One Bank, One Team, One UniCredit.

Capital and balance sheet management

Transform

Enhanced service model

Ethics and Respect

Team 23

Compliance

Grow and strengthen client franchise

Process optimisation

Sustainable results

Sustainability

Paperless bank

Growth engines

Customer experience

Disciplined risk management

"Go-to" bank for SMEs

"Do the right thing!"

2019

Annual Report

Banking that matters. | UniCredit Bank

One Bank, One UniCredit.

Our strategy is clear and long-term: UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise.

Chief Executive Officer's message

“We always favour long-term sustainable outcomes over short-term solutions. This is a key pillar of our new plan, Team 23, which will deliver €16bn of value creation.”

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

Dear Shareholders,

2019 was a very important milestone for UniCredit, although tinged with sadness for all of us in the Group. Our chairman Fabrizio Saccomanni, who was integral to the success of the Group, suddenly passed away this summer. Fabrizio was a friend of great intelligence and humanity, highly competent with a fine sense of culture and wit. His premature death was a great loss for us all and he is much missed. In September Cesare Bisoni was elected chairman and I am extremely grateful to him for leading the continuing constructive work of the board.

We successfully concluded our three year strategic plan, Transform 2019, launched in 2016, exceeding many of our initial targets. This success is thanks to the drive and unwavering commitment from all our team members and the support you, our shareholders, have shown us throughout the plan. This is a great achievement and I am proud of the results and the truly transformative work that has been done. To share our success and show appreciation to our shareholders, we are pleased to propose an increased capital distribution for 2019, returning 40 per cent – 30 per cent as a cash dividend and 10 per cent through a proposed share buyback.
This is double the target we set ourselves in 2016. We have shown that, no matter what, at UniCredit we say what we do and do what we say. We will apply the same mindset and dedication to our new plan, Team 23.

Although Transform 2019 was based on conservative assumptions, there were some challenges faced by the financial services sector over the past few years that could not have been foreseen.
Headwinds from unexpected geopolitical tensions, macroeconomic volatility and higher regulatory pressure added to an already testing environment.

At UniCredit, we took a series of decisive actions to counter these unforeseen events, enabling us to successfully execute our business strategy, delivering on our key targets.

2016-2019 headwinds

- Interest rate impact
- Slowdown of economic growth
- BTP-Bond spread volatility
- Deterioration of economic environment in Turkey
- Regulatory headwinds
- US sanctions

Decisive actions

Acceleration of balance sheet de-risking

- Acceleration of Non Core run-off
- BTP portfolio reduction
- Intragroup exposure decrease

Additional cost optimisation

- Further cost reduction vs initial 2019 target

Strong capital position

- Trasparent disclosure of regulatory impacts
- Disposal of non-strategic assets*

* Fineco, Mediobanca, Ocean Breeze, selected real estate.

Transform 2019: a strategic plan delivered as promised

Transform 2019 was about restructuring and reshaping the Group, with an emphasis on strengthening capital and improving asset quality. We also strengthened our corporate governance in line with best-in-class European companies. We are the only large listed Italian company where the board of directors presents its own list of candidates. We also lifted voting restrictions and converted savings shares into common shares.

Our hard work was acknowledged by the ECB that, at the end of 2019, lowered our SREP pillar 2 requirement by a further 25 basis points, to 175. This is 75 basis points lower than in 2016, an achievement we are very proud of and another recognition of the outstanding work done by the team over these last three years.

SIGNIFICANT DE-RISKING

Gross NPEs down by more than **€50bn** since 2015, to

€25bn

with an end 2019
Gross NPE ratio of 5.0 per cent
and a **Net NPE ratio 1.8 per cent**

MATERIAL COST REDUCTION

€2.3bn

net cost reduction
since 2015 with C/I ratio reduced by more than
7 percentage points
to 52.7 per cent in 2019

IMPROVED ROTE

More than doubled our profitability with
underlying RoTE in 2019 of

9.2 per cent

up from 4 per cent in 2015

STRONG CAPITAL POSITION

Pro forma[1] CET1 ratio of

13.1 per cent

as at the end of 2019, equivalent to a pro forma[1] **MDA buffer** of **300 basis points**, **above** our **200 to 250 basis point** target range

[1] Pro forma 2019 CET1 ratio and MDA buffer including deduction of share buyback of €467m, subject to supervisory and AGM approval.

Team 23: a new strategic plan, further building on our pan European strengths

While Transform 2019 represented a strong cost efficiency and de-risking effort, Team 23 focuses on strengthening and growing our customer base. All our key strategic initiatives focus on customer experience, which we will monitor precisely while making sure we increase our process optimisation. We will also continue to manage the business with tight cost discipline, focusing on high asset quality and ensuring we maintain a very strong capital level at all times. We work on this from a position of strength, thanks to Transform 2019. We will deliver a recurring dividend with a mix of cash and share buybacks.

Grow and strengthen client franchise

Transform and maximise productivity

Disciplined risk management & controls

Capital and balance sheet management

Our strategy remains unchanged

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in Corporate & Investment Banking (CIB), delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise

As "One Bank, One UniCredit" we will continue to build on our existing competitive advantages

Truly local with **13 leading commercial banks*** and a unique reach through our fully plugged in CIB and international branch network

Provide "banking that matters" for all our 16 million clients across Europe. UniCredit is:

- Supporting our individual clients and the European mid-market corporate clients, that are the backbone of the European economy, as the second largest corporate lender in Continental Europe
- Ranked in the top three by assets in Italy, Germany and Austria and first by assets in CEE, on a consolidated basis
- We have a well-diversified business with a third of our lending coming from Italy, a third from Germany and Austria, and a third from CEE and CIB

A fully plugged-in CIB business, **focused on supporting the Group's clients**, with top of the league tables rankings, demonstrates our strong product offer and our ability to create significant cross-selling and synergies across the Bank

* Assuming full regulatory deconsolidation of Yapi.

Unique network: pan European footprint

- Commercial banks
- International branches and representative offices*

* Including UC Luxembourg and UC Ireland. Other International branches and representative offices In Asia and Oceania, North and South America, Middle East and Africa.

"Banking that matters" for our clients

16 m clients

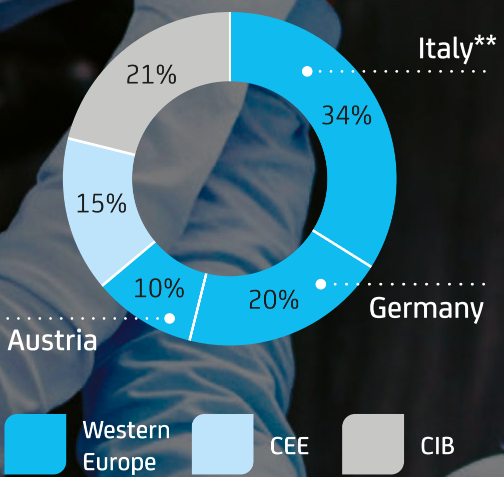
#2 for loans to corporates in Europe

#3 ranking for assets in IGA

#1 by total assets in CEE

Well-diversified business

>430 Commercial loans, bn



** Italy including Non Core and Group Corporate Centre.

Market-leading CIB

- **Most active player in EUR Bonds** since 2013 (cumulative)
- **#1** in EUR Bonds in Italy, Germany, Austria

- **#1 All Covered Bonds in EUR**
- **#1** EMEA Corporate Loans EUR denominated
- **#1** Syndicated Loans in Italy, Austria and CEE; #2 in Germany

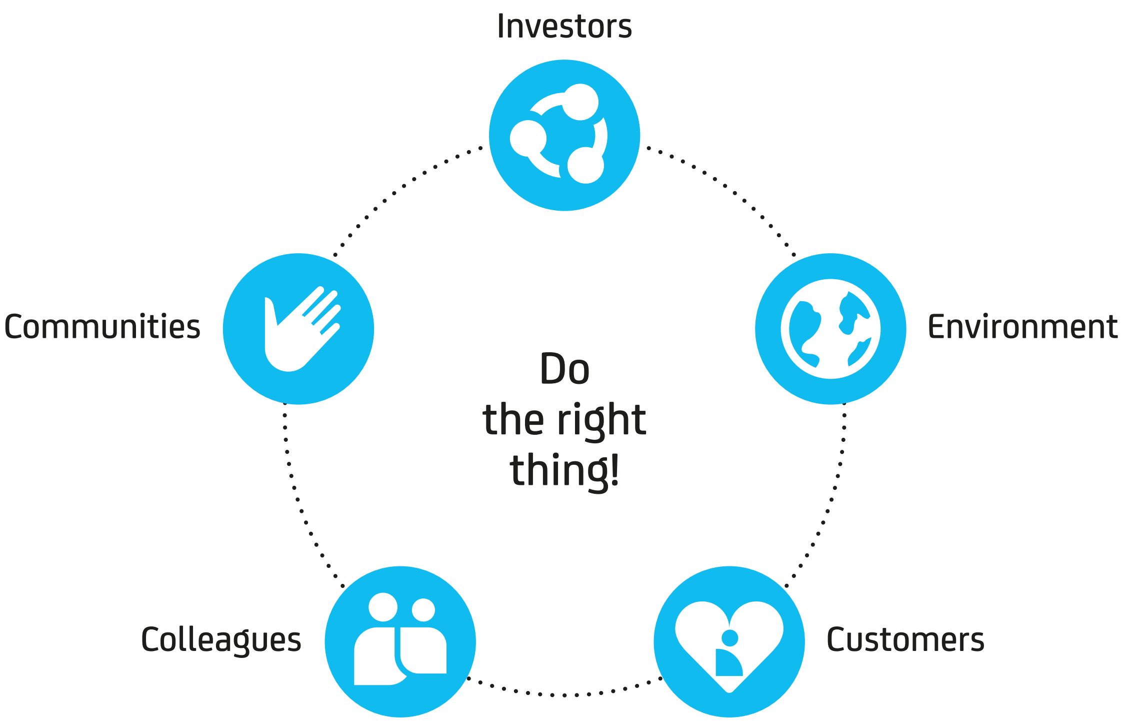
Source: Dealogic, period: 1 Jan-31 Dec 2019.

How we achieve results in UniCredit: Do the right thing!

At UniCredit, our ***corporate*** culture is based on two core values: Ethics and Respect. Our commitment to always "Do the right thing!" is our guiding principle for interactions with all our stakeholders: investors, customers, colleagues and communities.

In the fourth quarter of 2019, we announced new ESG targets as part of our long-term commitment to sustainability – part of our Group's DNA and a key component of our business model. Building a sustainable future is an important challenge for both people and businesses. Every company has to do more than 'business as usual' – it is time to act and make an impact.

"Do the right thing!" to generate sustainable results



We adhere to the highest standards and principles with external monitoring and recognition. This include the Task Force on Climate-Related Financial Disclosures, Principles for Responsible Banking and OECD Business for Inclusive Growth Coalition. Our commitment to ESG places us in the 99th percentile of the FTSE Russell ESG ratings, a constituent of the FTSE4Good Index Series. Standard Ethics identified us as the only bank in Italy with an EE+ rating, strong compliance and the ability to manage key reputational risks.

UniCredit Leadership Team Meeting, Millennial Board presentation, Dec 2019

Environment

Every team member of UniCredit is committed to protect the environment: the entire UniCredit team was involved in "Climate day" on Friday September 20th, submitting more than 1,200 new ideas on what UniCredit can do concretely. All these suggestions will be implemented, under the leadership of the Group "millennial board", made of 10 millennial team members, who bring a tremendous energy and vision to our Group to "Do the right thing!". We are committed to reducing our direct environmental impact by further cutting greenhouse gas emissions. By 2023 all electricity consumption in Western Europe will come from renewable energy sources, by when we will also remove all single-use plastic from all our headquarters. We are working to make an ever bigger difference through our indirect emissions, partnering with our customers in the shift to a low carbon economy. As already announced, we will fully exit thermal coal mining projects by 2023 and not finance any new projects in thermal coal mining or coal fired power generation. We will increase our renewable energy sector exposure, granting more energy efficiency loans to our customers.

