rights.

Investments in affiliated undertakings and participating interests in the form of debt securities issued by the controlled persons or persons in which the accounting entity exercises significant influence, and which are classified as securities at fair value through profit and loss or securities available for sale are presented in C.II.2 Debt securities.

At the acquisition date, participating interests are stated at their acquisition cost. The acquisition cost is the amount for which the participating interests were acquired and includes all expenses directly associated with the acquisition.

Notes to the Financial Statements as at 31 December 2018

Deposits with financial institutions

As at the acquisition date and as at the balance sheet date, deposits with financial institutions are stated at acquisition cost increased or decreased by interest income or interest expense. In the notes to the financial statements, the book value of these deposits is considered to be their fair value.

Deposits denominated in a foreign currency are translated to Czech crowns using the current exchange rate published by CNB, and the appropriate exchange rate difference is included in the fair value. Changes in fair value are reflected in the Company's income statement.

Derivatives

Derivatives are valued at fair value. The fair value of financial derivatives is the present value of expected cash flows from these transactions.

Financial derivatives which do not meet the requirements for the application of hedge accounting or for which the Company has decided not to apply hedge accounting are carried at fair value with gains (losses) from changes in fair value recognised in profit or loss. The derivatives are used by the Company to hedge currency risks, i.e. currency swaps.

Hedging derivatives

Hedging derivatives are recognized in the balance sheet at fair value. Hedge accounting is only applied where:

- the hedge is in line with the Company's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period, i.e. changes in the fair value or cash flows of the hedging instruments attributable to the hedged risk are within a range of 80–125% of the changes in the fair value or cash flows of the hedged instruments attributable to the hedged risk.

If the derivative hedges the exposure to changes in the fair value of assets and liabilities, the hedged item attributable to the risk being hedged is also carried at fair value. Gains and losses arising from the revaluation of the hedged item and the hedging derivative are recorded in the income statement.

(c) Investments for the benefit of life assurance policyholders who bear the investment risk

Investments for the benefit of life assurance policyholders who bear the investment risk are accounted for separately from other investments.

At the balance sheet date, investments for the benefit of life assurance policyholders who bear the investment risk are revalued at their fair value. In order to preserve the true and fair view of the Company's result for the year, all changes resulting from revaluation at fair value have been reflected in the Company's income statement.

(d) Adjustments

The Company creates adjustments to receivables and other assets except for investments reported at fair value. Adjustments represent a temporary decrease in the value of individual assets. The amount of the decrease is determined with the help of a professional risk assessment carried out by the Company's management. Creation and utilisation of adjustments to receivables arising from direct insurance operations and from reinsurance operations are recognised in Other technical expenses, net of reinsurance, and Other technical income, net of reinsurance.

Adjustments to receivables from policyholders are established based on an analysis of their recoverability. The analysis includes an ageing analysis of the receivables and assessment of the risk of non-payment of specific receivables.

Adjustments to debt securities held to maturity are accounted for only if there is a risk that the notional principal amount of the bond or the bond yield or both the value and the yield would not be repaid.

(e) Impairment of assets

At the balance sheet date the Company assesses whether those assets, which are not carried at fair value, are impaired. Impairment of an asset is recognised in the income statement.

Notes to the Financial Statements as at 31 December 2018

(f) Deferred acquisition costs

Deferred acquisition costs represent the proportion of the acquisition costs incurred during the current financial year that relates to the revenues of subsequent financial years. At the end of each financial year the Company carries out a liability adequacy test to determine whether the amount of the deferred acquisition costs is appropriate.

Non-life insurance

In respect of non-life insurance, deferred acquisition costs are based on total acquisition costs incurred in the current period and the ratio of the gross provision for unearned premiums at the balance sheet date to the total gross premiums written for the financial year. Deferred acquisition costs are determined for all individual classes of non-life insurance.

Life assurance (other than assurance connected with an investment fund/unit-linked assurance)

In life assurance the Company determines deferred acquisition costs using the zillmerisation method, which is the method used to calculate the life assurance provision, see note I. 4(i).

Unit-linked assurance

Deferred acquisition costs in unit-linked assurance are determined using actuarial methods and reflecting the expected cancellation rate based on the value of expected future deductions from initial fees and from the expected repayment of the negative capital value arising from insurance contracts. The expected repayment of the negative capital value is determined using the prospective method taking into consideration all relevant future cash flows and using prudent assumptions regarding the cancellation rate, claim frequency and expenses and other parameters.

(g) Income tax

Income tax on the profit for the year comprises current income tax and the change in deferred tax. Current income tax comprises the tax liability calculated from the tax base using the effective tax rate and any additional payments or refunds of tax for previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and other temporary differences (tax losses carried forward, if any) multiplied by the income tax rates expected to be valid for the periods in which the tax asset/liability is expected to be utilised.

A deferred tax asset is recognised only to the extent that there is no doubt that future taxable profits will be available against which this asset can be utilised.

(h) Provision for unearned premiums

The provision for unearned premiums is created in respect of life assurance and non-life insurance, except for single premium life assurance. The provision amount represents the part of gross premiums written which is to be allocated, in terms of time, to the subsequent financial year or to future financial years and is determined as the sum of all amounts calculated for individual contracts using the “pro rata temporis” method.

(i) Life assurance provision

The life assurance provision comprises the sum of the provisions for individual life assurance policies. The life assurance provision is calculated using actuarial methods, including profit shares declared and allocated and a provision for expenses, related to the administration of contracts, after deducting the value of future premiums.

The life assurance provision also covers risks arising from uncertainty prevailing in the existing market as a result of the interpretation of a new regulation enhancing consumers’ rights and protection.

The Company accounts for the provision using the zillmerisation method. The zillmerisation method results in the deferral of acquisition costs for life assurance contracts. These costs are included in the life assurance provision using actuarial methods after eliminating temporary negative balances.

For unit-linked assurance that involves investment funds where the Company guarantees a minimum return on investment, this part of the provision is accounted for as a life assurance provision. The provision is calculated based on the number and price of units credited to the insurance contracts.

With some unit-linked assurance contracts, a no claims bonus or a loyalty bonus can be arranged in accordance with the insurance terms and conditions and the tariff of rates. Within the defined assessment period, the bonus is recognised as part of the life assurance provision and amounts to the estimated present value determined based on discounting and net of the expected probability of breach of the terms and conditions until the end of the assessment period. Upon fulfilment of the conditions at the end of the assessment period, the bonus is credited to the insurance contract in form of purchased units and it becomes a component part of the capital value of the contract.

Notes to the Financial Statements as at 31 December 2018

(j) Provision for outstanding claims

The provision for outstanding claims in respect of both life and non-life insurance comprises the amount of expected costs in respect of claims:

- a) Reported but not settled till the end of period (RBNS);
- b) Incurred but not reported till the end of period (IBNR).

The provision for outstanding claims reported by the end of the year represents the sum of all amounts calculated for individual claims.

The provision for outstanding claims incurred but not reported as at the balance sheet date is determined using the Chain-Ladder method.

The provision for outstanding claims includes an estimate of all related external and internal claims handling costs. The provision for outstanding claims is reduced by the value of salvage and other similar recoveries.

When calculating the provision for outstanding claims, no discounting is carried out.

Although the Board of Directors considers that the provision for outstanding claims is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent events or new information, which may result in significant adjustments to the amounts provided for. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The procedures and methods used in making estimates are reviewed regularly.

(k) Provision for bonuses and rebates

The provision for bonuses and rebates is created in accordance with the respective terms set out in insurance contracts, i.e. the General Terms and Conditions of Insurance or specific contractual arrangements.

Changes in the provision for bonuses and rebates in the income statement are presented in “Bonuses and rebates”.

(l) Other technical provisions

The item Other technical provisions only includes the provision for liabilities arising from the applied technical interest rate. The Company carries out a life assurance liability adequacy test as at the balance sheet date (“the liability adequacy test”) in order to assess the adequacy of the life assurance provisions (provision for unearned premiums, life assurance provision, provision for outstanding claims, provision for bonuses and rebates and life assurance technical provision where the investment risk is borne by the policyholders).

The liability adequacy test is performed using discounted projected cash flows.

The minimum value of liabilities to policyholders is determined using best estimates of the future development of entry parameters adjusted by market value margins.

Where this amount exceeds the amount of the life assurance provisions reduced by any unamortised acquisition costs and other intangible assets, the deficiency is recognised through the creation of a provision for liabilities arising from the applied technical interest rate.

In compliance with Section 66 (2) of the Insurance Act, the Company informed CNB about the method for calculating the provision for liabilities arising from the applied technical interest rate.

The change in this provision is presented in item II.6.(b) in the income statement.

(m) Life assurance technical provision where the investment risk is borne by the policyholders

The life assurance technical provision where the investment risk is borne by the policyholders is intended to cover the liabilities of the Company due to insured persons in those classes of life assurance where, based on an insurance contract, the investment risk is borne by the policyholders.

The amount of the provision is calculated as the sum of liabilities due to insured persons in the amount of their shares of invested premiums from individual life assurance contracts in accordance with the principles included in the insurance contracts.

Notes to the Financial Statements as at 31 December 2018

(n) Reinsurance share of technical provisions

Technical provisions are presented as a net liability, i.e. after deduction of the reinsurance share. The amount of this share is calculated based on the terms of the related reinsurance contracts, the method of settlement with reinsurers and in consideration of the prudence principle.

The Company presents the reinsurance share of the provision for unearned premiums, the provision for outstanding claims and the provision for bonuses and rebates. The reinsurer does not participate in the other technical provisions.

(o) Provisions

Provisions are intended to cover risks, losses and other respective payables, which are clearly defined and the occurrence of which is either probable or certain but whose amount or timing are uncertain.

Provision for taxes

The provision for taxes is created at the balance sheet date and amounts to the estimated corporate income tax liability due. The use (release) of the provision is accounted for when the tax return is filed.

Provision for restructuring

The provision has been established based on the restructuring programme approved by the board of directors. In addition to the merger project with Kooperativa, the programme also comprises transformation projects of the companies from the VIG group in the Czech Republic. The provision has been established to only cover the expenses connected directly with the restructuring which are in accordance with Section 16 (4) of Decree No. 500/2002 Coll.

(p) Gross premiums written

Gross premiums written comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to future financial years.

(q) Claims paid

Claims paid comprise the amount assessed for payment based on the claims investigation process, external and internal claims handling costs and a deduction for the salvage value and other similar recoveries.

Claims paid are recorded upon completion of the investigation of the claim and in the amount of the assessed settlement.

(r) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts.

(s) Expenses and income from investments

Accounting treatment of expenses and income from investments and their allocation between the life assurance and non-life insurance accounts:

Expenses and income from investments, which are directly related to life assurance activities, are recorded in the technical account for life assurance.

Other expenses and income from investments, which are not related to life assurance activities, are recorded initially in the non-technical account and subsequently are transferred to the non-life insurance technical account.

Method of accounting for realised gains and losses upon disposal of investments

The disposal of investments is presented on a gross basis, whereby the revenues from disposal in the amount of the selling price of the relevant financial instruments are recorded separately from the carrying value of the related investments.

(t) Allocation of items between life assurance and non-life insurance

In order to account for items common to both life assurance and non-life insurance, the Company uses a method in compliance with Decree No. 502/2002 Coll. Under this method individual items are grouped according to the class of insurance to which they relate. For items that cannot be allocated directly, the ratio of premiums written and claims paid for individual classes of insurance to total premiums written and total claims paid is used as a basis for allocation of expenses and income between life assurance and non-life insurance.

Expenses and income from investments

Expenses and income from investments are allocated between life assurance and non-life insurance using the method stated in note I. 4(s).

Notes to the Financial Statements as at 31 December 2018

Other expenses and income

During the accounting period clearly attributable expenses and income are accounted for directly in the life assurance or non-life insurance technical account or the non-technical account. Expenses and income that cannot be directly attributed are recorded primarily in the non-technical account and subsequently allocated to the technical account for life assurance or non-life insurance using the method stated in note I. 4(t).

The allocation is not applied to taxes, fees, or other expenses incurred outside insurance or reinsurance activities.

(u) Foreign currency translation

Transactions during the year are recorded at the CNB rate effective on the transaction date or at the rate at which the transaction was realised.

At the balance sheet date, foreign currency assets and liabilities are translated at the CNB official rate on that date. Unless stated otherwise, foreign currency gains and losses are recorded in Company's income statement.

(v) Consolidation

Pursuant to Section 38a of the Regulation No. 502/2002 Coll., the financial statements of the Company have been included in the consolidated financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe with its registered office in Austria, prepared in compliance with International Financial Reporting Standards. The consolidated financial statements of the parent Company will be published in accordance with Sections 22aa (2c) and 21a of the Act on Accounting.

I.5. Change in accounting policies and procedures and corrections of prior year errors

In connection with changes to Act No. 563/1991 Coll., on Accounting, and Decree No. 502/2002 Coll., implementing the provisions of the Accounting Act relating to insurance companies with respect to the valuation of selected securities, the Company has changed its method of accounting for changes in the fair value of available-for-sale securities and records them in Other capital funds in the balance sheet. At the time of sale, the above valuation differences are recognised in the income statement, i.e. in expenses or revenues.

The impact of all changes is shown in the table below. Changes in the valuation of available-for-sale securities were directly reflected by adjusting comparable balances as at 31 December 2017 in the Company's financial statements.

Method change impact

31 December 2017	Original value	Change	New value
Total liabilities	29,627,707	0	29,627,707
A.IV. Other capital funds	0	586,196	586,196
A.VI Profit or loss brought forward	1,066,644	(565,436)	501,208
A.VII. Profit or loss for the financial year	1,088,574	(20,760)	1,067,814
31 December 2017	Original value	Change	New value
I. Technical account for non-life insurance			
2. Allocated investment return transferred from the non technical account	1,503	2,219	3,722
10. Sub-total on the technical account for non-life insurance	30,748	2,219	32,967
II. Technical account for life assurance			
2. d) income from disposal of investments	2,174,933	(273,914)	1,901,019
9. c) book value of disposed investments	1,458,287	(75,936)	1,382,351
10. Unrealised losses on investments	907,216	(170,130)	737,086
13. Sub-total on the technical account for life assurance	1,321,517	(27,848)	1,293,669
III. Non-technical account			
1. Result of the technical account for non-life insurance	30,748	2,219	32,967
2. Result of the technical account for life assurance	1,321,517	(27,848)	1,293,669
3. d) income from disposal of investments	19,863	(3,475)	16,388
5. c) book value of disposed investments	24,216	(5,694)	18,522
6. Allocated investment return transferred to the technical account for non-life insurance	1,503	2,219	3,722
9. Income tax on ordinary activities	260,383	(4,869)	255,514
10. Profit or loss on ordinary activities after tax	1,088,921	(20,760)	1,068,161
16. Profit or loss for the financial year	1,088,574	(20,760)	1,067,814

Notes to the Financial Statements as at 31 December 2018

I.6. Risk management

In compliance with Act No. 277/2009 Coll., on Insurance, the Company has ensured that the set-up of the internal control system covers all of its operations.

The set-up of the internal control system enables consistent and systematic risk management.

The Company is exposed to insurance risk, which naturally results from the underwritten insurance contracts, as well as other risks, mainly the market risk, credit risk, operational risk, liquidity risk and concentration risk.

The policies and procedures for risk management are comprehensive and interrelated with the policies and procedures for maintenance of the capital determined to cover these risks.

The Company's Board of Directors has the primary responsibility for the risk management system effectiveness. On the level of the Board of Directors, the vice-chairman is responsible for risk management as the board member in charge of risk management. The notified holder of the risk management function is the manager of the risk management section.

(a) Non-life insurance risk

The Company is exposed to insurance risk and underwriting risks following from the sale of non-life insurance products.

Insurance risk relates to uncertainty in respect of the period, frequency and amount of damage covered by insurance contracts.

The most significant components of insurance risk are the reserve risk and the premium risk. The premium amount is determined using historical assumptions, which may differ from the actual situation. The risk of trend, risk of estimate, change in assumptions etc. may have a significant impact on determining the amount of provisions. The liability adequacy tests and analysis of sensitivity to change in assumptions are used to eliminate the reserve risk.

In order to manage the insurance risk the Company applies internal policies for development and valuation of products, determination of the technical provisions amount, reinsurance strategy and underwriting rules.

Concentration of insurance risk

Concentration of insurance risk may exist in the event that a particular event or a series of events may impact significantly upon the Company's liabilities. The concentration of insurance risk then determines the extent of the possible impact of these events on the amount of the Company's liabilities. Such concentration may arise from a single insurance contract or through a small number of related contracts, and relates to circumstances that gave rise to significant liabilities. Concentration of insurance risk may arise from accumulation of risks in frame of several individual groups of contracts; it may also arise in low-frequency, high-severity events or in the event of significant litigations or legislative amendments.

Geographic concentration

The risks underwritten by the Company are primarily located in the Czech Republic. From the geographical point of view, the Company has no significant concentration of exposure to any group of persons insured, measured by social, professional or age criteria.

Reinsurance strategy for non-life insurance

The Company reinsures some of the non-life risks it underwrites in order to control its exposures to losses and protect its own capital resources. In non-life insurance, the Company has based its reinsurance scheme on a contract with an external reinsurer.

The Company concludes proportionate reinsurance treaties to reduce its net exposure. The maximum net exposure limits (own retentions) for particular business lines are reviewed annually.

The Company cooperates with reinsurers rated "A" and higher and carries out regular monitoring of their financial condition.

(b) Life assurance risk

The Company is exposed to risks resulting from an unfavourable development of assumptions compared to their determining at the moment of valuation of products. This involves, for example, the risk of unfavourable development of mortality or survival, risk of a different development of investment return, risk resulting from an unexpected development of cost inflation or behaviour of clients upon cancellation of the contract. In the above cases the Company is exposed to the danger of a loss resulting from the discrepancy between collected premiums and claims paid, investment returns and expenses.

Notes to the Financial Statements as at 31 December 2018

Other risks to which the Company is exposed are as follows:

- Risks with a low-frequency occurrence and a significant impact, which in life assurance may represent any claim that affects several persons insured at the same time and in the same place (e.g. natural disasters)
- Risk of insurance portfolio inhomogeneity – occurrence of high sums assured, which do not constitute a significant part of the portfolio but which may have significant impact on the amount of settlements and as a result also the profit (loss) of the Company

The goal of risk management is to identify and quantify possible impact of various development scenarios and to manage the probability of their realisation in order to prevent undesirable impact on the profit (loss) of the Company and the Company's equity.

The Company has its own risk assessment process for identifying the risks to which it is exposed. All managers and selected specialists are involved in this process. The Company applies a broad range of tools, which have been described as part of the risk identification process, in order to quantify the risks. As for the underwriting risk, these procedures primarily include prospective valuation of future cash flows following from liabilities concluded as part of the insurance contracts (profit testing, liability adequacy test, solvency capital requirement calculation).

The Company has no significant concentration of exposure to any group of persons insured.

In order to manage the insurance risk, the Company primarily uses a prudent underwriting policy and reinsurance.

Reinsurance strategy for life assurance

The Company reinsures some of the risks it underwrites in order to control its exposures to losses and protect its own capital resources. The Company has based its reinsurance scheme on a complementary combination of contracts with external reinsurers and reinsurance contracts with its parent company.

The Company concludes a combination of proportionate and non-proportionate reinsurance treaties to reduce its net exposure. The maximum net exposure limits (own retentions) for particular business lines are reviewed annually.

The Company cooperates with reinsurers rated "A" and higher and carries out regular monitoring of their financial condition.

(c) Financial risk

The Company is exposed to market risk, which follows from trading positions in interest rate, currency and equity instruments that are all exposed to common and specific changes in the market.

The main exposure is that the revenues from investments will not be sufficient to cover the liabilities from insurance contracts.

The market risk is constantly monitored, measured and managed using Asset/Liability management (ALM). The basic method of ALM involves adjusting the due date of assets to the liabilities from insurance contracts.

Asset/Liability Management (ALM)

The basic goal of ALM is to achieve balance in the structure of assets and liabilities, in particular from the point of view of their maturity, interest rates and currency structure. The aim is to ensure that the assets permanently generate sufficient cash flows in the required currency structure necessary to cover the due liabilities to clients (including the guaranteed revenues) and at the same time to ensure that the system enables the generation of adequate profit for shareholders.

For this purpose the Company performs regular monitoring of assets and liabilities, followed by ALM calculation, which enables the Company to monitor and compare the structure of its assets and liabilities in terms of their maturity, achieved and guaranteed interest rates and in terms of their currency structure. This type of output is one of the underlying tools for making decisions on the further allocation of financial investments.

Interest rate risk

The Company is exposed to interest rate risk due to the impact of up-to-date market interest rate fluctuations. The fair value and investment return may both grow or decrease as a result of these fluctuations.

Besides changes in the value of assets, the interest rate fluctuations may also result in changes of liabilities.

Based on a cash flow analysis, the Company prepares the portfolio of securities the value of which changes together with a change in the value of liabilities upon a change in the interest rate.