Social

We have committed € 1 billion to Social Impact Banking (SIB) initiatives throughout the Group between now and end 2023. This builds on our success in Italy, where we have already disbursed over 100 million euros. The programme is now being rolled out in 10 more markets. Art4Future is supporting SIB with the sale of a limited number of expensive pieces to provide the capital to extend more social loans and buy art pieces of young artists from our different countries.
In addition, we will continue to promote culture through important associations and our UniCredit Foundation will carry on addressing important social needs, while supporting study and research.

Governance

All companies looking to grow and thrive must also focus on diversity and inclusion. Different perspectives help improve processes and behaviours, bringing more sustainable organisations. Creating a positive and inclusive workplace is key to innovation and growth. This is why UniCredit is working on different initiatives to ensure diversity and inclusion is at the forefront throughout the Group, to increase the active participation by women and minorities at all levels of the bank.

The future: what lies ahead

UniCredit clearly shows that pan European banking is the future for our industry to support the growth of our clients, and of Europe. We are passionate Europeans, "One Bank, One UniCredit" across all our countries, combining central support and local excellence.

With Transform 2019, we have shown we always favour long-term sustainable outcomes over short-term solutions, and this is also one of the key pillars of Team 23. This is how we will deliver €16bn of value creation during our new plan, €8bn via capital distribution and €8bn from increased tangible equity. Beyond purely economic goals serving our shareholders, we will continue to “Do the right thing!” for all our other stakeholders, from our clients, our team members, to our communities and the environment.

Let me conclude by reiterating how immensely proud I am of all my UniCredit colleagues who work so hard to achieve the success of our Group, making sure we can continue to support the real economy, serve our clients, encourage growth across all our markets, transform our Group, and deliver recurring value to all our stakeholders.

Thank you!

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

“I am immensely proud of all my UniCredit colleagues, who work so hard to achieve the success of our Group.”

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A

Team 23

Our new plan is called Team 23, in recognition of the outstanding work done together for Transform 2019. Team 23 is based on four strategic pillars:

- Grow and strengthen client franchise
- Transform and maximise productivity
- Disciplined risk management & controls
- Capital and balance sheet management

UniCredit Bank Czech Republic and Slovakia, a.s.

Contents

Chairman's Statement

"The year 2019 was one of the most successful years ever. We took advantage of interesting business opportunities on the market and achieved excellent business results."

Jakub Dusílek
Chairman of the Board of Directors and CEO
UniCredit Bank Czech Republic and Slovakia, a.s.

Dear Shareholders, Ladies, and Gentlemen,

Let us take a look together in this 2019 Annual Report at the past year, which has been exceptional and very successful for me personally as well as for our Bank. UniCredit Bank Czech Republic and Slovakia, a.s., is part of the pan-European UniCredit banking group, which operates directly in 14 markets, including the Czech Republic and Slovakia, where we are one of the leading banks in both markets. The trust shown to us by our clients, as much as the provision of simple, innovative products and services, is a key part of our DNA, which was also the case last year.

Economic growth experienced a slight slowdown

But let us first look back at the overall economic situation. Last year, economic growth continued, although with signs of slowdown, and the financial sector in the Czech Republic and Slovakia was partially affected by this slowdown. Lending in both countries continued to grow, but the growth dynamics decelerated slightly, especially in the second half of the year. As regards corporate loans, the decline in demand was associated with a weakening of investment activity; as regards loans to households, the previous tightening of regulatory rules was responsible for weaker growth. Retail lending dynamics in Slovakia remained slightly ahead of the Czech Republic.

UniCredit Bank reported dynamic growth

From the perspective of our Bank, 2019 has been one of the most successful years ever. We took advantage of attractive business opportunities on the market to achieve excellent business results. At the same time, we defended our leading positions in UniCredit Group in the region of Central and Eastern Europe.

With a record profit of CZK 10.1 billion, which represents a 13.0% year-on-year increase in consolidated net profit, we successfully accomplished the Transform 2019 Group programme. The increasing volume of client transactions, consistent management of the cost of credit risk, optimisation of operating costs and, last but not least, management of the bank's balance sheet structure particularly contributed to the double-digit increase. Loans to clients reported a 7.0 % year-on-year growth and deposits from clients increased by 10.7 % in 2019.

In the Retail Division, we place emphasis on the quality of our services and products, as well as on client satisfaction. The key to growth in retail banking has been simple products and regular innovations in our offer, including the introduction of the Apple Pay and Google Pay mobile wallets. The volume of lending rose, with mortgages exceeding the year-on-year growth of 9 % and 7 % as regards consumer credit.

In 2019, the Bank continued to fulfil its long-term strategic objectives. As regards corporate and investment banking, these objectives are in line with the confirmation of our position as a key player in the segment of financing large multinational and national corporations while also focusing on increasing market share. We witnessed another very successful year in the key SME segment. In the segment of international enterprises, we achieved a double-digit growth rate in revenues and volume of loans granted.

Another of the Bank's long-term strategic goals is the constant improvement of customer experience and the strengthening of the Bank's leadership in the Czech and Slovak market. We are on track to meet this goal by focusing on clients' needs, further streamlining and the digitisation of internal processes.

We are a leader in providing sophisticated and individual solutions and also maintained this position in the area of real estate development project financing. The Bank also reported a very successful year in the field of structured and acquisition financing through the conclusion of several large and complex transactions.

The very successful cooperation with UniCredit Leasing in the Czech Republic and Slovakia continued, with a record volume of intermediated loans in the Corporate and Investment Banking Division.

The offer of factoring products to Bank clients was fully enforced and several new products and services were developed for this purpose, such as reverse factoring or consultancy in the area of managing our clients' working capital.

Product simplicity and growth

We want to continue being a simple and universal bank for our clients. Therefore, 2020 will primarily be a year of continued digitisation and further simplification of processes and product offers for us. We want our clients across segments to continue to have full confidence in the products and services that help them succeed in their personal financial lives and businesses in the long run.

Prestigious awards for UniCredit Bank

The enduring quality of our banking products and services, valued by our clients and partners, is evidenced by the number of annual awards at home and abroad. We confirmed our leading position in corporate banking by defending our position as award-holder for best corporate bank in the Czech Republic, which is given by the magazine Global Banking & Finance. At the same time, we won first place in the Finparáda competition in the Mortgages category and second place for the PRESTO Loan – Loan Transfer product. We are also the best private bank according to Global Finance. Euromoney's Trade Finance award was also a prestigious accomplishment.

Helping where it makes sense

At UniCredit Bank, we pride ourselves on our long-term support for socially responsible activities, education, the arts and sports. Thanks to the Social Impact Banking initiative, we can help wherever it matters through available funding for municipalities, charitable and non-profit organisations, micro-credit for start-up entrepreneurs, as well as support for financial education and volunteering.

We care about our clients and the environment in which they live, finding joy and moments in life to share with their loved ones, families and friends. That is why we have decided to fulfil their biggest wish through the "Záleží nám na tom (We Care)" project.

In cooperation with the Embassy of the Republic of Italy, we organised educational sailing trips on the Mediterranean Sea for disadvantaged children and children with cancer as part of the project "On Board with Nave Italia".

We are a partner of Poradna při finanční tísni (Debt Advisory Centre) and help people avoid financial constraints. We actively support the improvement of gender equality in the financial services sector and continue to be a proud partner of the Karlovy Vary International Film Festival and the prestigious RunCzech series of running events.

Thank you for your trust

The long-term trust shown by you, UniCredit Bank's clients, helps us to achieve excellent economic results, which we sincerely appreciate. We would like to extend our special thanks to UniCredit Bank's employees, who are a key pillar of our Bank. Your efforts throughout the year are an acknowledgement as well as an obligation to us in the upcoming years.

March 2020

Jakub Dusílek
Chairman of the Board
of Directors and CEO

Financial Highlights – Consolidated

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2019 MCZK	31 Dec 2018 MCZK
Operating results		
Net interest income	14 578	14 231
Net fee and commission income	4 002	3 892
Administrative expenses	(6 949)	(7 487)
Profit before income tax	12 605	11 033
Net profit after tax	10 122	8 957
Statement of financial position figures		
Total assets	686 593	671 615
Receivables from clients – net value	440 760	412 036
Deposits from clients	414 953	374 745
Issued capital	8 755	8 755
Alternative performance indicators*		
Return on average assets (ROAA)	1,5 %	1,3 %
Return on average equity (ROAE)	14,7 %	13,9 %
Assets per employee	211,3	206,6
Administrative expenses per employee	2,1	2,3
Net profit per employee	3,1	2,8
Information about capital and capital adequacy		
Tier 1	71 100	66 369
Tier 2	5	1 415
Capital	**71 105**	**67 784**
Capital requirement for credit risk under the standardised approach:	**6 727**	**6 152**
Capital requirements for exposure to central government or central banks	164	147
Capital requirements for exposure to regional government or local authorities	16	6
Capital requirements for exposure to institutions	–	–
Capital requirements for exposure to businesses	2 388	2 453
Capital requirements for retail exposures	2 600	2 186
Capital requirements for exposures secured by real estate	942	913
Capital requirements for exposures at default	62	79
Capital requirements for high risk exposures	88	–
Capital requirements for equity exposures	160	123
Capital requirements for other items	307	245
Capital requirement for credit risk under the IRB approach:	**19 430**	**18 865**
Capital requirements for exposure to central government or central banks	213	289
Capital requirements for exposure to institutions	632	740
Capital requirements for exposure to businesses	16 369	15 884
Capital requirements for retail exposures	1 929	1 781
Capital requirements for other non credit-obligation assets	287	171
Capital requirements for position risk	367	333
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	1	1
Capital requirements for operational risk	2 044	1 841
Capital requirements for credit valuation adjustment	38	70
Capital requirement for other risk exposures	108	–
CET1 capital ratio	19,81 %	19,48 %
Tier 1 capital ratio	19,81 %	19,48 %
Total capital ratio	19,81 %	19,89 %
Average number of employees	3 249	3 251
Number of branches	126	130

Reconciliation of equity to regulatory capital (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2019 MCZK	31 Dec 2018 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	(263)	912
Retained earnings, reserve funds and other capital funds	56 504	53 530
Profit for the year	10 122	9 047
Total equity	**78 613**	**75 739**
CET1 capital adjustments:		
Profit for the year	(5 061)	(6 070)
Reserve from revaluation of hedging instruments	798	(203)
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(2 345)	(2 179)
Credit risk adjustments for non-defaulted exposures	1 549	1 375
Anticipated losses for non-defaulted exposures	(2 302)	(2 175)
Effect of companies not included in the prudential consolidation group	(90)	(23)
Other adjustments	(62)	(77)
Total CET 1	**71 100**	**66 369**
Total Tier 1 (T1)	**71 100**	**66 369**
Credit risk adjustments for exposures at default	6 477	7 233
Anticipated losses for exposures at default	(6 472)	(3 850)
Non-deductible surplus above the risk-weighted assets limit	–	(1 968)
Total Tier 2 (T2)	**5**	**1 415**
Capital	**71 105**	**67 784**

*** Definition of used alternative performance indicators**

UniCredit Bank Czech Republic and Slovakia, a.s. publishes Alternative performance indicators in Annual Report according to the Annex 14 to the Decree No 163/2014 Coll.

ROAA (Rentability of average assets) stands for an effective assets base utilisation rate

ROAE (Rentability of average Tier 1 Capital) stands for an effective equity utilisation rate

Assets per employee

Administrative Expenses per employee

Net profit per employee

The Bank states these Alternative performance indicators to compare with other banks on the market, which have the same obligation to publish these indicators.