The risk of changes in cash flows as a result of a change in interest rate represents exposure primarily to the insurance contracts with a guaranteed interest rate, where the client compares the revenue guaranteed by the contract with the revenue offered in the market. Where the market interest rates increase, some types of contracts

Notes to the Financial Statements as at 31 December 2018

may show an increase in the lapse rate, or vice versa. A drop in the market interest rates can endanger the Company's ability to meet its liabilities following from the guaranteed technical interest rate applied in insurance contracts.

Price fluctuation risk

The Company is exposed to a price fluctuation risk, which consists in the fact that the value of the financial instrument will change due to changes in the market prices. These changes may be caused by factors specific to a single instrument or by the issuers of the instruments or by factors affecting all instruments traded in the capital or money markets.

The Company manages its use of equity investments by maintaining a diversified portfolio and by monitoring the limits for investments.

Currency risk

The Company is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. As the currency in which the Company presents its financial statements is the Czech crown (CZK), movements in the exchange rates between these currencies and the CZK affect the Company's financial statements.

The Company uses currency swaps in order to hedge against movements in the exchange rates.

(d) Counterparty default risk

The Company is exposed to the credit risk, which follows from the counterparty failing to pay the amounts due in full.

The main areas of the Company's exposure to the credit risk:

- Reinsurers' share in insurance liabilities
- Reinsurer's debt, which relates to a claim that has already been paid
- Outstanding premiums
- Receivables from insurance intermediaries
- Counterparty risk relating to currency swaps
- Risk of failure to repay the principal or income from financial investments

Concentrations of credit risk arise where groups of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic or other conditions.

The Company sets its own limits for the structure of investments and for the individual issuers/counterparties depending on their credit quality and regularly monitors whether these limits are met. The limits are subject to a regular reassessment.

The outstanding premiums are regularly monitored, and the method of creating adjustments is described in note I. 4(d).

Recovery of debt from insurance is carried out by the Company in cooperation with external partners.

(e) Operational risks

Operational risk is the risk arising from the failure of internal processes, human resources or systems, or the risk of loss that may arise due to external events, including the risk of loss arising from a breach of, or noncompliance with, a legal standard.

Loss means any harm or damage incurred by the Company.

The Company monitors these risks, designs modifications to work procedures and processes to eliminate the loss events, and builds a system to analyse operational risks.

(f) Liquidity risk

The Company is exposed to requirements for liquidity on a daily basis. These requirements are related to claim settlements. The liquidity risk is a risk that the cash necessary for payment of liabilities will not be available at the due date and at adequate cost.

The need for liquidity is continuously monitored in order to ensure necessary resources.

The Company has access to a diverse funding base, and in compliance with the legislation in force it has invested a sufficient portion of its investments in liquid financial instruments.

Notes to the Financial Statements as at 31 December 2018

II. ADDITIONAL DISCLOSURES IN RESPECT OF THE BALANCE SHEET

II.1. Intangible fixed assets

Intangible fixed assets of the Company as at 31 December 2018 comprise the following items:

in thousands CZK	Software	Total
Acquisition cost at 1/1/2018	541,947	541,947
Additions	77,176	77,176
Disposals	(72,149)	(72,149)
Acquisition cost at 31/12/2018	546,974	546,974
Accumulated depreciation at 1/1/2018	449,223	449,223
Depreciation expense	46,579	46,579
Disposals	(70,853)	(70,853)
Accumulated depreciation at 31/12/2018	424,949	424,949
Net book value at 1/1/2018	92,724	92,724
Net book value at 31/12/2018	122,025	122,025

In connection with the Company's merger by acquisition with Kooperativa pojišťovna, a.s., Vienna Insurance Group ("Kooperativa", see note IV) as the successor company, with the decisive date of 1 January 2019, the Company reassessed the economic useful lives and economic return of its software tools and, consequently, adjusted their depreciation plans effective from 1 December 2018, taking into account the expected useful lives in the successor company, Kooperativa.

II.2. Investments

(a) Land and buildings (real estate)

in thousands CZK	Land	Buildings	Total
Acquisition cost at 1/1/2018	1,900	53,980	55,880
Additions	0	0	0
Disposals	0	0	0
Acquisition cost at 31/12/2018	1,900	53,980	55,880
Accumulated depreciation at 1/1/2018	0	3,531	3,531
Depreciation expense	0	1,768	1,768
Disposals	0	0	0
Accumulated depreciation at 31/12/2018	0	5,299	5,299
Net book value at 1/1/2018	1,900	50,449	52,349
Net book value at 31/12/2018	1,900	48,681	50,581

in thousands CZK	Land	Buildings	Total
Fair value at 31/12/2018	1,900	48,690	50,590
Fair value at 31/12/2018	1,900	49,100	51,000

As at 31 December 2018, the Company held operating land and an operating building. The most recent valuation of land and buildings (real estate) based on an expert appraisal was carried out on 29 December 2018.

Notes to the Financial Statements as at 31 December 2018

(b) Participating interests in controlled persons

2018 in thousands CZK	Share of registered capital in %	Acquisition cost	Fair value	Total registered capital	Total equity	Profit or loss for the financial year	Dividend income/ profit share
VIG FUND, a.s.	0.64	31,997	33,869	4,406	5,027,179	232,425	788
Total		31,997	33,869	N/A	N/A	N/A	788

2017 in thousands CZK	Share of registered capital in %	Acquisition cost	Fair value	Total registered capital	Total equity	Profit or loss for the financial year	Dividend income/ profit share
VIG FUND, a.s.	0.75	30,233	31,962	3,734	4,026,994	170,837	805
Total		30,233	31,962	N/A	N/A	N/A	805

The financial data about VIG FUND, a.s. is based on non-audited financial statements as at 31 December 2018.

VIG FUND, a.s. is under full and joint control of entities from the VIG financial group. Consequently, the Company classified it as a participating interest in subsidiaries. The Company acquired the ownership interest in this fund consisting of 140 shares on 8 July 2016.

(c) Shares and other variable-yield securities, other participating interests

Classification of shares and other variable-yield securities, other participating interests

in thousands CZK	2018	2017
Shares and other variable-yield securities at fair value through profit or loss	79,085	75,132
Available-for-sale shares and other variable-yield securities	2,115,090	2,713,588
Total	2,194,175	2,788,720

Analysis of shares and other variable-yield securities at fair value through profit or loss

in thousands CZK	Fair value		Acquisition cost	
	2018	2017	2018	2017
Issued by financial institutions				
- Unlisted	79,085	75,132	82,678	73,904
Total	79,085	75,132	82,678	73,904

Unlisted securities issued by financial institutions comprise participation certificates / units.

Analysis of available-for-sale shares and other variable-yield securities

in thousands CZK	Fair value		Acquisition cost	
	2018	2017	2018	2017
Issued by financial institutions				
- Listed on a recognised CR stock exchange	0	77 775	0	66,764
- Unlisted	2,115,090	2,587,653	2,034,570	2,234,736
Issued by non-financial institutions				
- Listed on a recognised CR stock exchange	0	48,160	0	50,430
Total	2,115,090	2,713,588	2,034,570	2,351,930

Unlisted securities issued by financial institutions comprise participation certificates/units.

Notes to the Financial Statements as at 31 December 2018

(d) Debt securities

Classification of debt securities

in thousands CZK

	2018	2017
Debt securities valued at fair value through profit and loss	284,450	326,807
Available-for-sale debt securities	5,601,958	6,334,443
Debt securities held to maturity	12,211,275	13,670,321
Total	18,097,683	20,331,571

Analysis of debt securities at fair value through profit and loss

in thousands CZK	Fair value		Acquisition cost	
	2018	2017	2018	2017
Issued by financial institutions				
- Listed on another securities market	284,450	326,807	227,423	250,432
Total	284,450	326,807	227,423	250,432

Securities listed elsewhere are traded mainly on European markets (primarily Germany, Luxembourg, United Kingdom).

Analysis of available-for-sale debt securities

in thousands CZK	Fair value		Acquisition cost	
	2018	2017	2018	2017
Issued by financial institutions				
- Listed on a recognised CR stock exchange	26,579	27,618	29,307	29,307
- Listed on another securities market	687,701	1,006,747	718,993	1,036,136

Issued by non-financial institutions

- Listed on a recognised CR stock exchange	225,405	77,917	228,000	76,793
- Listed on another securities market	184,498	213,802	194,585	224,272

Issued by government sector

- Listed on a recognised CR stock exchange	3,879,081	4,281,448	3,962,943	4,280,775
- Listed on another securities market	598,694	726,911	535,555	642,789

Total	5,601,958	6,334,443	5,669,383	6,290,072
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Securities listed elsewhere are traded mainly on European markets (primarily Germany, Luxembourg, United Kingdom).

Analysis of debt securities held to maturity

in thousands CZK	Fair value		Amortised cost		Acquisition cost	
	2018	2017	2018	2017	2018	2017
Issued by financial institutions						
- Listed on a recognised CR stock exchange	81,451	274,522	83,463	274,627	88,265	301,811
- Listed on another securities market	274,066	583,430	285,547	586,489	282,110	581,427
- Unlisted	196,330	203,133	196,878	197,296	198,998	198,998
Issued by non-financial institutions						
- Listed on a recognised CR stock exchange	605,065	1,213,776	601,710	1,192,688	608,365	1,189,502
- Listed on another securities market	490,086	505,256	465,837	466,537	457,038	457,039
Issued by government sector						
- Listed on a recognised CR stock exchange	10,827,342	11,620,814	10,577,840	10,952,684	10,891,092	11,183,901
Total other securities held to maturity	12,474,340	14,400,931	12,211,275	13,670,321	12,525,868	13,912,678

Notes to the Financial Statements as at 31 December 2018

(e) Deposits with financial institutions

The Company did not have any deposits with financial institutions as at 31 December 2018 or 31 December 2017.

(f) Other investments - derivatives

Hedging derivatives

	Nominal value		Fair value	
	2018	2017	2018	2017
Term currency transactions	1,580,482	1,564,700	6,961	26,742
Total	1,580,482	1,564,700	6,961	26,742

	Nominal value		Fair value	
	2018	2017	2018	2017
Term currency transactions	1,108,236	1,406,899	(7,165)	(8,442)
Total	1,108,236	1,406,899	(7,165)	(8,442)

These financial instruments ensure currency risk arising from investments denominated in foreign currencies. All the above financial instruments were concluded at the interbank market (OTC).

Nominal value of fixed term contracts is the amount in CZK of the Company's short-term currency position. Fair value of fixed term contracts is the revaluation of the contracts as at the balance sheet date, i.e. the difference between the present values of expected cash inflows and outflows.