Average total assets:
(Total assets at the end of the year X + Total assets at the end of the year X-1) divided by 2

Average tier 1 equity:
(Tier 1 equity in the year X + Tier 1 equity in the year X-1) divided by 2

Average number of employees:
The sum of employees at the end of each month in the year X divided by 12

Return on average assets (ROAA):
Net profit in the year X divided by the average total assets

Return on average tier 1 equity (ROAE):
Net profit in the year X divided by the average tier 1 equity

Assets per employee:
Total assets at the end of the year X divided by the average number of the employees

Net profit per employee:
Net profit at the end of the year X divided by the average number of the employees

Where X = 2019 and X-1 = 2018

Financial Highlights – Separate

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2019 MCZK	31 Dec 2018 MCZK
Operating results		
Net interest income	13 253	13 084
Net fee and commission income	3 600	3 458
Administrative expenses	(6 433)	(6 961)
Profit before income tax	11 595	10 866
Net profit after tax	9 433	8 923
Statement of financial position figures		
Total assets	672 552	660 140
Receivables from clients – net value	427 803	401 589
Deposits from clients	415 017	374 904
Issued capital	8 755	8 755
Alternative performance indicators*		
Rentability of average assets (ROAA)	1,4 %	1,4 %
Rentability of average Tier 1 Capital (ROAE)	14,2 %	14,1 %
Assets per employee	221,8	226,0
General Administrative Expenses per employee	2,1	2,4
Net profit per employee	3,1	3,1
Information about capital and capital adequacy		
Tier 1	68 522	64 400
Tier 2	5	1 603
Capital	**68 527**	**66 003**
Capital requirement for credit risk under the standardised approach:	3 049	2 610
Capital requirements for exposure to central government or central banks	133	147
Capital requirements for exposure to regional government or local authorities	16	5
Capital requirements for exposure to institutions	–	–
Capital requirements for exposure to businesses	314	318
Capital requirements for retail exposures	1 230	901
Capital requirements for exposures secured by real estate	882	865
Capital requirements for exposures at default	27	27
Capital requirements for high risk exposures	88	–
Capital requirements for equity exposures	359	347
Capital requirements for other items	–	–
Capital requirement for credit risk under the IRB approach:	**22 078**	**21 374**
Capital requirements for exposure to central government or central banks	213	289
Capital requirements for exposure to institutions	632	740
Capital requirements for exposure to businesses	19 017	18 392
Capital requirements for retail exposures	1 929	1 781
Capital requirements for other non credit-obligation assets	287	171
Capital requirements for position risk	367	333
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	1	1
Capital requirements for operational risk	1 872	1 681
Capital requirements for credit valuation adjustment	38	70
Capital requirement for other risk exposures	108	–
CET1 capital ratio	19,92 %	19,76 %
Tier 1 capital ratio	19,92 %	19,75 %
Total capital ratio	19,93%	20,25 %
Average number of employees	3 032	2 921
Number of branches	126	130

Reconciliation of equity to regulatory capital (separate)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2019 MCZK	31 Dec 2018 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	(261)	913
Retained earnings, reserve funds and other capital funds	54 344	51 496
Profit for the year	9 433	8 923
Total equity	**75 766**	**73 582**
CET1 capital adjustments:		
Profit for the year	(5 061)	(6 070)
Reserve from revaluation of hedging instruments	796	(204)
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(2 097)	(1 950)
Credit risk adjustments for non-defaulted exposures	1 590	1 396
Anticipated losses for non-defaulted exposures	(2 410)	(2 277)
Other adjustments	(62)	(77)
Total CET 1	**68 522**	**64 400**
Total Tier 1 (T1)	**68 522**	**64 400**
Credit risk adjustments for exposures at default	6 477	7 233
Anticipated losses for exposures at default	(6 472)	(3 850)
Non-deductible surplus above the risk-weighted assets limit	–	(1 780)
Total Tier 2 (T2)	**5**	**1 603**
Capital	**68 527**	**66 003**

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Assets per employee

Administrative Expenses per employee

Net profit per employee

The Bank states these Alternative performance indicators to compare with other banks on the market, which have the same obligation to publish these indicators.

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Average tier 1 equity:
(Tier 1 equity in the year X + Tier 1 equity in the year X-1) divided by 2

Average number of employees:
The sum of employees at the end of each month in the year X divided by 12

Return on average assets (ROAA):
Net profit in the year X divided by the average total assets

Return on average tier 1 equity (ROAE):
Net profit in the year X divided by the average tier 1 equity

Assets per employee:
Total assets at the end of the year X divided by the average number of the employees

Net profit per employee:
Net profit at the end of the year X divided by the average number of the employees

Where X = 2019 and X-1 = 2018

Macroeconomic situation

Czech Republic

The Czech economy decelerated for the second consecutive year, reporting a 2.4 % growth. The primary cause of the slowdown was a deterioration in foreign demand, undermined by the trade disputes between the US and China, and the turmoil surrounding the UK leaving the EU. The reduction in export opportunities was gradually reflected in weaker fixed capital formation for domestic enterprises and partly also in a decrease in the growth rate of private consumption. For the first time in six years, industrial production reported a year-on-year decline. Construction production continued to grow, yet significantly lower than in the previous year.
The economic slowdown led to a slightly delayed halt in employment growth while not increasing the unemployment rate. The focus of labour shortages shifted from the industry to some services.

Tensions in the labour market continued to push inflation up. Its annual average, supported by rising food prices, reported a six-year high (2.8 %) and its year-on-year value exceeded 3 % before the end of the year. The Czech National Bank followed its previous steps of tightening monetary policy and increased its repo rate by 25bp to 2.0 %. However, higher interest rates on the Czech koruna did not trigger a trend appreciation of its exchange rate. It appreciated against the euro by only 1.2 % at the end of the year.

The banking sector's profit exceeded the previous year's value by almost 12 % owing to higher interest income and limited cost of risk. In the area of financial policy, the countercyclical capital buffer doubled to 1.5 % based on the CNB's 2018 decision. The next two steps announced by the CNB during the year will take effect during 2020, when this buffer will amount to 2.0 %. On the mortgage market, the volume of newly granted loans fell by 16.6 % year-on-year, following the earlier tightening of regulation. Real estate prices continued to rise, which moderated to year-on-year single-digit values according to most indicators.

In the public sector, social expenditures accelerated following the approved increase in pensions beyond their statutory indexation. Faster growth in government expenditure as compared to revenues provided the Czech economy with a noticeable fiscal impulse. The establishment of the National Development Fund became a milestone for future cooperation between the public sector and banks in the area of infrastructure investments. A measure abolishing the waiting period for sick-leave pay came into effect from the middle of the year, which burdened the corporate sphere with new costs.

Slovakia

The growth of the Slovak economy slowed down from 4.0 % to 2.3 % in 2019 due to weakening foreign demand. Expectations of a strong compensatory effect of supply shock in the form of a new car plant in the country did not fully materialise as weakening foreign demand slowed down its start, while the secondary effects on the subcontracting chain partially spilled over into neighbouring countries. The weakening foreign demand has so far had only a limited impact on the domestic economy.

The labour market remained strong, with unemployment at a historical low. Combined with the approaching elections, it exerted pressure on wage growth, which has reported the fastest growth in the last decade. The strong wage growth also translated into inflation, mainly through the service sector. Inflation thus rose up to 3 % at the end of the year. Towards the end of the year, the declining industry and accelerating inflation did begin to erode consumer confidence and also contributed to the slowdown of household consumption.

Low inflation in the eurozone did not give the European Central Bank a reason to tighten its monetary policy stance. On the contrary, growth risks led the ECB to lower the sterilisation interest rate from –0.4 % to –0.5 % and to restore its Asset Purchase Programme. This pushed interest rates on the interbank market even more into negative territory and stopped the recovery of Slovak banks' interest income. Net interest income returned to a decline (-2.8 %), despite persisting asset growth (5.8 %). Nevertheless, the growth dynamics of loans did decelerate. After five years, stricter regulation pushed the growth of household loans to the single-digit level (8.0 %) and the growth in corporate loans reported a 5-year low (3.6 %). Deceleration was also reported by the growth dynamics of deposits, especially of enterprises, and the volume of loans continued to exceed the volume of deposits. The banking sector's profit was also boosted by higher fee and dividend income, as well as by lower cost of risk. Despite declining interest income, trading income and rising labour costs and regulatory fees, banks' profit after tax increased slightly by 0.5 % in 2019.

In the political arena, 2019 was marked by the upcoming parliamentary elections. Fiscal tightening eased and the government moved away from their goal of a balanced budget. They are trying to keep public budgets in line with both domestic and European rules in the coming years through additional increases in budget revenue, for example by extending and increasing the bank levy.

Corporate and investment banking

2019 represented another successful year for the Corporate and Investment Banking Division. We continued to reinforce our strong position in the Czech and Slovak markets. We did well in the acquisition of new clients owing to the provision of comprehensive services and high flexibility for our clients. Revenues from the provision of services to corporate clients rose by more than 5 % compared to 2018, and we acquired more than 3,100 new clients.

As for primary sources, we continued to increase the volume of deposits. The volume of term deposits increased by more than CZK 25 billion. The Division's priority was also to strengthen the portfolio of CZK deposits in 2019, where we reported a significant increase in the second half of 2019. The total volume of primary sources increased by more than 9 % year-on-year.

As regards lending, 2019 saw an increase in lending volume of more than CZK 6 billion. We achieved great results especially in the area of financing of international clients, where we increased the volume of loans by more than 11 % and revenues rose by more than 8 %. We were also very successful in the real estate financing segment, where we reported an increase in loans of more than 12 %. Excellent results were also reported in the segment of large corporates, where we further strengthened the traditionally strong portfolio within the Group, benefiting from the pan-European presence of the UniCredit banking group – the total year-on-year growth in revenues amounted to 24 % here. Our goal was also to strengthen our position in the area of operational financing, where we extended our product offer by reverse factoring, which provides comprehensive financing of the customer-supplier chain.

The growth in lending was also driven by cooperation with external entities granting bank guarantees to small and medium-sized enterprises, or providing the Bank with cheaper sources of financing and thus making financing available to a larger range of clients. On a long-term basis, those entities include Českomoravská záruční a rozvojová banka (ČMZRB), the European Investment Fund (EIF), the European Bank for Reconstruction and Development (EBRD) and the National Development Fund II (NDF II. /SZRB). We were the only bank on the Slovak market to possess the "First Loss Portfolio Guarantee" from NDF II.

In 2019, the Corporate and Investment Banking Division reinforced its unique position on the market of structured finance and syndicated loans, which was proved by the number of mandates arranged and the closing of structurally attractive transactions. We supported, for example, Macquarie in the acquisition of a dominant gas distributor in the Czech Republic, where UniCredit acted as underwriter and lead arranger. Another significant transaction was the acquisition of CME by PPF Group, where UniCredit acted as underwriter and lead arranger. The total funding amounted to EUR 1.15 billion. We also acted as arranger, for example, in the club holding finance for CPI Group in total volume of EUR 510 million. A large number of transactions was also carried out in the SME and MID segment, where, as a result of generational turnover, either entire companies or part of their business shares are sold.

In Slovakia, in addition to standard project transactions, UniCredit Bank continued to increase its market share in the financing of renewable energy sources. The most significant transaction in this segment in 2019 was a EUR 51 million loan for a 34.5 MW photovoltaic power plant (PVP) portfolio. Owing to this transaction, the Bank also strengthened its leading position in PVP financing in Slovakia.

Our Bank also maintains an important position in the financing of commercial real estate in the Czech Republic and Slovakia in all major segments of the real estate market – office, retail and industrial real estate, as well as in residential construction. In Czechia, new financing of real estate projects in total volume of CZK 15 billion was concluded in 2019. This volume was largely due to loans in the office and retail segment.

The most significant transaction in 2019 was a syndicated loan of EUR 1.9 billion for CTP Group, which constituted the largest real estate transaction in the CEE region. UniCredit Group acted as one of three lead arrangers who jointly subscribed and successfully syndicated the entire volume of funding.

As regards residential projects, we managed to conclude a number of transactions for existing and new clients from among developers and investment groups.