Remaining maturity of derivatives

as at 31 December 2018 in thousands CZK	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Without specifics	Total
Hedging derivatives						
Term currency transactions	472,246	0	0	0	0	472,246
Total	472,246	0	0	0	0	472,246

as at 31 December 2017 in thousands CZK	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Without specifics	Total
Hedging derivatives						
Term currency transactions	157,801	0	0	0	0	157,801
Total	157,801	0	0	0	0	157,801

II.3. Investments for the benefit of life assurance policyholders who bear the investment risk

Description in thousands CZK	Fair value		Acquisition cost	
	2018	2017	2018	2017
Shares and other variable-yield securities	986,596	1,032,615	1,008,194	896,279
Debt securities	1,056,939	1,541,993	703,611	988,149
Total	2,043,535	2,574,608	1,711,805	1,884,428

Notes to the Financial Statements as at 31 December 2018

II.4. Currency structure of investments

Currency in thousands	Variable-yield securities		Fixed income securities		Deposits and other investments		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
CZK	715,014	927,048	16,948,468	18,896,384	2,043,535	2,574,608	19,707,017	22,398,040
EUR	537,212	589,740	939,715	1,172,440	5,287	(8,402)	1,482,214	1,753,778
GBP	87,228	101,819	0	0	1,674	861	88,902	102,680
USD	886,718	1,200,346	209,500	262,747	(7,165)	25,841	1,089,053	1,488,934
Total	2,226,172	2,818,953	18,097,683	20,331,571	2,043,331	2,592,908	22,367,186	25,743,432

Variable-yield securities comprise a participating interest with significant influence amounting to TCZK 31 997 (2017: TCZK 30 233).

Deposits and other investments also include investments for the benefit of life assurance policyholders who bear the investment risk. All securities relating to investments for the benefit of life assurance policyholders who bear the investment risk are denominated in CZK.

All investments in the table above are stated in book value.

II.5. Receivables

At 31 December 2018 in thousands CZK	Receivables from policyholders	Receivables from insurance intermediaries	Receivables from reinsurance operations	Other receivables	Total
Due	2,612	0	374,865	390,338	767,815
Past due	129,880	11,777	0	8	141,665
Total	132,492	11,777	374,865	390,346	909,480
Adjustment amount	72,546	11,221	0	0	83,767
Total net	59,946	556	374,865	390,346	825,713

At 31 December 2017 in thousands CZK	Receivables from policyholders	Receivables from insurance intermediaries	Receivables from reinsurance operations	Other receivables	Total
Due	3,197	0	341,354	220,096	564,647
Past due	136,466	11,627	0	155	148,248
Total	139,663	11,627	341,354	220,251	712,895
Adjustment amount	77,591	11,071	0	109	88,771
Total net	62,072	556	341,354	220,142	624,124

Other receivables

in thousands CZK	2018	2017
Receivables from group companies	737	1,771
Paid income tax prepayments	249,773	212,782
Deferred tax asset	121,751	1,082
Other receivables	18,085	4,507
Total other receivables (net)	390,346	220,142

* Paid income tax prepayments comprise paid advances on corporate income tax in amount of TCZK 246 497 (2017: TCZK 209 268) and withholding tax in amount of TCZK 3 275 (2017: TCZK 3 514).

** Deferred tax asset comprise also deferred tax receivable arising from the change in the AFS valuation method in amount of TCZK 59 281 (2017: TCZK 0).

*** Other receivables comprise also advance payment for IT application in amount of TCZK 14 415 (2017: TCZK 0).

The remaining period to maturity of the above receivables does not exceed 5 years.

Notes to the Financial Statements as at 31 December 2018

II.6. Other assets

(a) Tangible fixed assets

in thousands CZK	Motor vehicles	IT equipment	Fixtures and fittings	Other	Acquisition of assets and advances paid	Total
Acquisition cost at 1/1/2018	31,903	91,869	27,780	14,357	5,034	170,943
Additions	7,903	40,308	1,971	0	185	50,367
Disposals	(8,594)	(35,490)	(736)	(113)	(5,219)	(50,152)
Acquisition cost at 31/12/2018	31,212	96,687	29,015	14,244	0	171,158
Accumulated depreciation at 1/1/2018	17,204	60,373	16,473	4,784	0	98,834
Depreciation expense	7,033	22,043	2,753	1,608	0	33,437
Disposals	(7,440)	(35,448)	(590)	0	0	(43,478)
Accumulated depreciation at 31/12/2018	16,797	46,968	18,636	6,392	0	88,793
Net book value at 1/1/2018	14,699	31,496	11,307	9,573	5,034	72,109
Net book value at 31/12/2018	14,415	49,719	10,379	7,852	0	82,365

As at 31 December 2018, the Company also reported inventories of TCZK 341 (2017: TCZK 992).

II.7. Temporary asset accounts

(a) Deferred acquisition costs for life assurance contracts

in thousands CZK	2018	2017
Unit-linked assurance	1,516,493	1,553,782
Total	1,516,493	1,553,782

The calculation of the amount reported in Deferred acquisition costs for unit-linked assurance contracts depends on two calculation bases. The volume of expected future deductions of the initial allocation fees is used to create an asset of TCZK 537 276 (2017: TCZK 541 245) and the volume of the negative capital value of insurance contracts is used to create an asset of TCZK 979 217 (2017: TCZK 1 012 537).

(b) Estimated receivables

in thousands CZK	2018	2017
Estimated written premiums	103,532	100,034
Estimated reinsurance commissions	26,697	30,769
Estimated share in the profit of the reinsurer	10,450	10,454
Other	4,033	4,810
Total	144,712	146,067

Estimated written premiums

The Company discloses in estimated receivables an estimate of the written premiums for December in respect of general insurance contracts where the policyholders report to the Company on a monthly basis in arrears.

Notes to the Financial Statements as at 31 December 2018

(c) Other temporary asset accounts

in thousands CZK	2018	2017
Prepaid expenses relating to commissions on premiums not yet recorded	22,848	26,188
Prepaid expenses relating to TV campaigns - purchase of time and space	18,000	0
Prepaid SW services	9,363	7,212
Other	1,324	1,393
Total	51,535	34,793

II.8. Equity

(a) Share capital

The registered share capital comprises 8 180 registered ordinary shares in booked form with a nominal value of TCZK 45 and 15 320 ordinary bearer shares with a nominal value of TCZK 100. As at 31 December 2018, 100%, i.e. TCZK 1 900 100, of the share capital was paid up. In the accounting period of 2018 and 2017, the share capital did not change.

Issue	Type of security	Form	Nominal value (in CZK)	Number of securities	Total volume (in CZK)	Information on public marketability
CZ0008040706	share	book-entry	45,000	8,180	368,100 000	not marketable
CZ0008040698	share	book-entry	100,000	15,320	1 532,000 000	not marketable
Total				23,500	1,900,100,000	

The amount of share capital complies with the requirements of the Insurance Act, with regard to the insurance classes in which the Company is authorised to carry on insurance activities.

As at the balance sheet date, the Company did not hold any treasury shares.

(b) Other capital funds

In connection with an amendment to Act No. 563/1991 Coll., on Accounting, in effect from 1 January 2018 and relating to the valuation of selected investments, the Company reported valuation differences from the revaluation of available-for-sale securities in Other capital funds in 2018.

Valuation differences from the revaluation of investments and related deferred tax as at 31 December 2018 are summarised in the following table:

Revaluation of assets and liabilities at fair value

in thousands CZK	2018	2017
Balance at 1/1	586,196	565,436
Change in fair value of investments	(497,765)	25,629
Change in deferred tax	95,124	(4,869)
Balance at 31/12	183,555	586,196

Proposed distribution of current period profit

in thousands CZK	
Profit for the current period	1,128,339
Transfer to social fund	7,369
Dividends (CZK 40.55 per share)	952,825
Profit to be added to retained earnings	168,145

Proposed distribution of profit is subject to the approval of the general meeting.

Notes to the Financial Statements as at 31 December 2018

II.9. Technical provisions

(a) Life assurance provision

in thousands CZK	2018	2017
Unzillmerised provision	802,815	3,587,723
Zillmer adjustment	5,190	8,841
Zillmerised provision presented in the balance sheet	797,625	3,578,882
Flexi provision	13,510,112	13,726,998
Provision for profit share commitments	90,849	228,465
Annuity provision	5,908	6,259
Provision for bonuses	1,136,562	938,745
Total life assurance provision	15,541,056	18,479,349

The Flexi provision also includes a portion of TCZK 283 490 (2017: TCZK 0) to cover the risks arising from the uncertainty in the current market connected with the interpretation of the new regulation linked with the general trend of strengthening the rights and protection of consumers.

(b) Provision for outstanding claims

The net provision for outstanding claims at the end of the financial year is created as follows:

in thousands CZK	2018	2017
RBNS	524,218	493,723
IBNR	1,425,495	1,399,424
Total	1,949,713	1,893,147

Claims run-off result

The claims run-off result is the difference between the provision for outstanding claims as at 31 December 2017, the claims payments during 2018 (with respect to claims included within this provision) and the residual amount of this provision as at 31 December 2018.

The net run-off result by classes of insurance:

Class of insurance in thousands CZK	2018	2017
Accident and sickness – non-life insurance	16,898	(2,401)
Other losses – non-life insurance	(1,391)	(1,442)
Assurance on death, assurance on survival	18,000	52,762
Accident and sickness insurance as a rider to life assurance classes	456,065	386,928
Marriage insurance	5	(78)
Life assurance connected with an investment fund/unit-linked (not including accidental riders)	28,796	40,378
Total	518,373	476,147

The increase in claims run-off result of riders to life assurance classes was caused by favorable claims development.

(c) Other technical provisions

The item Other technical provisions includes the provision for liabilities arising from the applied technical interest rate

in thousands CZK	Opening balance	Additions	Release	Closing balance
Provision for liabilities arising from the applied technical interest rate	32,121	0	21,394	10,727
Total	32,121	0	21,394	10,727

Notes to the Financial Statements as at 31 December 2018

II.10. Provisions

Type of provision in thousands CZK	Opening balance	Additions	Release	Closing balance
Provision for taxes	264,299	299,495	264,299	299,495
Provision for restructuring	0	18,050	0	18,050
Total	264,299	317,545	264,299	317,545

The paid income tax prepayments of TCZK 246 497 (2017: TCZK 209 268) are recognised in Other receivables.

In connection with the Company's merger with Kooperativa pojišťovna, a.s., Vienna Insurance Group (see note IV) as the successor company, with the decisive date of 1 January 2019, the Company created a provision for restructuring of TCZK 18 050 (2017: TCZK 0).