In Slovakia, we financed several acquisitions for new clients in the industrial real estate and office space segment. Our cooperation with major foreign and domestic investors continued. We are a financing bank and also an agent of a consortium of banks which provided a loan for the construction of the Stanica Nivy bus station in Bratislava for HB Reavis Group. As regards residential projects, in 2019 we expanded our activities to include cooperation with new partners.

Early in 2019, the Industry Expertize Center was established to consolidate and maintain know-how in the sectors in which the Bank wants to be present and develop in the long run. These include mostly financing of energy and renewable resources, agriculture, public and municipal sectors, health care and church entities in the Czech Republic and Slovakia.

In the long term, the Bank maintains its leading market position in the financing of renewable resources and energy.

In the area of healthcare, in 2019 we focused on supporting large healthcare facilities by financing investment and operational needs, as well as the purchase of receivables (forfaiting).

The Bank also started to focus intensively on the municipal sector, both in terms of direct financing (infrastructure and social projects) and in terms of administration and appreciation of deposits of regions, cities and municipalities.

UniCredit Bank has long been present in the agricultural sector. In the Czech Republic, it continues to boost our market share growth through the creation of simple and fast credit products and land financing. In Slovakia, UniCredit maintains its leading position in financing the agricultural sector with a market share of approximately 40 % in the number of serviced clients.

In 2019, the Bank continued to finance projects implemented under the European Structural Funds. This mainly included real estate renovations or purchases of technologies. The Bank also provided advice on investment incentives. In Slovakia, we also focused on the SlovSEFF programme of the European Bank for Reconstruction and Development.

Transaction banking reported positive revenue growth in 2019 to the level of macroeconomic results. More product lines contributed to the year-on-year growth, in particular the development in client deposits, securities management services, transactions in the POS terminal network and trade finance.

We supported our clients' exports with several important business transactions, including the first buyer credit from the Czech Republic to Uzbekistan, insured by the state insurance agency EGAP.

Product support and development were directed not only to areas with high sales potential, such as payments or working capital financing, but also to areas with a positive social impact on society. A good example is the combination of digitisation trends and accessibility to charity. UniCredit Bank was the first in the Czech Republic and Slovakia to provide select non-profit organisations and churches with a “charity kiosk”. The device enables easy payments with contactless cards or mobile wallets.

The opinions of our clients and professionals are a key indicator of our choice of direction and the quality of our product solutions in transaction banking. For these reasons, we are proud to have earned a number of leading awards:

Securities management products and services – Global Finance:
- (#1) Best Sub-custodian Banks 2019 in the Czech Republic

Trade finance products and services – Euromoney Trade Finance Survey 2020:
- (#1) Market Leader in the Czech Republic and Slovakia
- (#1) Best Service in the Czech Republic and Slovakia

Cash flow and liquidity management products and services – Euromoney Cash Management Survey 2019:
- (#1) Best Service Provider in Slovakia
- (#3) Market Leader in the Czech Republic

Card acceptance products and services:
- MASTERCARD AWARD 2020 Charity kiosk

UniCredit Factoring and UniCredit Leasing

Compared to the previous years, when the entire factoring market grew at a double-digit rate annually, it decelerated to +5.5 % year-on-year in 2019. The positive news is that the traditional growth dynamics of the turnover remained very strong in the last quarter, when the factoring market grew by 14.7 % compared to the third quarter, while our subsidiary UniCredit Factoring grew by 40 % in the same period. The October turnover is worth mentioning, when UniCredit Factoring surpassed the CZK 3 billion threshold for the first time. At the end of 2018 and 2019, the total exposure of the factoring market was essentially the same. Our subsidiary reported a roughly 4 % increase in this indicator. In December 2019, it reached its historically highest exposure, namely CZK 3.49 billion of refinanced receivables.

In 2019, UniCredit Leasing continued in the business strategy set out within its 2017-2019 three-year plan. The long-term focus of the company as a universal leasing player was again confirmed as the right direction, when in 2019 (for 1-3Q / 2019) the company maintained its position as leader of the Czech leasing market and ranked first in financed value on the relevant leasing market. UniCredit Leasing Slovakia also performed very well on the Slovak leasing market and increased its market share for 1-3Q / 2019 to 14.7 % (versus 14.0 % for 1-3Q / 2018), expressed in acquisition cost. As regards financing of new passenger cars, which is a core business for UCL, UniCredit Leasing managed not only to successfully support distribution of existing car brands through financial services, but also to acquire new partnerships for the Czech Republic and Slovakia, especially NISSAN (newly distributed by private importer Grand Automotive of Taavura Holdings) and new brand financing for premium motorcycles with Harley Davidson Financial Services. Last but not least, the 2019 strategy also included the strengthening of innovative system solutions and the company launched its own e-shop, www.ucleshop.cz, www.ucleshop.sk, at the beginning of 2019.

Retail banking

The retail banking market in the Czech Republic was characterised by higher interest rates following their significant growth in the previous year. Competition in the area of household and entrepreneur deposits increased and the mortgage market was significantly affected by the impact of the CNB regulation restricting the availability of mortgages to households. The situation in Slovakia was different, with extremely low rates on euro deposits and loans prevailing, which continued to fall during the year. The environment of exceptionally low rates stimulated the consumer credit market and especially the mortgage market.

UniCredit Bank Czech Republic & Slovakia's Retail and Private Banking Division is continuously improving the quality of services for its clients. Customer experience is an absolute priority for us, evidenced also by our Net Promoter Score results, where we scored exceptionally good results as regards individual clients within the Czech and Slovak Market in the UniCredit CEE Division in 2019.

Bank activities in retail and private banking

In 2019, the Bank continued to pursue its strategic goal of reinforcing its position of universal provider of banking and financial services and of becoming a leading bank on both markets. We want to achieve a major increase in market share not only by concentrating on select perspective segments of the retail market, but mainly owing to innovations in availability through alternative distribution channels and product offer.

On the retail market, the Bank provides a full range of banking products – current and savings accounts, savings and investment products, payment cards, housing financing products, and consumer credit. In cooperation with our strategic partners, we are increasingly focusing on investment products as well as bancassurance. With all these products, the Bank aims to provide innovative products and make maximum use of electronic distribution channels.

Our orientation on growth is, on one hand, based mainly on fully using the potential and activation of our existing clients, and on the other, the acquisition of new clients from target segments. In 2019, the Bank paid attention to acquisition in cooperation with companies outside finances and banking and to innovative offers for new clients. Client growth continued, with nearly 100 thousand new clients starting to use the modern banking services and products provided by UniCredit Bank.

In spite of ever-increasing competitive pressure and a number of new regulations in the field of credit products, the Bank managed to increase the volume of retail loans by more than 8 %. The growth driver was mortgage loans, with a year-on-year growth of 8.4 %.

In the private banking segment, the Bank managed to attract more than 1,000 new clients and increase the amount of assets under its management by nearly CZK 4.5 billion.

Loans

In 2019, the PRESTO Loan with a reward for due repayment was our flagship product both in the Czech Republic and in Slovakia, where all clients can achieve an effective interest rate of 3.89 % when they shorten their maturity, subject to the conditions of due repayment. As a standard, we offer four categories of loans in both countries: refinancing or transfer of loans, simple and fast general-purpose loans under special conditions for existing clients, general-purpose loans in general and PRESTO Loans for Housing. At the end of the year, in order to improve our portfolio quality, we defined stricter conditions for maximum maturity and, in most cases, we reduced the maximum maturity to 84 to 96 months.

Our flagship product, the PRESTO Loan – Loan Transfer, is very popular and was recognized as one of the best financial products of 2019 by an award from the Finparada.cz portal.

Our focus on products with excellent conditions for clients with good credit history is long-term and, therefore, this low-risk client segment was again the strongest segment within all disbursed loans. We extended product availability in 2019 by launching pilot end-to-end processes through mobile banking and through a third-party platform, thus complementing the long-functioning process through internet banking.

Mortgages

2019 was still affected by continued regulation by the CNB and NBS. In terms of the development of interest rates, 2019 was more favourable for clients due to slightly decreasing interest rates.

In the Czech Republic, owing to our attractive offer, we reported very strong sales in the first and second quarter, when we conducted about 60 % of annual mortgage deals. Clients continued to prefer interest rates with longer fixation periods, especially ten-year fixations. In Slovakia, we achieved record sales in the third and especially in the fourth quarter, when we were one of the first banks to significantly cut the interest rate on new mortgages with ten-year fixations.

We continue to increase the simplicity and transparency of our processes, for example, we have reduced the Mortgage Application by one page, and we send our external partners notifications on the status of their application process. We are also expanding our product range. In Slovakia, we introduced monthly paid insurance or the possibility of taking out a loan without providing a particular property; we annulled the need to submit proof of income for employed clients whose income can be verified in the Social Insurance Agency's register in Slovakia. In the Czech Republic, we established stronger links between escrow accounts and mortgages and simplified a number of internal processes.

Current accounts

In 2019, U konto remained our key acquisition product, which, despite extraordinary competition, remains one of the best products on the market.

We continued to implement innovative campaigns, whether in well-established cooperation with a food chain or in the unusual connection of the banking and film world through design payment cards. We also rewarded new clients for opening accounts with payment transfers.

Investments and deposits

Despite increasing interest rates, investment products are still one of the main pillars of our product offer. The basis of our offer still consists of three Amundi Fund Solutions funds (conservative, balanced and dynamic), i.e. strongly diversified investment solutions together with active and flexible management, where each of these funds represents a comprehensive portfolio solution for a client's relevant risk profile. These funds are also used as the cornerstone of our U invest product – a programme of regular investment which provides our clients with flexible solutions to grow their assets in a simple and systematic way, while spreading the investment over time strongly eliminates the risk of potential wrong timing for purchases. Regular investment is an ever more popular way of increasing the value of clients' funds.

Moreover, last year we first offered four Amundi Buy and Watch funds to clients in the Czech Republic and Slovakia. These funds invest in a portfolio of several tens to hundreds of particular bonds with a maturity approximately equal to the predefined maturity of the Buy and Watch fund (5-6 years). The fund manager's goal is to hold these bonds until their maturity. Buy and Watch solutions provide investors with more revenue predictability than conventional bond funds. Compared to direct investment in a single bond, it offers similar revenues and, due to its wide portfolio diversification, lower risk associated with the investment.

Digital

In 2019, we again significantly increased the number of active Smart Banking and Online Banking users. In compliance with the European regulation PSD2, new for transaction authorisation and open API rules were implemented successfully. In the autumn, digital services for Smart Banking and Online Banking retail clients were transferred to a new, more modern infrastructure that enables application development in line with current trends and client requirements. We launched an entirely new Business Smart Banking for SMEs and corporate clients. We are working hard to streamline and digitise processes for the sale of products in the field of accounts, consumer credit and mortgages.

Small Business

In the Small Business segment, we relied on the simplicity of our offer and the transparency of our products in 2019. In the second half of the year, we significantly improved our product offer for the Association of Housing Owners and Housing Cooperatives, offering them an increase in value for their savings as well as favourable accounts.

In the segment of liberal professions, we focused on bankers' professionalism with an emphasis on the understanding of the individual needs of each client group. Our efforts have resulted in our growing market share, especially in the legal field.

Payment cards

During 2019, we took a number of steps to boost our clients' transactional activities, especially in cooperation with our partner Mastercard. In the second half of the year, we launched Apple Pay and Google Pay mobile payments for both our debit and credit card portfolios in both markets.

Private banking

In 2019, UniCredit Bank Private Banking continued the trend of previous years and reported a further increase in the number of clients served and the volume of client assets under management. Our efforts focused on maximising our cooperation with clients and addressing a wide range of their needs in private finance. Our aim was to provide clients with comprehensive care using all products and services offered by our Bank and partner organisations (e.g. UniCredit Leasing or Allianz pojišťovna). We pay great attention to client satisfaction, which is evaluated through regular client surveys.

Markets

Throughout the year, we focused on our clients' financial needs in all major areas – investment, transactions, financing and insurance. Throughout the year, clients made use of our offer of term deposits and our wide range of investment solutions. Interest in financing was stable throughout the year, with demand for mortgages dominating. The very positive development on capital markets translated into increased client interest in investment in mutual funds and asset management during 2019. The volume of client funds invested in Assets under Management (AuM) rose by 12 % year-on-year.

In the field of investment, private banking in the Czech Republic and Slovakia is based on a controlled open fund architecture, which is still a unique concept on both markets. Thus, the Bank provides its clients with access to not only high-quality investment solutions from the whole UniCredit Group, but also to the best funds in given categories offered by partner companies, which are analysed and selected for the Bank's private clients by a team of international experts.

In 2019, the Bank successfully extended its offer of mutual funds from partner companies. The key event in these activities was the presentation of the unique investment solutions of Amundi UniCredit Premium Portfolio. These complete investment strategies are managed jointly by Amundi and UniCredit Wealth Management team exclusively for Private Banking clients. The Bank continued to deepen its cooperation with UniCredit Bank AG Munich in the implementation of other types of structured products and to increase the number of underlying assets for this sister bank's unique software solution.

The comprehensive offer of services further included successful cooperation with the conservative Austrian private bank Schoellerbank AG, a member of UniCredit Group. In response to the interest expressed by our clients, the Bank intermediated the placement of several corporate bond issues of select issuers during the year, both in CZK and EUR. During 2019, we also offered private clients investment solutions related to insurance protection (investment life insurance).

Private Banking is successfully building on the tradition of UniCredit corporate banking. Thus, we focus on providing private services to owners of small and medium-sized enterprises, where we today perceive a high added value for our services and products. Cooperation between corporate and private clients significantly contributed to the total number of newly acquired clients both in private and corporate banking in 2019.

Last year, the Markets Division was again one of the Bank's key profit-making pillars. The Markets Division as a whole significantly surpassed its year-long plan. In the area of trading in treasury products with end clients, UniCredit Bank achieved record-breaking results with respect to the entire period of its existence. A very solid contribution to Markets revenues was also reported by trading on the Bank's own account.

Thanks to our acquisition initiatives, we have increased both the volume and the profitability of deals focused on daily cash-flow management and hedging of all market risks (foreign exchange, interest, and commodity risks) in trading with corporate clients. The steadily growing Czech and Slovak economies and the sharing of experience and best practices within the CEE region also contributed to the excellent result.

Debt Capital Markets also represent an integral part of the Markets section, where UniCredit Bank operates in the long run, whether through its own issuance activities or the arrangement and distribution of corporate bonds. In 2019, UniCredit Bank strengthened its position as one of the leaders in corporate bond issues. These issues were successfully placed both among financial institutions and corporate clients, or among clients of the private banking segment. Last year, the Bank managed to repeatedly place its own structured bond and investment certificate issues in this segment, owing to strategic cooperation in the area of bancassurance with Allianz Group in the Czech Republic and Slovakia.

Sponsoring and charity

Promotion of socially responsible activities, sports and education

In 2019, UniCredit Bank in the Czech Republic and Slovakia was significantly involved in the support of solidarity projects in accordance with the values of UniCredit Group, also involving its employees in this support to a large extent. In the traditional group Gift Matching Program, the Bank supported over 400 employees by doubling their donations to a total of 17 non-profit organisations and projects, which totalled over CZK 1.8 million.

During 2019, employees had the opportunity to engage in a range of volunteer activities within teambuilding as well as support events organised by the Bank – blood donation, charity Christmas markets for a good cause or a Christmas bazaar where employees had the opportunity to purchase the handmade products of sheltered workshops. With their purchase, they supported the operation of several non-profit organisations whose aim it is to help disadvantaged people or disabled children in particular.

Throughout the year, the Bank continued to support long-term projects such as the Charter 77 Foundation – Barriers Account, Debt Advisory Center - Counselling in Stringency, and cooperation with the Italian Embassy on the Nave Italia project, which allows children with cancer and other disabilities to visit beautiful Italian destinations. Cooperation with the Václav and Dagmar Havel Foundation and the Lívia and Václav Klaus Foundation is also traditional, supporting various educational programmes.

Research support in the form of cooperation with the Institute of Microbiology must also be mentioned. In Slovakia, we continued to support non-profit organisations that help mostly terminally ill children and also children‘s teaching hospital departments in cooperation with the Televízia Markíza Foundation.

Fulfilled Wishes and charity kiosks

In early 2019, we provided our clients the opportunity to help in the Czech Republic and Slovakia through the Fulfilled Wishes project. We fulfilled 100 client wishes, most of whom wanted to help someone else with a financial or material gift. Assistance was directed mainly to organisations helping sick children or children in need (Krtek Foundation, Klokánek - The Fund of Endangered Children, regional children‘s homes, children‘s hospital wards) and we also supported animals in the form of donations to dog shelters or financial assistance to the Protecting Sea Turtles organisation.

In the second half of the year, thanks to innovative technology and in cooperation with an external company, the Bank launched charity kiosks intended for all organisations fully or partially dependent on third-party support. These kiosks will be used in church institutions, charity and humanitarian organisations and associations for the restoration of cultural monuments. This is a product that enables donations to a third party using contactless technology. Donors can see the amount of the donation and a confirmation of the completed transaction thanks to the intelligent LED system. In this unusual way, the Bank also participated in supporting the third sector in accordance with the UniCredit Group‘s values.

Environmental protection

We do not forget about sustainable growth and environmental protection. We comply with globally defined environmental rules in all our buildings to minimise their load on the environment. The Group has already signed the United Nations Environment Programme Finance Initiative (UNEP FI), based on which the Bank incorporated environmental protection goals into its internal processes. Those goals include, for instance, the reduction of emissions, involvement in the Carbon Disclosure project, the financing of renewable energy sources, or the granting of loans for renovation aimed at energy savings. We regularly participate in the Earth Hour initiative.

Employment relations

UniCredit Bank ranks among the most attractive employers in the Czech Republic and Slovakia, not only because of its offer of responsible and demanding work in the banking sector, but also thanks to the care it gives its employees. Employees are entitled to meal vouchers, fresh water in the workplace, sick days and recovery days, and can also use UniCredit Bank products with special benefits, or use the company cottage in Horní Malá Úpa. They also appreciate an extra week of holiday or the opportunity to purchase employee shares in UniCredit Bank. The offer of flexible benefits, which allow employees to choose from a large number of various activities they consider best for them, is also wide.

The existing benefit programs grant all employees equal access to employee benefits and offer them freedom of choice.
The most favoured benefits include contributions to pension funds or life insurance, language courses, cultural and sporting events or allowances for holiday. UniCredit Bank respects its employees and strives to support them in all situations and life stages. Therefore, the Bank also offers a series of support programs and a contribution system that include bonuses/contributions for life or work jubilees, a retirement bonus, a contribution while facing difficult life situations, programs to support parents in their return from maternity/parental leave, mass cultural and sporting events, and events for seniors and families with children.

Report of the Board of Directors

On the Business Activity and the Property Status of UniCredit Bank Czech Republic and Slovakia, a.s., for 2019

Vision, Mission and Corporate Values

UniCredit Bank Czech Republic and Slovakia, a.s., is a universal commercial bank covering all the financial needs of its clients. We offer our clients the best expertise underpinned by long tradition and leadership in corporate and private banking, as well as an innovative approach to retail banking.

We are the bank of first choice in both our traditional and new strategic segments. We have been one of the top three banks in the Czech and Slovak market in terms of customer satisfaction for many years and we are also an attractive employer.

We are a part of the international UniCredit Group. As a part of the Group, UniCredit Bank Czech Republic and Slovakia, a.s., stands among the key countries of the Central and Eastern European region. The Group perceives our Bank to be an example of successful dynamic growth in the corporate client segment and in particular in the segment of individual clients. At the same time, within UniCredit Group we are a bank where heavy investments are made and a bank with substantial potential for further growth.

"Ethics & respect: Do the right thing!" Ethics and respect are corporate values shared throughout UniCredit Group which define our corporate culture and how we put our decisions into practice. To keep in mind the sustainability of our business in every situation, we follow a simple principle that helps us translate these values into everyday life: Do the right thing!

Economic Development of the Market in the Czech Republic and in Slovakia in 2019

Growth of the Czech economy decelerated slightly to 2.4 %. The Slovak economy reported a similar growth rate of 2.3 %, but with a more pronounced slowdown compared to the previous year. Both economies struggled with weakening foreign demand for the second consecutive year, which indirectly limited companies' incentive to invest in their fixed assets. Private consumption was the main driver of growth in both economies. Both the Czech Republic and Slovakia reported new lows in the unemployment rate; there were tensions in the labour markets and the slowdown in industrial production in the last part of the year did not moderate much. Year-on-year inflation rose in both countries, exceeding 3 % in the Czech Republic at the end of the year and amounting to the said value in Slovakia. The Czech banking sector was affected by one further increase in the CNB's repo rate by 25 bps to a final 2.00 %.

On the other hand, the Slovak banking sector remained under the influence of the ECB's loose monetary policy, characterised by a decline in the deposit rate to -0.50 % and a resumption of bond-buying on the secondary market. At the end of the year, the CZK to EUR exchange rate was higher by 1.2% year-on-year.

Evaluation of the Results of UniCredit Bank Czech Republic and Slovakia, a.s.

In 2019 UniCredit Bank Czech Republic and Slovakia, a.s., achieved another all-time high result. Revenues grew year-on-year in all categories, but mainly in net interest income and trading income. The main driver of growth in net interest income was growth in client deposits and client loans, as well as the positive effect of rising interest rates. Client loans and deposits reported a year-on-year growth in retail and corporate banking as well as in leasing, and the Group continues to increase its number of clients in all segments.

Operating costs are falling year-on-year due to the successful implementation of the Group's Transform 2019 programme activities, focusing on digitisation, process optimization and reduction of distribution costs. Owing to the increasing income and effective cost management, the cost-to-income ratio improved on a year-on-year basis. The positive development in terms of cost of risk continued in 2019 owing to the Bank's ability to successfully handle past due loans and, despite the slowdown in economic growth, the cost of risk remained well below budget.

Financial Results of UniCredit Bank Czech Republic and Slovakia, a.s., for 2019

The consolidated net profit of UniCredit Bank Czech Republic and Slovakia went up by 13.0 % year-on-year, namely from CZK 8,956 million as of 31 December 2018 to CZK 10,122 million as of 31 December 2019. In 2019, UniCredit Bank Czech Republic and Slovakia thereby confirmed its excellent condition and long-term growth.

Statement of Comprehensive Income

Compared to the end of 2018, net interest income rose by 2.4 % to CZK 14,578 million in 2019 (CZK 14,231 million as of 31 December 2018). Compared to 2018, there was no such rise in market interest rates on the Czech market in 2019, but the Bank continued to optimise its composition of deposits with a view to reducing interest costs.

Net income from fees and commissions by the end of 2019 was at CZK 4,002 million (CZK 3,892 million as of 31 December 2018), which represents a growth of 2.8 %.

Net income from the sale of financial assets and liabilities as of 31 December 2019 increased to CZK 489 million (CZK 239 million as of 31 December 2018). In general, income from the sale of financial assets and liabilities is not the primary source of profit for UniCredit Bank Czech Republic and Slovakia, but this year's growth was driven by a change in strategy as regards holding securities with longer maturities.

Income from trading rose by 7.0 % from CZK 1,761 million as of 31 December 2018 to CZK 1,885 million as of 31 December 2019.

Total operating income amounted to CZK 21,086 million, rising by 4.4 % compared to CZK 20,202 million as of 31 December 2018. Operating income reported growth in all the above categories.

Administrative expenses were reported at CZK 6,949 million (CZK 7,487 million as of 31 December 2018), which represents a decline of 7.2 %. Strict cost management, rigorous implementation of the Transform 2019 objectives and reduction in the Bank's contribution to the Resolution Fund are the main reasons for the excellent result in administrative expenses.