II.11. Liabilities

At 31 December 2018 in thousands CZK	Payables to policyholders	Payables to insurance intermediaries	Payables from reinsurance operations	Other payables	Total
Due	177,188	108,692	411,383	52,313	749,576
Past due	0	0	0	278	278
Total	177,188	108,692	411,383	52,591	749,854

At 31 December 2017 in thousands CZK	Payables to policyholders	Payables to insurance intermediaries	Payables from reinsurance operations	Other payables	Total
Due	169,708	107,586	403,870	57,738	738,902
Past due	0	0	0	1,533	1,533
Total	169,708	107,586	403,870	59,271	740,435

Other payables comprise the following items:

in thousands CZK	2018	2017
Payables to employees	24,386	20,746
Social security liabilities	7,054	3,698
Health insurance liabilities	4,591	3,840
Payables to suppliers	9,094	23,999
Other tax liabilities	7,466	6,988
Total	52,591	59,271

(a) Social security and health insurance liabilities

Liabilities in respect of social security and health insurance total TCZK 11 645 (2017: TCZK 7 538). An overview of these liabilities is presented in table II. 11. None of these liabilities are overdue.

(b) Tax liabilities

Tax liabilities amount to TCZK 7 466 (2017: TCZK 6 988), none of which is overdue.

(c) Long-term payables (maturity over five years)

The Company does not have any long-term payables with remaining maturity over five years.

Notes to the Financial Statements as at 31 December 2018

(d) Payables and receivables due to or from reinsurers

The Company has a net payable to reinsurers in the amount given in the following table:

in thousands CZK	2018	2017
Receivables from reinsurers	374,865	341,354
Payables to reinsurers	411,383	403,870
Deposits received from reinsurers	1,087,894	1,142,392
Technical provisions, reinsurers' share	1,266,563	1,325,536
Net (+ receivable, - payable)	142,151	120,628

The deposit of TCZK 1 087 894 (2017: TCZK 1 142 392) relates to reinsurance contracts with VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

II.12. Temporary liability accounts

(a) Temporary liability accounts

in thousands CZK	2018	2017
Accrued expenses	3	64
Estimated payables	345,882	393,652
Total	345,885	393,716

A detailed breakdown of estimated payables is as follows.

(b) Estimated payables

in thousands CZK	2018	2017
Alliance partner commission	97,582	98,224
Performance-based commissions of insurance intermediaries	96,451	97,566
Annual bonuses, extraordinary bonuses and untaken holidays	66,866	87,529
Reinsurance premiums on premium not yet recorded	49,750	48,658
Consulting services	16,125	20,114
Asset management fees	7,700	27,420
Lawsuits and litigations	5,539	5,539
Advance payments for services relating to rent	2,802	2,742
Services not yet invoiced by other creditors	1,751	3,277
Operating system repairs and maintenance	1,316	2,583
Total	345,882	393,652

Alliance partner commission

The Company discloses under alliance partner commission the expected amount of commission relating to a distribution agreement between entities of Erste Bank financial group and entities of Vienna Insurance Group.

Estimated reinsurance premiums

The Company discloses under estimated reinsurance premiums an estimate of the relevant reinsurers' share in the estimate of gross premiums written disclosed in the estimated receivables, see note II. 7(b).

Notes to the Financial Statements as at 31 December 2018

II.13. Inter-company receivables and payables

Other inter-company receivables and payables

in thousands CZK Company name	Receivables		Payables	
	2018	2017	2018	2017
Short-term	332,911	319,092	342,165	339,688
Kooperativa pojišťovna, a.s., Vienna Insurance Group	1,746	4,018	1,021	1,714
KAPITOL pojišťovací a finanční poradenství, a.s.	0	0	0	3,538
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	331,165	315,074	341,144	334,436
Total	332,911	319,092	342,165	339,688

Receivables and payables to VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe result from passive reinsurance.

As specified in note II. 11(d), the Company also records a deposit relating to reinsurance contracts with VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe. As at 31 December 2018, the reinsurers' share of technical provisions following from reinsurance within the group amounted to TCZK 1 083 220 (as at 31 December 2017: TCZK 1 140 556).

All significant transactions with related parties were carried out under common market conditions.

III. ADDITIONAL DISCLOSURES IN RESPECT OF THE INCOME STATEMENT

III.1. Non-life insurance

Non-life insurance for 2018 and 2017 divided by classes of insurance:

in thousands CZK	Class of insurance	Gross premiums written	Gross premiums earned	Gross claims paid	Gross operating expenses	Reinsurance balance
Direct insurance						
Accident and sickness		1.2				
2018		436,660	437,807	135,197	12,157	(53,649)
2017		436,127	437,759	199,395	10,639	(36,760)
Miscellaneous losses		16				
2018		152,211	152,212	9,657	2,258	(43,261)
2017		163,749	163,749	9,851	1,695	(46,269)
Total						
2018		588,871	590,019	144,854	14,415	(96,910)
2017		599,876	601,508	209,246	12,334	(83,029)

Notes to the Financial Statements as at 31 December 2018

III.2. Life assurance

Gross premiums written in life assurance:

in thousands CZK	2018	2017
Individual premium	6,469,455	6,202,678
Premiums under group contracts	726,278	695,682
Total	7,195,733	6,898,360
Regular premium	6,952,426	6,615,561
Single premium	243,307	282,799
Total	7,195,733	6,898,360
Premiums from contracts without bonuses	798,970	754,608
Premiums from contracts with bonuses	4,537,051	4,688,958
Premiums from contracts where the investment risk is borne by policyholders	1,859,712	1,454,794
Total	7,195,733	6,898,360
Reinsurance balance	(124,549)	(162,560)

III.3. Total amount of gross premiums written by country

In 2018 and 2017, the total amount of gross premiums written was generated on contracts concluded in the Czech Republic.

III.4. Bonuses and rebates

The Company granted the following bonuses and rebates based on policy terms conditions and insurance contracts:

in thousands CZK	2018	2017
Gross		
Non-life insurance	271,526	275,555
Life assurance	279,890	264,408
Total gross amount	551,416	539,963
Reinsurers' share (non-life insurance)	268,892	272,511
Total net	282,524	267,452

In accordance with the procedures stated in note I. 4(k) of the Notes, the Company accounted for the following changes in the provision for bonuses and rebates:

2018 in thousands CZK	Gross	Reinsurance share	Net
Non-life insurance			
Creation	271,156	268,547	2,609
Release	271,526	268,892	2,634
Change of balance	(370)	(345)	(25)
Life assurance			
Creation	281,646	0	281,646
Release	279,890	0	279,890
Change of balance	1,756	0	1,756
Total change of balance	1,386	(345)	1,731

Notes to the Financial Statements as at 31 December 2018

2017 in thousands CZK	Gross	Reinsurance share	Net
Non-life insurance			
Creation	271,079	268,074	3,005
Release	278,178	275,134	3,044
Change of balance	(7,099)	(7,060)	(39)
Life assurance			
Creation	266,104	0	266,104
Release	264,408	0	264,408
Change of balance	1,696	0	1,696
Total change of balance	(5,403)	(7,060)	1,657

III.5. Commissions and other acquisition costs for insurance contracts

in thousands CZK	2018			2017		
	Non-life insurance	Life assurance	Total	Non-life insurance	Life assurance	Total
Commissions						
Initial	259	1,383,089	1,383,348	315	1,566,521	1,566,836
Renewal	3,838	109,514	113,352	4,024	105,382	109,406
Total commissions	4,097	1,492,603	1,496,700	4,339	1,671,903	1,676,242
Other acquisition costs	4,601	286,334	290,935	2,679	242,571	245,250
Change in deferred acquisition costs	(71)	37,289	37,218	(66)	77,689	77,623
Total commissions and other acquisition costs	8,627	1,816,226	1,824,853	6,952	1,992,163	1,999,115

The Company discloses renewal commissions in administrative expenses. Renewal commissions are not deferred.

Other acquisition costs primarily comprise costs for wages and salaries, promotion, advertising and other administrative expenses associated with the conclusion of insurance contracts.

III.6. Administrative expenses

in thousands CZK	2018	2017
Personnel expenses (wages, social security and health insurance, fees paid to supervisory board members and audit committee)	167,350	138,276
Renewal commissions)	113,353	109,406
Operating system administration and maintenance	63,298	44,504
Depreciation of intangible fixed assets	46,579	47,656
Depreciation and repairs and maintenance of tangible assets	39,110	24,100
Consultancy, legal services and external audit	35,911	13,802
Postal and telecommunication services	34,054	19,790
Other administrative expenses	23,807	17,981
Consumption of low-value tangible and intangible assets and other material	15,854	4,655
Other services	8,660	24,926
Bank fees	7,887	7,717
Rent and related services	7,208	7,432
Total administrative expenses	563,071	460,245

Other personnel expenses are included in other administrative expenses.

Notes to the Financial Statements as at 31 December 2018

III.7. Other technical expenses and income

in thousands CZK	2018	2017
Non-life insurance		
Other technical expenses	180	179
Other technical income	(573)	(497)
Balance – non-life insurance	(393)	(318)
Life assurance		
Other technical expenses	13,141	21,823
Other technical income	(52,690)	(69,330)
Balance – life assurance	(39,549)	(47,507)

The balance of other technical expenses and income in non-life insurance comprises the following items:

in thousands CZK	2018	2017
Creation (+)/Release (-) of adjustments for receivables	(38)	(45)
Write-off of receivables	57	75
Income from enforcement imposed by court	(19)	(37)
FX differences	(108)	(25)
Current account interest	(18)	0
Other technical expenses and income	(14)	(29)
Expenses transferred from the non-technical account	(253)	(257)
Balance of other expenses (+) and income (-)	(393)	(318)

The balance of other technical expenses and income in life assurance comprises the following items:

in thousands CZK	2018	2017
Creation (+)/Release (-) of adjustments to receivables	(4,966)	(6,832)
Write-off of receivables	2,673	4,048
Write-off of payables	(27,719)	(33,030)
Income from enforcement imposed by court	(1,937)	(2,793)
Other technical expenses and income	(987)	(1,129)
Compensation of property damage	(725)	(1,084)
Current account interest	(954)	0
FX differences	(266)	(2,921)
Expenses transferred from the non-technical account	(4,668)	(3,766)
Balance of other expenses (+) and income (-)	(39,549)	(47,507)

Notes to the Financial Statements as at 31 December 2018

III.8. Employees and management

Personnel expenses and average calculated number of employees by individual categories for 2018 and 2017:

Personnel expense – type in thousands CZK	Year	Employee category			Total
		Acquisition, sales	Claims handling	Administration	
Payroll expense	2018	129,866	16,230	119,001	265,097
	2017	108,223	14,854	77,184	200,261
Social security and health insurance	2018	36,846	5,603	35,673	78,122
	2017	36,924	5,127	26,018	68,069
Other personnel expenses	2018	8,813	2,185	7,225	18,223
	2017	8,182	2,316	7,272	17,770
Total personnel expenses	2018	175,525	24,018	161,899	361,442
	2017	153,329	22,297	110,474	286,100
Average number of employees	2018	165	38	120	323
	2017	155	38	120	313

The above figures do not include remuneration paid to statutory, executive and supervisory board members.

An increase in wages and salaries was affected by a single stabilisation bonus paid to employees in connection with the merger as described in Note IV. in amount of TCZK 47 560 (2017: TCZK 0).

As at 31 December 2018, the management of the Company comprised 13 managers – chairman of the Board of Directors, vice-chairman of the Board, member of the Board, 1 deputy CEO, and 9 section directors. Payroll expenses relating to managers, excluding the members of the Board of Directors, totalled TCZK 27 709 in 2018 (2017: TCZK 26 885).

Expenses relating to the job positions of sales division section directors and product management director are presented under acquisition costs. Expenses relating to other management positions are presented under administrative expenses.

(a) Statutory, Executive and Supervisory Board members' remuneration

The Company has provided the following monetary and non-monetary remuneration to the statutory, executive and supervisory board members for the financial years 2018 and 2017:

in thousands CZK	2018	2017
Members of the Board of Directors	12,571	32,270
Proxy holder	60	60
Members of the Supervisory Board	1,278	1,492
Audit Committee	261	185
Total remuneration paid	14,170	34,007

The remuneration stated in the table does not include social security and health insurance payments even in case it is subject to these payments.

Effective from 1 September 2016, the members of the Company's Board of Directors are not employees of the Company. In exercising their offices, they use the titles of Deputy CEOs or the CEO of the Company.

The proxy holder is at the same time an employee of the Company, exercising the office of Deputy CEO.

The members of statutory bodies and proxy holders are entitled to remuneration that is determined by the Supervisory Board in line with the Company's by-laws and with respect to the scope of the work performed. A member of the Audit Committee is paid a fixed annual fee unless receiving at the same time remuneration as a member of another controlling or supervisory body of the Company.

The fees are specified in Table III.8.(a) based on the type of the statutory body.

The Board members receive remuneration in accordance with the contract for discharge of office. The remuneration paid to the members of the Board of Directors was raised on a one-off basis as a result of a change in the structure of the Board of Directors as at 1 January 2018. The amount of remuneration paid to the members of the Board of Directors for 2017 was affected by the settlement of contractual relationships in relation to the termination of membership in the Company's statutory body (competition clause).

Notes to the Financial Statements as at 31 December 2018

The Company presented no receivables from members of the Board of Directors, Supervisory Board, Audit Committee or the proxy holder relating to granted loans or advances paid, either in 2018 or in 2017.

(b) Fees payable to statutory auditors

Information about fees payable to statutory auditors are provided in the notes to the consolidated financial statements of the parent company VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

III.9. Expense allocation between technical accounts and non-technical account

As at the balance sheet date the total amount of expenses allocated between the technical accounts for life assurance, non-life insurance and the non-technical account by means of the method stated in note I. 4(t) amounted to TCZK 95 482 (2017: TCZK 71 533).

III.10. Result of non-technical account

The result of the non-technical account as at 31 December 2018 amounted to TCZK -28 983 (2017: TCZK -2 961).

III.11. Result before tax

The result before tax as at 31 December 2018 amounted to TCZK 1 401 899 (2017: TCZK 1 323 328).

III.12. Taxation

(a) Income tax in the income statement

in thousands CZK	2018	2017
Provision for current period income tax	299,495	264,299
Difference between the current income tax relating to prior periods and release of the provision for income tax relating to prior periods	(389)	(352)
Current income tax relating to prior periods	0	220
Accounting for deferred tax asset/liability relating to valuation differences of available-for-sale securities	35,843	(4,869)
Change in deferred tax asset/Change in deferred tax liability	(61,389)	(3,784)
Income tax in the income statement	273,560	255,514

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are as follows:

Temporary differences in thousands CZK	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Tangible fixed assets	0	0	5,355	4,700	(5,355)	(4,700)
Intangible fixed assets	0	0	4,209	4,296	(4,209)	(4,296)
Receivables	209	247	0	0	209	247
Other temporary differences recorded in income statement	71,825	9,831	0	0	71,825	9,831
Differences arising from change in AFS reporting method	101,660	137,503	0	0	101,660	137,503
Effect on income statement	173,694	147,581	9,564	8,996	164,130	138,585
Revaluation of assets and liabilities	0	0	42,379	137,503	(42,379)	(137,503)
Effect on equity	0	0	42,379	137,503	(42,379)	(137,503)
Deferred tax asset/(liability)	173,694	147,581	51,943	146,499	121,751	1,082
Off-setting of related deferred tax assets and liabilities	(51,943)	(146,499)	(51,943)	(146,499)	0	0
Deferred tax asset/(liability)	121,751	1,082	0	0	121,751	1,082

Notes to the Financial Statements as at 31 December 2018

In accordance with the accounting policy described in note I. 4(g), deferred tax was calculated using the tax rates valid for the periods in which the tax asset/liability is expected to be utilised, i.e. 19%.

IV. OTHER DISCLOSURES

IV.1. Group relations

The Company has not concluded a controlling agreement with its sole shareholder Kooperativa pojišťovna, a.s., Vienna Insurance Group, with its registered office in Prague, Czech Republic.

IV.2. Contingent liabilities and transactions not disclosed in the financial statements

The Company is not aware of any other potential commitments or transactions not disclosed in the financial statements.

IV.3. Subsequent events

Effective from 1 January 2019, the Company being dissolved merged by acquisition (“Merger”) with the successor company Kooperativa pojišťovna, a.s., Vienna Insurance Group, identification number: 47116617, with its registered office at Praha 8, Pobřežní 665/21, 186 00, recorded in the Commercial Register maintained by the Municipal Court in Prague under file no. B 1897 (“Kooperativa”).

As a result of the Merger, the Company terminated its business activity on 31 December 2018 and ceased to exist without liquidation by being erased from the Commercial Register on 1 January 2019 while transferring all assets and liabilities to the successor company as at the merger’s decisive date of 1 January 2019.

The financial statements and obligatory documents prescribed by Act No. 563/1991 Coll., on Accounting, as amended, have been prepared as at the 2018 balance sheet date by the successor company, Kooperativa.

Kooperativa management is not aware of any other material subsequent events that have occurred since the balance sheet date that would require an adjustment to the financial statements as at 31 December 2018.

Pardubice, 27 March 2019



Ing. Tomáš Vaníček, MBA
Member of the Board of Directors of Kooperativa



Ing. Jaroslav Kulhánek
Member of the Board of Directors of Kooperativa

Report on Relations

This report on relations between the parties specified below was elaborated in compliance with the provisions of Section 82 Act No. 90/2012 Coll., on Commercial companies and cooperatives (Act on Business Corporations), as amended, for the accounting period from 1 January 2018 until 31 December 2018 (hereinafter referred to only as the “**Accounting Period**”).

Pojišťovna České spořitelny, a.s., Vienna Insurance Group, with registered office at náměstí Republiky 115, Zelené Předměstí, 530 02 Pardubice, company ID number: 47452820, entered in the commercial register maintained by the Regional Court in Hradec Králové, in Section B, File 855 (hereinafter referred to only as the “**Processor**”), is part of the commercial group (concern) VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe. Within the framework of this commercial group, the “Processor” provides financial services in the scope of its licence to perform insurance activity within the territory of the Czech Republic.

Over the course of the Accounting Period, the method of control changed in relation to decision by the shareholders on merger by acquisition of the Processor with Kooperativa pojišťovna, a.s., Vienna Insurance Group (hereinafter referred to only as “Kooperativa”). This led to a change in the structure of the shareholders’ ownership shares with Kooperativa becoming the 100% owner. This change was entered in the commercial register on 8 November 2018. The method of control is ensured by a decision of the sole owner and also by means of management via representation of the controlling party in the supervisory board of the “Processor”. Other instruments are also used within the framework of the concern, this being in the form of contractual arrangements, the subject of which is determination of competences and responsibilities in the process of development, management and coordination of the concern in the Czech Republic and the insurance companies included in this and also determination of conditions for earmarking or sharing of selected activities. The purpose of this form of management is in particular improvement of the quality of financial services provided and implementation of cost savings. An overview of existing relationships between the Processor and the controlling party and also between the Processor and parties controlled by the same controlling party (hereinafter referred to only as “**Related Parties**”) is provided below:

1. Overview/chart of the structure of relations between parties in the whole of the VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, or parties whose relations are described

Controlling parties

Kooperativa pojišťovna, a.s., Vienna Insurance Group, company ID number 47116617, Prague 8, Pobřežní 665/21, Postcode 186 00, entered in the commercial register maintained by the Municipal Court in Prague under File ref. B 1897 (hereinafter referred to only as “Kooperativa”)

Consolidated companies

Trading name	Country	Current equity stake in %
"BULSTRAD LIFE VIENNA INSURANCE GROUP" EAD, Sofia	Bulgaria	100.00
"Compensa Services" SIA, Riga	Latvia	100.00
"Grüner Baum" Errichtungs- und Verwaltungsges.m.b.H., Vienna	Austria	100.00
Alpenländische Heimstätte, gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H., Innsbruck	Austria	94.84
Andel Investment Praha s.r.o., Prague	Czech Republic	100.00
Anif-Residenz GmbH & Co KG, Vienna	Austria	100.00
Arithmetica Consulting GmbH, Vienna	Austria	100.00
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest	Romania	99.65
ATBIH GmbH, St.Pölten	Austria	100.00
Atrium Tower Sp.z.o.o., Warsaw	Poland	100.00

Report on Relations

Trading name	Country	Current equity stake in %
BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest	Romania	94.00
Blizzard Real Sp. z o.o., Warsaw	Poland	100.00
BTA Baltic Insurance Company AAS, Riga	Latvia	90.83
Bulgarski Imoti Asistans EOOD, Sofia	Bulgaria	100.00
Businesspark Brunn Entwicklungs GmbH, Vienna	Austria	100.00
CAL ICAL "Globus", Kiev	Ukraine	100.00
CAPITOL, akciová spoločnosť, Bratislava	Slovakia	100.00
CENTER Hotelbetriebs GmbH, Vienna	Austria	80.00
Central Point Insurance IT-Solutions GmbH, Vienna	Austria	100.00
Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group, Prague	Czech Republic	100.00
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Kishinev	Moldavia	99.99
Compensa Life Vienna Insurance Group SE, Tallinn	Estonia	100.00
Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	99.97
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	99.94
Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius	Lithuania	100.00
CP Solutions a.s., Prague	Czech Republic	100.00
DBLV Immobesitz GmbH & Co KG, Vienna	Austria	100.00
DBLV Immobesitz GmbH, Vienna	Austria	100.00
DBR-Liegenschaften GmbH & Co KG, Stuttgart	Germany	100.00
DBR-Liegenschaften Verwaltungs GmbH, Stuttgart	Germany	100.00
Deutschmeisterplatz 2 Objektverwaltung GmbH, Vienna	Austria	100.00
Donau Brokerline Versicherungs-Service GmbH, Vienna	Austria	100.00
DONAU Versicherung AG Vienna Insurance Group, Vienna	Austria	100.00