Impairment losses on loans and receivables rose by 114.6 % year-on-year (from CZK 610 million as of 31 December 2018 to CZK 1,309 million as of 31 December 2019). Although growth is reported in this item of the Statement of Comprehensive Income, this result is still better when compared to the 2019 Group budget.

Depreciation and impairment of property and equipment rose from CZK 908 million as of 31 December 2018 to CZK 992 million as of 31 December 2019 and amortisation and impairment of intangible assets increased from CZK 302 million as of 31 December 2018 to CZK 540 million as of 31 December 2019. This increase is linked to the capitalisation of new intangible assets and the amortisation of existing intangible assets.

Statement of Financial Position

Assets

Total assets of UniCredit Bank Czech Republic and Slovakia as of 31 December 2019 amounted to CZK 686.6 billion, representing an increase of 2.2 % compared to the end of 2018, when the balance sheet sum was at CZK 671.6 billion.

From the end of 2018, the financial assets at fair value through profit and loss rose by 21.6 % from CZK 10 billion to CZK 12.2 billion. The value of securities recognised at fair value through profit or loss dropped by 20.6 % to CZK 23.2 billion (as of the end of 2018, this value was CZK 29.2 billion). In this portfolio, the Bank has in particular the highly liquid sovereign bonds. The fall in value is due to the failure to renew the purchase of new volumes in the event of maturity of the relevant bond or sales made during 2019.

Retail Banking continued to focus on the growth of its client base and volumes of loans and deposits. The main growth product as regards credit were, as usual, mortgage loans, where the total portfolio increased by nearly 11.5 %. The total volume of client deposits exceeded the year-on-year growth of 7 %.

Receivables from banks decreased by 7 % (CZK 186.0 billion as of 31 December 2019 compared to CZK 200.1 billion at the end of 2018).

Growth in the value of property and equipment, from CZK 4.7 billion as of 31 December 2018 compared to CZK 6.8 billion at the end of 2019, was affected mostly by the implementation of the new IFRS 16 accounting standard (Leases) from 1 January 2019.

Liabilities

By the end of 2019, liabilities to banks dropped by 18 % to a total of CZK 141.1 billion from CZK 172.2 billion as of 31 December 2018.

Compared to the end of 2018, client deposits increased by 10.7 % to a total of CZK 415.0 billion from CZK 374.7 billion as of 31 December 2018. Compared to the end of 2018, issued debt securities dropped by 9.9 % to CZK 20.6 billion (CZK 22.8 billion as of 31 December 2018).

Equity

As of 31 December 2019, the Group's equity amounted to CZK 78.6 billion, which represents a year-on-year growth of 3.8 % (from CZK 75.7 billion as of 31 December 2018). In 2019 UniCredit Bank Czech Republic and Slovakia, a.s., paid a dividend of CZK 6,070 million from the 2018 profit to the sole shareholder UniCredit SpA.

Expected Economic and Financial Situation of UniCredit Bank Czech Republic and Slovakia, a.s., in 2020

The 2020 plan is based on the organic growth of client transactions and further growth of the client base in all business segments. Great emphasis will remain on optimisation and efficient utilisation of operating costs, whose growth is planned to be below expected inflation levels. In 2020, the Group will maintain high profitability, return on capital and will continue to place emphasis on maintaining a high capital adequacy. The development of client loans and client deposits will be balanced, thereby ensuring the Group's growth without the need for obtaining external sources of finance. Despite further expected slowdown in economic growth, both economies will continue to be in good shape, leading to a year-on-year increase in the cost of risk, which will, however, remain low.

Current development on COVID-19 impact and adopted measures

The current development of the world economy may be influenced by several factors, such as the spread of various pandemic viruses, or volatility in commodity prices, especially in oil prices. Following the COVID-19 spread across mainland China and beyond, which has caused disruptions to businesses and economic activity, UniCredit Bank Czech Republic and Slovakia, a.s. is monitoring the situation carefully in cooperation with UniCredit Group and taking all necessary precautions in line with the recommendations of the World Health Organization and local authorities.

The set of adopted measures consist of home office for employees who are vulnerable due to health conditions as well as quarantine for those who have returned from areas heavily affected by the COVID-19 spread. Further measures applied to ensure a normal level in terms of operational activities represent replacing the standard face-to-face meetings with on-line meetings as much as possible, physical separation of teams, as well as strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures.

The economic impact will depend upon the intensity and duration of the coronavirus epidemic spreading which is causing the Covid-19 illness. The main impact of the coronavirus, that at the moment cannot be quantified, relates to an economic slowdown, limited investment activity leading to a decrease in the fair value of financial assets, lower demand for loans, uncertainties in generating future revenues, judgments applied in developing accounting estimates.

Uncertainties for year 2020

During 2020, UniCredit Bank Czech Republic and Slovakia a.s. will carefully monitor the situation and will update on a regular basis:

i. IFRS 9 provisioning models, taking into account the current assumptions and outlook,

ii. provisioning of clients that are assessed individually.

Due to high uncertainty regarding further economic developments, Czech National Bank expects in the current situation that banks will, with immediate effect and until both acute and longer-term consequences of the new coronavirus epidemic fade away, refrain from any decisions that might jeopardize individual banks' resilience. We are aware of the stabilizing measures proposed by Czech National Bank in connection with the coronavirus epidemic, and will ensure to take all the necessary steps not to jeopardize in any way the resilience of the bank.

Strategic Plan of UniCredit Group – Transform 2019 and Team 23

At the end of 2019, UniCredit successfully completed the final year of its three-year strategic plan, Transform 2019, by meeting the financial profit target and also meeting or exceeding its targets in all five pillars of the plan:

- Strengthen capital and optimise its allocation
- Focus on asset quality
- Transform the operational model
- Maximise commercial value
- Create a lean but strong Group management structure

The success of the Transform 2019 strategic plan showed that we are able to meet our goals, and that we are transparent and prefer long-term sustainable results over short-term solutions.

In 2019, UniCredit Bank Czech Republic and Slovakia, a.s., also confirmed its core market position for the Central and Eastern Europe Division. Besides excellent financial results, the Bank also managed to successfully implement a number of initiatives within the strategic programme, for example:

- The Fulfilled Wishes campaign, where we fulfilled 100 wishes for clients in the Czech Republic and Slovakia to help their families, sick people, children's homes, homeless people, animals, etc.
- Mobile phone card payments
- Development of robotization, which increases the productivity of banking operations
- IB2020 and Cross Architecture projects, which will allow the digitisation and development of online channels in the coming years
- Development of the EzY system using the agile development method
- Projects related to regulation and European regulations PSD2, PAD, GDPR

While the goals of Transform 2019 focused on the restructuring and transformation of UniCredit Group, from the new year the whole Group and UniCredit Bank Czech Republic and Slovakia, a.s., will fully focus on a new plan, entitled Team 23, which was introduced to the financial markets in December 2019 and which focuses primarily on the strengthening and growth of the client base.

Bank Activities in Corporate Banking

In 2019, the Bank continued to fulfil its long-term strategic goals, which in the area of corporate and investment banking represent the confirmation of the position of key players in the segment of financing large multinational and national corporations while also focusing on increasing market share.

In the key segments of small and medium-sized companies, we reported another very successful year; in the segment of international enterprises, we achieved a double-digit growth rate in revenues and volume of loans provided.

Another long-term strategic goal of the Bank is the constant improvement of the customer experience and the sustainability of its leadership in the Czech and Slovak market. We were able to meet this goal by focusing on clients' needs, strengthening human resources as well as by the constant streamlining and digitisation of internal processes.

In 2019, we continued to rely on our traditional strong competence in providing individual solutions to clients and confirmed our leading position in real estate finance. We saw a very successful year in structured and acquisition finance, as evidenced by a number of arranger mandates and the successful conclusion of many large and complex transactions for our clients.

The Bank continued its very successful cooperation with UniCredit Leasing in the Czech Republic and Slovakia, with a record volume of intermediated loans in the Corporate and Investment Banking Division.

In 2019, the offer of factoring products for the Bank's clients was fully strengthened and several new products and services were developed to this end, such as reverse factoring or consultancy in the area of managing our clients' working capital.

Bank Activities in Retail and Private Banking

Retail Banking

In 2019, the Bank continued to meet its strategic goals in retail banking, which are to increase its client base and strengthen its position as a universal provider of banking and financial services. We want to achieve a major increase in market share not only by concentrating on selected perspective segments of the retail market, but mainly owing to innovations in availability through alternative distribution channels and product offer.

The Bank provides a full range of banking products in the retail market and we reported significant growth in all major product lines in 2019: retail loans grew by almost 9 % year-on-year, mainly due to the great success in the provision of mortgage loans, retail deposit products increased by more than 7 % year-on-year, and more than 100 thousand new clients began to make use of the products and services of UniCredit Bank Czech Republic and Slovakia, a.s. In cooperation with our strategic partners, we are increasingly focusing on investment products and bancassurance.

Private Banking

The Private Banking segment continued to take care of its existing client portfolio while working hard to acquire new clients who would appreciate the high quality of our services and also enable an increase in profit in the Private Banking segment in the coming years. We acquired new clients owing to our very intensive cooperation with colleagues from Corporate Banking, with the aim to comprehensively serve Bank clients who are owners and managers of companies, as well as based on recommendations obtained from existing clients. Throughout 2019, we paid great attention to expanding our offer of investment solutions, which led to an increase in the volume of client investments managed by the Bank. During the year, we offered Private Banking clients a number of corporate bond IPOs, which was met with great interest from our private clients.

UniCredit Bank Czech Republic and Slovakia, a.s., Retail and Private Banking Division is continuously improving the quality of services for its clients; customer experience is an absolute priority for us, evidenced also by the Net Promoter Score results, where we scored exceptionally good results as regards individual clients within the Czech and Slovak Market in the UniCredit CEE Division in 2019.

Bank Activities in the Area of Support Structures

Risk Management

In the risk management area, emphasis is placed on thorough separation of incompatible functions within the Bank's organisational structure. The Bank's risk strategies, tools and processes are chosen to best correspond with the business strategy and at the same time with the best state of knowledge regarding risk appetite management. Within the management of its risks, the Bank thoroughly monitors and adheres to the sets of parameters making up its Risk Appetite Framework.

The Bank manages its credit risk both at the level of individual business transactions and at the whole-portfolio level, in particular in compliance with the basic principles defined in the Bank's credit policy and in order to adhere to the risk parameters set out in the credit strategy for the particular year. For the purposes of calculating the capital requirement for credit risk, the Bank uses an advanced approach based on its own estimates of risk parameters (Advanced IRB) for most of its portfolio (based on the CNB's approval). The Bank regularly monitors and evaluates expected losses to its credit portfolio and expected losses to newly concluded deals, as well as actually realised losses arising from impaired assets.

Based on regulatory approval, the Bank applies an advanced approach to the operational risk capital requirement (AMA), which has been used since 2008. In 2019 the Bank did not suffer any significant losses resulting from operational risk.

The CNB carried out stress tests of the Bank's capital in 2019. The results confirmed that the Bank has sufficient capital in the event of a crisis. The regulatory authority evaluated the Bank's efforts to continually increase its capital reserves, as well as its efforts to resolve the Bank's problematic assets. At the same time, this result enables the Bank to further develop its business activities.
In the area of market risk management, the Bank manages the risks connected with business activities at the level of individual risks as well as individual types of financial instruments. All limits are monitored broken down into trading portfolio (Regulatory Trading Book) and banking book (IRRBB).

The basic management tool comprises limits for volumes of individual transactions, limits for portfolio sensitivity (BPV, CPV), stop loss limits (maximum loss limits LWL) and Value at Risk (VaR) limits. In 2019 the Bank did not record any significant events leading to a revaluation of the strategy or significant reset of the applicable limits.

Services

After changing the service model in Operations in 2018, 2019 was marked by intensive work on deeper interconnection between the business and the operational part of processes. We focused on improving the customer experience, as well as improving the efficiency of processes as such. A robotization and automation programme was fully instituted and we will continue in this programme next year. The Bank has continued to promote a balanced approach, i.e. the achievement of cost savings thanks to the centralisation and specialisation of operational structures with concurrent preservation of the availability and quality of services provided to clients. Centralisation and specialisation lead to better control over the fulfilment of regulatory requirements regarding contractual arrangements and the quality of document processing between the Bank and its clients.

As in previous years, IT services are provided to the Bank by its sister company within UniCredit Group, UniCredit Services S.C.p.A. In 2019, the implementation of regulatory projects in GDPR, PSD2 and payment account directive regulation was completed. Retail direct and mobile banking were migrated to a new technology platform, providing opportunities for further development and a project to fully digitise selected products was launched. Robotization for selected processes is also being implemented.

Besides projects focusing on digitisation and robotization, security projects aimed at mitigating risk and preventing data leakage and protection were also underway.

Assets and Liabilities Management

In 2019, despite the growth in the volume of loans, the Bank maintained a high CZK liquidity surplus from internal and client funds over CZK financial assets. The Bank placed that surplus mostly in the form of reverse repurchase transactions in the Czech National Bank and used it partially to finance its subsidiaries. A strong liquidity position in CZK allowed the Bank to maintain low costs of CZK liquidity.

Financial and client assets denominated in EUR are refinanced by the Bank largely through client and internal funds and partially through interbank funds, where the most important ones include deposits provided by the parent company as well as advantageous financing from the European Central Bank within the so called TLTRO programme, to which the Bank has access through its Slovak branch. Subsidiaries also use financing from multinational development banks, such as the European Investment Bank.

The liquidity surplus in the parent company and, consequently, across the eurozone made it possible to maintain low costs of EU refinancing as well.

The Bank regularly monitors and reports both the regulatory liquidity ratio LCR and the planned ratio NSFR. Sufficient distance of these ratios from the minimum threshold proves the strong and sustainable liquidity position of the Bank.

Human Resources

Our employees have a crucial role in implementing the company's strategy, as well as in managing risks and ensuring the long-term sustainable growth of the company. Both bank employees who are in direct contact with clients and back-office employees considerably influence our service quality and thereby also the satisfaction and loyalty of our clients and our overall business result.

We promote a culture of ethics and respect, diversity and inclusion and contribute to important attributes such as leadership, friendly atmosphere in teams, self-fulfilment, positivity and recognition, career growth and work-life balance.

We pay maximum attention to the hiring, compensation, education and development of our employees in the areas of professional knowledge, communication skills and total profiling of the corporate culture in order to enforce the personal integrity of all our employees. In 2019, we focused on digitisation of our key HR processes, which positively contributes to the speed and quality of communication both towards candidates and internally within the company.

Employee compensation is in accordance with market conditions and is based on the principles of fairness. Our goal is not only to support our employees' high performance, but also to ensure ethical behaviour towards a balanced approach to risk in the long run and the best possible customer experience, both internally and externally. We greatly appreciate the families of our colleagues; therefore, we offer many opportunities to balance work and private life, such as work from home or teleworking, and various thematic events for our families with children throughout the year. We organise regular sports and relaxation activities directly in the workplace, and we continually innovate them to promote the well-being of our colleagues, responding in this way to the needs of the new generations entering the labour market in order to be a more attractive employer. We believe that well-being activities translate into stronger engagement and productivity for our employees.

Education, professional development and the talents of our employees are among the Bank's development priorities. We are constantly innovating our offer of educational activities with regard to the Bank's strategy, current cultural changes or topics and, last but not least, with regard to the needs of our employees. We put emphasis on development through rotations, short and long-term internships and the acquisition of international experience.

The Bank systematically cares for the health of its employees. This year, it focused on physical and mental health through Health Days, which were available in various forms to all employees in the Czech Republic. Not only preventive medical examinations (dermatology, sight, body composition, etc.) were available to employees, but also practical workshops, lectures on various topics and educational stands.

Beginning last year, a stress prevention programme was launched for employees and the launch of the so-called anti-stress line in the Czech Republic was followed by the same initiative in Slovakia in 2019. There a trained psychologist is available to help employees address their issues.

In the long term, the company accommodates employees who find themselves in extremely difficult social or health situations. The company provides them with social assistance contributions. In the long run, the Bank also focuses on reintegrating employees on maternity and parental leave into working life. The Bank is in touch with these employees during their maternity and parental leave; they are invited to networking events and, in the case of mutual interest and need, cooperation is established during the leave period. After returning from maternity or parental leave, it is possible to work part-time or from home, or to have flexible working hours where the type of operation and the nature of work so permits.

The company has a policy of equal treatment for all employees in terms of their working conditions, compensation for work, training and opportunity for career advancement. Compliance with the rules of equal treatment and non-discrimination is an obligation for all employees, regardless of their employment status.

Social Responsibility

Sustainability

Sustainability is an everyday commitment of UniCredit Group as well as of our local consolidated Group. We believe that sustainable banking requires us to make our everyday decisions and define our long-term strategy with economic, social and environmental responsibility. We try to achieve all-round advantageous solutions for all involved in the long term. Everything we do is based on an ethical approach and respect.

Anti-Corruption Rules

UniCredit Czech Republic and Slovakia Group applies the principle of zero tolerance for corruption, i.e., it will not tolerate the involvement of its employees or third parties in either direct or indirect corruption conduct.

Sponsoring and Charity

In 2019, UniCredit Bank in the Czech Republic and Slovakia continued to support solidarity projects and, in accordance with the values of UniCredit Group, also involved its employees in this support. Besides the traditional Gift Matching Program, the Bank also encouraged its employees in volunteering activities such as blood donation, the organisation of Christmas markets for a good cause and the Three Kings Fundraiser.

The Bank continued to support long-term projects and partner organisations, such as the Charter 77 Foundation – Barriers Account, Debt Advisory Center - Counselling in Stringency, and cooperation with the Italian Embassy on the Nave Italia project, which allows sick and otherwise handicapped children to visit beautiful Italian destinations. Cooperation with the Dagmar and Václav Havel Foundation, Livia and Václav Klaus Foundation, support for the research of the Microbiological Institute and cooperation with the Markíza Television Foundation in Slovakia are also traditional.

In early 2019, we provided the opportunity to help to our clients in the Czech Republic and Slovakia through the Fulfilled Wishes project. We fulfilled 100 client wishes, most of whom wanted to help someone else with a financial or material gift. In particular, the assistance was directed to organisations helping sick and abandoned children or animals.

Thanks to innovative technology and in cooperation with an external company, the Bank launched charity kiosks intended for all organisations fully or partially dependent on third-party support. Through kiosks, people can donate simply using contactless technology to, for example, projects of church institutions, charitable and humanitarian organisations, and cultural heritage restoration associations.

Statement of the persons responsible for the annual report

To the best of our knowledge, this Annual Report gives a true and fair view of the financial situation, business activities and results of operations of the Bank and the Bank's consolidation group for 2019 and of the outlook of future development of financial situation, business activities and results of operations of the Bank and the Bank's consolidation group.

March 2020

Jakub Dusílek
Předseda představenstva

Ljubiša Tešić
Člen představenstva

Report of the Supervisory Board

The Supervisory Board reviewed the statutory individual and consolidated financial statements and the financial statement for the Slovak branch of the bank prepared as at 31st December 2019 together with the Auditor's Reports by Deloitte Audit s.r.o., which is the independent auditor of UniCredit Bank for the year 2019, and the proposal for distribution of profit. The Supervisory Board acknowledges the conclusion drawn in the Auditor's Reports that the individual and consolidated financial statements clearly evidence the financial position of UniCredit Bank as at 31 December 2019 and its financial performance for the 2019 accounting period.
The Supervisory Board acknowledges the conclusions of the Auditor's Report that the statutory financial statements truly reflect assets, liabilities and the profit for the year of UniCredit Bank in all substantial matters and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations and the Articles of Association of UniCredit Bank.

In compliance with the Czech laws, Provisions of the CNB and the Articles of Association of the Bank, the Supervisory Board has been supervising the implementation of the Bank's business policy and the exercise of authorities by the Management Board. The Supervisory Board held five sessions and always asked for information from all spheres of the Bank's activities which had a relevant impact on the financial position and the financial management of the Bank.

The Supervisory Board further states that, based on the statutory financial statements and other documents provided to the Supervisory Board in 2019, it did not identify any material deficiencies or incorrectness which could lead to the conclusion that the Bank's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the situation of UniCredit Bank.

March 2020

Basis for calculating the contribution to the Guarantee Fund

in line with Section 129 of Act No. 256/2004 Coll. on Capital Market Undertakings

The basis for calculating the contribution to the Guarantee Fund, pursuant to Section 129 of Act No. 256/2004 Coll. on Capital Market Undertakings, consists of fees and commissions received for providing investment services.

As at 31 December 2019, the basis for calculating the contribution to the Guarantee Fund was CZK 673,816,021.32. The contribution to the Guarantee Fund is 2 % of this amount, i.e. CZK 13,476,320.44.

Grow and strengthen client franchise.

Team 23 focuses on strengthening and growing our client franchise across all segments: SMEs, individuals and corporates.
Our strategic initiatives focus on the customer experience, to improve customer satisfaction and service quality. This is how we will increase our Net Promoter Score at Group-level.

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 December 2019

	Note	2019 MCZK	2018 MCZK
Interest income, of which:		18 597	15 435
– interest income calculated using the effective interest method		18 272	14 888
Interest expenses		(4 019)	(1 204)
Net interest income	(1)	**14 578**	**14 231**
Fee and commission income		5 387	5 101
Fee and commission expenses		(1 385)	(1 209)
Net fee and commission income	(2)	**4 002**	**3 892**
Dividend income	(3)	5	4
Net income/(loss) from trading	(4)	1 885	1 761
Net income/(loss) from hedging against risk of changes in fair value	(5)	(12)	2
Net income/(loss) from the sale or repurchase of:	(6)	489	239
Financial assets at amortised cost		154	99
Financial assets at fair value through other comprehensive income		335	142
Financial liabilities		–	(2)
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, of which:	(7)	139	73
Mandatorily at fair value		139	73
Operating income		**21 086**	**20 202**
Impairment losses on:	(8)	(1 309)	(610)
Financial assets at amortised cost		(1 310)	(619)
Financial assets at fair value through other comprehensive income		1	9
Administrative expenses	(9)	(6 949)	(7 487)
Net provisions for risks and charges:	(27)	342	(549)
Loan commitments and financial guarantees given		401	(486)
Other net provisions		(59)	(63)
Depreciation and impairment of property, equipment and right of use assets	(18)	(992)	(873)
Amortisation and impairment of intangible assets	(19)	(540)	(302)
Other operating income and expenses	(10)	694	732
Operating expenses		**(7 445)**	**(8 479)**
Net income/(loss) on property and investment property measured at fair value	(18)	(25)	(146)
Profit/loss from equity investments		70	66
Profit/(loss) from the sale of non-financial assets		228	–
Profit before income tax		**12 605**	**11 033**
Income tax	(28)	(2 483)	(2 076)
Profit after tax		**10 122**	**8 957**
Net profit attributable to the Group's shareholders		**10 122**	**8 957**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property used in business measured at fair value, of which:		261	n/a
Change in fair value		329	n/a
Deferred tax		(68)	n/a
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, of which:		(1 001)	(336)
Change in fair value		(1 239)	(416)
Revaluation reclassified to profit or loss		–	1
Deferred tax		238	79
Reserve from revaluation of financial assets at fair value through other comprehensive income, of which:		(264)	(697)
Change in fair value		(53)	(733)
Revaluation reclassified to profit or loss		(224)	(97)
Deferred tax		13	133
Foreign exchange rate gains from the consolidation of a foreign branch		(171)	101
Other comprehensive income, net of tax		**(1 175)**	**(932)**
Other comprehensive income, net of tax, attributable to the Group's shareholders		**(1 175)**	**(932)**
Total comprehensive income, net of tax		**8 947**	**8 025**
Total comprehensive income, net of tax, attributable to the Group's shareholders		**8 947**	**8 025**

The notes on pages 43–115 form a part of these financial statements.