Trading name	Country	Current equity stake in %
DVIB GmbH, Vienna	Austria	100.00
ELVP Beteiligungen GmbH, Vienna	Austria	100.00
Erste gemeinnützige Wohnungsgesellschaft Heimstätte Gesellschaft m.b.H., Vienna	Austria	99.77
Floridsdorf am Spitz 4 Immobilienverwertungs GmbH, Vienna	Austria	100.00
Gemeinnützige Industrie-Wohnungsaktiengesellschaft, Leonding	Austria	55.00
Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH, Kapfenberg	Austria	99.92
Gesundheitspark Vídeň-Oberlaa Gesellschaft m.b.H., Vienna	Austria	100.00
Insurance Company Nova Ins EAD, Sofia	Bulgaria	100.00
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	Bulgaria	100.00
InterRisk Lebensversicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	100.00
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	Albania	89.98
Joint Stock Company Insurance Company GPI Holding, Tbilisi	Georgia	90.00
Joint Stock Company International Insurance Company IRAO, Tbilisi	Georgia	100.00
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	Macedonia	100.00
Kaiserstraße 113 GmbH, Vienna	Austria	100.00
KÁLVIN TOWER Ingatlanfejlesztési és Beruházási Korlátolt Felelősségű Társaság, Budapest	Hungary	100.00
Kapitol pojišťovací a finanční poradenství, a.s., Brno	Czech Republic	100.00

Report on Relations

Trading name	Country	Current equity stake in %
Europeum Business Center, s.r.o.	Slovakia	100.00
HUN BM Kft.	Hungary	100.00
Insurance Company Vienna osiguranje d.d., Vienna Insurance Group, Sarajevo	Bosnia and Herzegovina	100.00
KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group, Bratislava	Slovakia	100.00
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, Bratislava	Slovakia	98.47
Kooperativa pojišťovňa, a.s., Vienna Insurance Group, Prague	Czech Republic	97.28
Limited Liability Company "UIG Consulting", Kiev	Ukraine	100.00
LVP Holding GmbH, Vienna	Austria	100.00
MAP Bürodienstleistung Gesellschaft m.b.H., Vienna	Austria	100.00
MH 54 Immobilienanlage GmbH, Vienna	Austria	100.00
NEUE HEIMAT Oberösterreich Gemeinnützige Wohnungs- und SiedlungsgesmbH, Linz	Austria	99.82
Neuland gemeinnützige Wohnbau-Gesellschaft m.b.H., Vienna	Austria	61.00
Nußdorfer Straße 90-92 Projektentwicklung GmbH & Co KG, Vienna	Austria	100.00
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	Romania	99.50
Palais Hansen Immobilienentwicklung GmbH, Vienna	Austria	56.55
Passat Real Sp. z o.o., Warsaw	Poland	100.00
Pension Insurance Company Doverie AD, Sofia	Bulgaria	92.58
PFG Holding GmbH, Vienna	Austria	89.23
PFG Liegenschaftsbewirtschaftungs GmbH & Co KG, Vienna	Austria	92.88
Pojišťovňa České spořitelny, a.s., Vienna Insurance Group, Pardubice	Czech Republic	100.00
Porzellangasse 4 Liegenschaftsverwaltung GmbH & Co KG, Vienna	Austria	100.00

Trading name	Country	Current equity stake in %
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev	Ukraine	97.80
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev	Ukraine	100.00
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev	Ukraine	99.99
PROGRESS Beteiligungsges.m.b.H., Vienna	Austria	70.00
Projektbau GesmbH, Vienna	Austria	100.00
Projektbau Holding GmbH, Vienna	Austria	90.00
Rathstraße 8 Liegenschaftsverwertungs GmbH, Vienna	Austria	100.00
Ray Sigorta Anonim Sirketi, Istanbul	Turkey	94.96
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH & Co KG, Vienna	Austria	100.00
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH, Vienna	Austria	100.00
SCHWARZATAL Gemeinnützige Wohnungs- und Siedlungsanlagen GmbH, Vienna	Austria	100.00
SECURIA majetkovosprávna a podielová s.r.o., Bratislava	Slovakia	100.00
Senioren Residenz Fultererpark Errichtungs- und Verwaltungs GmbH, Vienna	Austria	100.00
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	Austria	66.70
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana	Albania	89.05
SOZIALBAU gemeinnützige Wohnungsaktiengesellschaft, Vienna	Austria	54.17
Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje	Macedonia	94.26
SVZ GmbH, Vienna	Austria	100.00
SVZD GmbH, Vienna	Austria	100.00

Report on Relations

Trading name	Country	Current equity stake in %
SVZI GmbH, Vienna	Austria	100.00
T 125 GmbH, Vienna	Austria	100.00
TBI BULGARIA EAD, Sofia	Bulgaria	100.00
TECHBASE Sciene Park Vienna GmbH	Austria	100.00
Seesam Insurance AS, Tallin	Estonia	100.00
twinformatics GmbH, Vienna	Austria	100.00
UAB "Compensa Services", Vilnius	Lithuania	100.00
UNION Vienna Insurance Group Biztosító Zrt., Budapest	Hungary	98.64
Untere Donaulände 40 GmbH & Co KG, Vienna	Austria	100.00
Urbanbau Gemeinnützige Bau-, Wohnungs- und Stadterneuerungsgesellschaft m.b.H., Vienna	Austria	51.46
Vienibas Gatve Investments OÜ, Tallinn	Estonia	100.00
Vienibas Gatve Properties SIA, Riga	Latvia	100.00
Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw	Poland	100.00
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendorf	Liechtenstein	100.00
VIG FUND, a.s., Prague	Czech Republic	100.00
VIG ND, a.s., Prague	Czech Republic	100.00
VIG Properties Bulgaria AD, Sofia	Bulgaria	99.97
VIG RE zajišť'ovna, a.s., Prague	Czech Republic	100.00
VIG REAL ESTATE DOO, Belgrade	Serbia	100.00
VIG Real Estate GmbH, Vienna	Austria	100.00
VIG Services Ukraine, LLC, Kiev	Ukraine	100.00
VIG-AT Beteiligungen GmbH, Vienna	Austria	100.00
VIG-CZ Real Estate GmbH, Vienna	Austria	100.00
VITEC Vienna Information Technology Consulting GmbH, Vienna	Austria	51.00
VLTAVA majetkovosprávní a podílová spol.s.r.o., Prague	Czech Republic	100.00

Trading name	Country	Current equity stake in %
WGPV Holding GmbH, Vienna	Austria	100.00
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	Bosnia and Herzegovina	100.00
Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb	Croatia	97.82
WIENER RE akcionarsko društvo za reosiguranje, Beograd, Belgrade	Serbia	100.00
WIENER STÄDTISCHE OSIGURANJE akcionarsko društvo za osiguranje Beograd, Belgrade	Serbia	100.00
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	Austria	97.75
WIENER VEREIN BESTATTUNGS- UND VERSICHERUNGSSERVICE-GESELLSCHAFT M.B.H., Vienna	Austria	100.00
WILA GmbH, Vienna	Austria	100.00
WNH Liegenschaftsbesitz GmbH, Vienna	Austria	100.00
WOFIN Wohnungsfinanzierungs GmbH, Vienna	Austria	100.00
WSBV Beteiligungsverwaltung GmbH & Co KG, Vienna	Austria	100.00
WSV Beta ImmoHolding GmbH, Vienna	Austria	100.00
WSV ImmoHolding GmbH, Vienna	Austria	100.00
WSV Vermögensverwaltung GmbH, Vienna	Austria	100.00
WWG Beteiligungen GmbH, Vienna	Austria	87.07

- 2.** According to the information available, no actions were performed over the course of the “Accounting Period” at the instigation or in the interest of the controlling party, the nature of which affected the assets of the “Processor” in excess of 10% of its registered capital ascertained in accordance with the last financial statements.

3. Overview of mutual contracts for controlled parties: VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

CONTRACTS

Sale of services

The Processor provided/received services during the “Accounting Period” on the basis of the following contracts concluded in past accounting periods or during the current Accounting Period:

Name of contract	Contracting party	Date of conclusion	Effective date	Subject of performance	Note
Cooperation agreement for use of building no. 115 and no. 1400 in Pardubice no. 46/2013 – as amended by amendment no. 1	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665, 186 00 Prague 8	27 June 2013 Amendment no. 1 of 5 March 2014	1 June 2013 Amendment no. 1 of 1 January 2014	Regulation of mutual rights and obligations during use of non-residential space in both properties used by both parties	
Contract on sublease of non-residential space for a definite period - sublessee Kooperativa – as amended by amendment no. 1 – lease until 31 July 2019, amendment no. 2, no. 3, no. 4 and no. 5	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	20 January 2010 Amendment no. 5 of 13 September 2018	1 January 2010 Amendment no. 5 of 1 January 2018	Lease of office room no. 371 with a total area of 298.22 m ² in the building nám. Republiky 1400, Pardubice	
Contract on sublease of non-residential space for a definite period as amended by amendment no. 19	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	10 December 2004 Amendment no. 19 of 12 June 2018	2 January 2004 Amendment no. 19 of 1 January 2018	Lease of office room no. 241, 361 and 431 and offices 351 and 352 with a total area of 1739.12 m ² in the building nám. Republiky 1400, Pardubice	

Name of contract	Contracting party	Date of conclusion	Effective date	Subject of performance	Note
Insurance policy Fleet no. 6667800130 as amended by amendment no. 1	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	23 December 2016 Amendment no. 1 of 28 February 2017	1 January 2017 Amendment no. 1 of 1 March 2017	Comprehensive insurance for company cars, Insurance NA 100PRO, Third-party motor liability insurance	
Insurance policy no. 7721008121 until 31 December 2017 as amended by amendment no. 1	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	22 December 2016 Amendment no. 1 of 17 January 2018	1 January 2017 Amendment no. 1 of 1 January 2018	Insurance policy covering company property and liability insurance	
Insurance policy no. 8603379835 as amended by amendment no. 1	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	1 August 2017 Amendment no. 1 of 24 July 2018	1 August 2017 Amendment no. 1 of 1 August 2018	Insurance policy covering group liability insurance for employees of Pojišťovna České spořitelny	Date of expiry of effectiveness of the policy 31 March 2019
Insurance policy no. 4950050837	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	30 August 2016	1 September 2016	Insurance of members of statutory bodies	Date of expiry of effectiveness of the policy 31 December 2018
Insurance policy no. 7721070497 as amended by amendment no. 1	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	15 December 2017 Amendment no. 1 of 17 January 2018	1 January 2018 Amendment no. 1 of 1 January 2018	Insurance of economic risks	Date of expiry of effectiveness of the policy 31 December 2018
Contract on sharing of costs no. 60/2017 as amended by amendment no. 2	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	31 December 2016 Amendment no. 2 of 18 July 2018	31 December 2016 Amendment no. 2 of 1 January 2018	Outsourcing in the field of: – internal audit, including continuous monitoring of the management and control system; – information technology; processing of payroll; – services in the field of the Customer Service Centre	

Report on Relations

Name of contract	Contracting party	Date of conclusion	Effective date	Subject of performance	Note	Name of contract	Contracting party	Date of conclusion	Effective date	Subject of performance	Note
Agreement on intragroup cooperation	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague Česká podnikatelská pojišťovna, a. s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	5 October 2016	5 October 2016	The contract regulates the principles of cooperation for coordination and fulfilment of uniform concern policy and regulates conditions for compliance with uniform regional management		Agreement Nr. 37/2017 as amended by amendment no. 1	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	20 April 2017 Amendment no. 1 18 October 2017	20 April 2017 Amendment no. 1 18 October 2017	Contract on use of the SimCorp system	
Data Center Service Frame Agreement	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	14 January 2014	1 January 2016	Regulation of the conditions for provision of services relating to use of central data systems		Purchase contract no. 189/2018	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	19 December 2018	19 December 2018	Purchase contract on sale of computer equipment	
Software Agreement	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	22.12.2015	1.1.2016	Purchase of SAP SRM user licences for the COS project		Advertising contract no. 41/2018	Kapitol pojišťovací a finanční poradenství, a.s., Rašínova 692/4, 602 00 Brno	20 May 2018	20 May 2018	Cooperation agreement	
Quota Share Reinsurance Agreement no. 18/2018	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	27 February 2018	1 January 2018	Provision of non-life supplemental accident insurance for 2018		Agreement on cost Sharing regarding the Solvency II Project no. 36/2018	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Vienna, Austria	10 April 2018	10 April 2018	Agreement on cost Sharing regarding the Solvency II Project, on participation in the project and use of project output	
Quota share Reinsurance Agreement no. 19/2018	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Schottenring 30, 1010 Wien, Österreich	27 February 2018	1 January 2018	Provision of non-life supplemental accident insurance for 2018		Contract on processing of personal data no. 126/2018	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	25 May 2018	25 May 2018	Determination of rules and conditions leading towards ensuring personal data protection	
						Non-disclosure agreement 6/2018	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	31 January 2018	31 January 2018	Confidential information in relation to the Transformation in the form of merger by acquisition being considered	Effective until 1 January 2019

Report on Relations

Contracts on mediation of activities

The Processor concluded the following contracts on mediation of activities, on the basis of which it provided the following performance:

Name of contract	Contracting party	Date of conclusion	Effective date	Subject of performance	Note
Contract on commercial representation no. 4116-400500/10-2015-A (94/2015)	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	15 October 2015	15 October 2015	Mediation of sales of non-life insurance	Agreement no. 3 to go with Contract on commercial representation no. 4116-400500/10-2015-A (GDPR, 15 May 2018), Agreement no. 4 to go with Contract on commercial representation no. 4116-400500/10-2015-A (5 December 2018, travel insurance commission)
Agreement on special commission for non-life insurance no. 4116-400500/07-2017-MP (67/2017)	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	1 August 2017	1 August 2017	Special commission for mediation of non-life insurance	
Contract on transfer of a portfolio of insurance policies and on assumption of other rights and obligations no. 4634-9930018208/11-2018-PK	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Pobřežní 665/21, 186 00 Prague	5 December 2018	10 December 2018	Transfer of contracts mediated by PČS (agent 400500) to Česká spořitelna	
Contract on commercial representation	Kapitol pojišťovací a finanční poradenství, a.s., Rašínova 692/4, 602 00 Brno	30 December 2016	1 January 2017	Mediation of sales of life assurance	Amendment no. 3 – GDPR from 1 May 2018, Amendment no. 4 – Flexirisk from 1 December 2018

Comments:

All of the relations specified in this appendix were created between related parties, these being the “Processor” and VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

During conclusion of these relations, the valid laws in the Czech Republic were respected and prices were determined with regard to the provisions of the Act on Income Tax, i.e. subject to the arm’s length principle at prices applicable at the moment of conclusion of these contractual relations. Mediation of insurance in accordance with Act No. 170/2018 Coll. is regulated for in contractual relations by definition of mutual rights and obligations of the contracting parties, with simultaneous definition of conditions for the course, entitlements and payment of remuneration for services provided relating to sale of insurance. These contracts include authorisation granted to the related party to provide these services subject to the conditions determined by the above-mentioned act.

4. Conclusion

None of the contracting parties claimed for any material or financial loss over the course of the “Accounting Period”. An advantage of the contractual relationships concluded is efficient use of resources and services during regular economic activity or cost savings.

Pardubice, 27 March 2019

Kooperativa pojišťovna, a.s., Vienna Insurance Group



Ing. Tomáš Vaníček, MBA
Member of the Board of Directors of Kooperativa



Ing. Jaroslav Kulhánek
Member of the Board of Directors of Kooperativa

Non-financial Section

1. DEVELOPMENT OF THE COMPANY

The development of the Company is based on the provision of profitable products with a high proportion of risk insurance and high added value for the end user. The basis for this development is the systematic planning of product innovations and building up of relations with clients and business partners.

The aim of this development is comprehensive insurance cover for clients, for successful fulfilment of business aims, and for ensuring long-term financial stability of the Company in an environment of growing competition and increasing regulation of the industry.

The Company has established an effective and efficient managing and control system based on respect for Company values, which consist mainly of open communication, mutual respect and creativity in the approach to dealing with tasks.

Further development of the Company consists mainly of:

a) effective management of product innovations

Product changes utilising a knowledge of the needs and behaviour of clients, accenting the need of assurance in particular in serious life situations. The essence of these changes lies in the constant strengthening of the flexibility and representation of disability insurance, insurance against incapacity for employment due to illness, serious illness, and combinations of permanent consequences of injury. There is a common denominator of the entire product offering of life-assurance products, which is: comprehensibility, simplicity, and client-

and user-friendly product properties. Product development includes constant monitoring of changes in society where the share of digital communication keeps increasing, including growth in the use of on-line sales. To that end, the Company carried on in its digitisation programme which focuses on reflecting this phenomenon throughout the Company's communication, sales, and processes. The customer experience is an integral part of the process of improving products and services. Both customer and business partner needs are continuously monitored through it.

b) quality of the provided services for end clients

The Company keeps innovating insurance management procedures and its communication with clients. Provision of services is always based on high quality of sales and after-sales servicing. As in previous years, the Company continued to develop service last year. In addition to providing for communication with clients, the role of the Company's client line was expanded to include retention activities contributing to a reduction in the proportion of terminated policies, with a positive impact on the efficiency of the insurance service provided. Website development constitutes an integral part of communication. Last year, the insurance company successfully developed its activities in the world of social networks and used its brand-new website.

c) effective risk management

The company has fully implemented and keeps improving a management system compliant with the conditions of Solvency II. The management and control system, its functionality, effectiveness, adequacy, and continuity are regularly checked by internal audit. The system is continuously improved and not only that it fully covers regulatory

requirements, it is also a good instrument for identifying opportunities for the Company's further development. A well-structured reporting system gives the Company's management sufficient information about the Company's risk profile and about the amount of capital designated for covering the Company's liabilities as well as about the capital available for further development of the Company.

2. RESEARCH AND DEVELOPMENT ACTIVITIES

Research and development activities correspond to the Company's line of business, which consists of the provision of financial services. Hence, development primarily focuses on further development and use of information and communication technologies. This development is dominated by projects based on the digitisation of processes within the Company. The aim is to gradually eliminate paper documents, both internally, inside the Company, and externally, in communication with the public. This strategy also has an impact on the development of products focusing on the effectiveness and friendliness of the services provided. In the year under review, the Company introduced direct on-line distribution. An integral part of this development is the effort to ensure an environmentally friendly approach, which in the Company's environment, means an ongoing effort to reduce energy requirements.

3. ENVIRONMENTAL PROTECTION AND DEVELOPMENT OF SOCIAL AND EMPLOYMENT RELATIONS

Due to the nature of its business, the Company has a minimal environmental impact. In its activities, it complies with the requirements set by laws of the Czech Republic. In the long-term, in renewing our IT infrastructure, we strive to choose suppliers as well as equipment that will allow full recycling as well as a major reduction of the energy demands of the Company's IT equipment operation.

In terms of employment relations, the Company strives to be a sought-after employer. In order to attain this objective, the Company pays great attention to the development of its employment policy and social programmes. To that end, a programme of cooperation with schools has been approved, resulting in the development of cooperation with selected schools, offering the possibility of programme internships and potential future employment at the Company. The Company offers its employees a wide range of financial and non-financial benefits. It continuously evaluates the conditions of the working environment in order that it meet conditions for the performance of work tasks and adherence to occupational safety requirements, including regular contractually ensured healthcare for its employees.

Education and professional development are among the monitored indicators, including in an evaluation of the financial interest of the Company's senior management. The Company has an established system for staff evaluation and development through which it offers its employees various forms of education, including the enhancement and deepening of their qualifications.

The Company is working on developing a Corporate Social Responsibility (CSR) concept on a sustained basis; it is a partner to the Jedlička Institution Foundation and to the Paraple Centre. The Company allows its employees to participate in charity days.

4. ORGANISATIONAL UNITS OF THE COMPANY ABROAD

The Company does not have any organisational units abroad.

5. FURTHER REQUIREMENTS PURSUANT TO SPECIAL LEGAL REGULATIONS

The company has an AML education system. All employees are trained in AML each year. The company has a system of governance functions and principles, which effectively monitors the compliance of processes and employees' behaviour with law as well as internal standards. This system also includes rules for the equal treatment of employees regarding their selection, management and remuneration in order to respect human rights and avoid discrimination.

The Company complies with the requirements pertaining to its line of business – insurance – set primarily by the Insurance Act and by the Act on Insurance Distribution and Reinsurance, where relevant. No other special requirements are set for the operation of the Company.