Consolidated statement of financial position as of 31 December 2019

	Note	2019 MCZK	2018 MCZK
Assets			
Cash and cash balances	(11)	4 634	4 842
Financial assets at fair value through profit or loss, of which:	(12)	12 185	10 020
Held for trading		11 698	9 674
Mandatorily at fair value		487	346
Financial assets at fair value through other comprehensive income	(13)	23 181	29 188
Financial assets at amortised cost, of which:		626 735	612 101
Loans and advances to banks	(14)	185 975	200 065
Loans and advances to customers	(15)	440 760	412 036
Positive fair value of hedging derivatives	(16)	7 198	5 636
Equity investments	(17)	372	332
Property, equipment and right of use assets	(18)	6 406	4 103
Investment property	(18)	371	646
Intangible assets	(19)	2 345	2 179
Tax receivables, of which:	(28)	1 005	889
Current income tax		–	57
Deferred tax		1 005	832
Non-current assets held for sale		31	–
Other assets	(20)	2 130	1 679
Total assets		**686 593**	**671 615**
Liabilities			
Financial liabilities at fair value through profit or loss, of which:		11 537	8 714
Held for trading	(21)	11 537	8 714
Financial liabilities at amortised cost, of which:		576 627	569 736
Deposits from banks	(22)	141 092	172 151
Deposits from customers	(23)	414 953	374 745
Debt securities issued	(24)	20 582	22 840
Negative fair value of hedging derivatives	(25)	7 624	5 657
Changes in fair value of the portfolio of hedged instruments		1 096	608
Tax liabilities, of which:	(28)	1 481	1 108
Current income tax		659	406
Deferred tax		822	702
Other liabilities	(26)	8 733	8 733
Provisions for risks and charges	(27)	882	1 320
Total liabilities		**607 980**	**595 876**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		(263)	912
Retained earnings and reserve funds	(31)	56 504	53 620
Profit for the period		10 122	8 957
Total shareholder‘s equity		**78 613**	**75 739**
Total liabilities and shareholder‘s equity		**686 593**	**671 615**

The notes on pages 43–115 form a part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

	2019 MCZK	2018 MCZK
Profit after tax	**10 122**	**8 957**
Adjustments for non-monetary items:		
Impairment losses of:	1 309	610
Financial assets at amortised costs	1 310	619
Financial assets at fair value through other comprehensive income	(1)	(9)
Revaluation of financial instruments	637	(1 216)
Net provisions for risks and charges:	(342)	547
Loan commitments and financial guarantees given	(401)	484
Other net provisions	59	63
Depreciation and impairment of property, equipment and right of use assets	992	874
Amortisation and impairment of intangible assets	540	302
Net income/(loss) from the sale or repurchase of:	113	113
Financial assets at amortised cost	–	–
Financial assets at fair value through other comprehensive income	113	113
Financial liabilities	–	–
Profit/(loss) from equity investments	(40)	66
Profit/(loss) from the sale of non-financial assets	(228)	–
Taxes	1 808	2 076
Unrealised foreign currency gains/(losses)	(171)	101
Other non-monetary adjustments	(3 170)	(1 970)
Operating profit before change in operating assets and liabilities	**11 570**	**10 460**
Financial assets at fair value through profit or loss, of which:	(2 852)	412
Held for trading	(2 850)	431
Mandatorily at fair value	(2)	(19)
Financial assets at amortised cost, of which:	(14 697)	(15 640)
Loans and advances to banks	14 091	10 120
Loans and advances to customers	(28 788)	(25 760)
Other assets	(451)	1 323
Financial liabilities at fair value through profit or loss, of which:	2 733	(170)
Held for Trading	2 733	(170)
Financial liabilities at amortised cost, of which:	8 995	12 271
Deposits from banks	(31 127)	(1 995)
Deposits from customers	40 122	14 266
Other liabilities	233	(1 777)
Income tax paid	(2 072)	(1 353)
Net cash flows from operating activities	**3 459**	**5 526**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	5 590	16 858
Gains from the sale of property and equipment and intangible assets	1 613	1 282
(Acquisition) of property and equipment and intangible assets	(2 171)	(2 170)
Dividends received	5	4
Net cash flows from investment activities	**5 037**	**15 974**
Dividends paid	(6 070)	(3 732)
Financial liabilities at amortised cost – debt securities issued and repaid	(2 260)	(17 024)
(Payment) of Lease liabilities	(374)	n/a
Net cash flows from financial activities	**(8 704)**	**(20 756)**
Cash and cash balances at the beginning of the period	**4 842**	**4 008**
Cash and cash balances at the end of the period	**4 634**	**4 842**
Interest received	18 692	14 704
Interest paid	(3 794)	(777)

The notes on pages 43–115 form a part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

MCZK	Issued capital	Share premium	Reserve from revaluation of: hedging instruments	Reserve from revaluation of: financial assets at fair value through other compr. income	Reserve from revaluation of: property measured at fair value	Reserve from revaluation of: exchange rate gains/(losses) of a foreign branch	Retained earnings and reserve funds: Reserve fund and other capital funds	Retained earnings and reserve funds: Special-purpose reserve fund	Retained earnings and reserve funds: FX differences from consolidation	Retained earnings and reserve funds: Retained earnings	Profit for the period	Equity
Impact of implementation of IFRS 9				(30)						(96)		(126)
Impact of implementation of investment property revaluation										90		90
Balance as of 1 January 2018	**8 755**	**3 495**	**539**	**1 525**	**n/a**	**(220)**	**5 217**	**11 611**	**(99)**	**33 011**	**7 626**	**71 460**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit							23	812		6 791	(7 626)	–
Dividend payment										(3 732)		(3 732)
Consolidation impact									11	(25)		(14)
Total comprehensive income for the current period												
Net profit for the current period											8 957	8 957
Other comprehensive			(336)	(697)		101						(932)
Balance as of 31 December 2018	**8 755**	**3 495**	**203**	**828**	**n/a**	**(119)**	**5 240**	**12 423**	**(88)**	**36 045**	**8 957**	**75 739**
Balance as of 1 January 2019	**8 755**	**3 495**	**203**	**828**	**n/a**	**(119)**	**5 240**	**12 423**	**(88)**	**36 045**	**8 957**	**75 739**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit							3	817		8 137	(8 957)	–
Dividend payment										(6 070)		(6 070)
Consolidation impact									(23)	20		(3)
Total comprehensive income for the current period												
Net profit for the current period											10 122	10 122
Other comprehensive			(1 001)	(264)	261	(171)						(1 175)
Balance as of 31 December 2019	**8 755**	**3 495**	**(798)**	**564**	**261**	**(290)**	**5 243**	**13 240**	**(111)**	**38 132**	**10 122**	**78 613**

The notes on pages 43–115 form a part of these financial statements.

Notes to the financial statements (consolidated)

I. Introduction

General Information

The UniCredit Bank Czech Republic and Slovakia, a.s. group (hereinafter the "Group") consists of the parent company UniCredit Bank Czech Republic and Slovakia, a.s., a joint stock company (hereinafter the "Bank" or the "Parent Company") with its registered office Želetavská 1525/1, 140 92, Praha 4 – Michle, 12 subsidiaries and 1 associate. The Bank was established on 1 January, 1996 and is registered in the Commercial Register in Prague, Section B, Insert 3608. The identification number of the Bank is 64948242. The "UniCredit Group" refers to the group of companies controlled by the UniCredit Bank's parent company UniCredit S.p.A.

The Bank was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company.

Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A which is the ultimate parent company of the entire UniCredit Group holding 100% of the Bank's shares.

Following the completion of the cross-border merger, the Bank has been continuing to perform activities previously undertaken by UniCredit Bank Slovakia a.s. on the territory of the Slovak Republic through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank).

The cross-border merger was made with the objective of creating a stronger entity capable of managing business activities both in the Czech and Slovak markets that will bring significant advantages to UniCredit Group since the merger gave rise to an entity that is able to more efficiently and effectively serve clients and achieve greater returns in the context of the anticipated cost savings and dynamic growth of business in both countries. The integration enabled to benefit from synergistic effects in terms of costs and income while achieving a more balanced capital structure and optimised liquidity management. In addition, UniCredit Group had the opportunity to reduce the complexity of its organisational structure and the level of management efforts as a result of establishing one local management team overseeing both markets.

The Bank increased its share capital for the purposes of the merger. A number of minority shareholders of UniCredit Bank Slovakia a.s. exercised their right to sell the shares of the dissolving bank, other minority shareholders utilised the right to exchange the shares for newly issued shares of the Bank. The successor bank took over the capital of the dissolving bank of MCZK 11,611 and allocated t to the special-purpose reserve fund in EUR that can be used only to offset losses.

Scope of Activities

The Bank is a universal bank providing services of retail, commercial and investment banking services in Czech crowns and foreign currencies for domestic and foreign clients, mainly in the Czech Republic and also in other states of the European Union.

The Bank's principal activities include:

- Receiving deposits from the public;
- Providing loans;
- Investing in securities on its own behalf;
- Operating a system of payments and clearing;
- Issuing and administration of payment products;
- Providing guarantees;
- Opening letters of credit;
- Administering cash collection;
- Trading on its own behalf or on behalf of clients:
  - In foreign-exchange currency products;
  - In forward and contract options, including foreign currency and interest rate contracts; and
  - With transferable securities;
- Participating in share subscriptions and providing related services;
- Issuing mortgage bonds;
- Conducting financial brokerage;
- Managing securities, including portfolio management, on behalf of clients;
- Providing depository services and administration of securities;
- Providing depository services for investment funds;
- Conducting foreign currency exchange activities;
- Providing banking information;
- Renting safe-deposit boxes; and
- Conducting activities directly connected with the activities stated above.

Through its subsidiaries and an associate, the Bank additionally provides the following types of services:

- Lease and instalment sale of machinery and equipment;
- Lease to own (lease purchase);
- Lease of cars and instalment sale of cars;
- Consumer and commercial loans granted for the purchase of cars, machinery and equipment;
- Mediation of services and sales;
- Mediation of insurance policies conclusion;
- Purchase, sale and lease of real estate;
- Real estate activities;
- Real estate administration and maintenance; and
- Operational financing by way of factoring local and foreign receivables.

II. Basis for the preparation of the financial statements

1. Statement of compliance

The Consolidated financial statements of the Group (hereinafter also "Financial Statements") for 2019 and comparatives for 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) no. 1126/2008 as amended including valid interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), further "IFRS".

Purpose of preparation

The purpose of preparing these financial statements in the Czech Republic is to comply with Act on Accounting No. 563/1991 Coll. The Group prepares its financial statements and annual report under special regulation 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Basis of preparation

These financial statements were authorised for issue by the board of directors and are subject to approval at the General Meeting of Shareholders.

These consolidated financial statements were prepared based on the going concern assumption that the Group will continue to operate in the foreseeable future.

The annual separate and consolidated financial statements for 2018, the Annual Report for 2018, the profit distribution (incl. dividends in the amount of MCZK 6,070), retained earnings and the determination of royalties to the Supervisory Board members for 2018 were approved by the Parent Company's General Meeting held on 19 March 2019.

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

All presented amounts are in millions of Czech crowns (millions of CZK) unless stated otherwise.

The consolidated financial statements were prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative contracts, other financial assets and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, and properties used in business (reclassified from the cost model to the revaluation model as of 31 December 2019) and properties held for investment (reclassified retrospectively from the cost model to the revaluation model as of 1 January 2018), all of which have been measured at fair value. The methods for determining fair value are presented in section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. Recognised assets and liabilities that are hedged against the risk of changes in fair value and would not otherwise be measured at fair value are remeasured at fair value to the extent of the hedged risk.

Regulatory requirements

The Group is subject to the regulatory requirements of the Czech National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rates and foreign exchange position of the Group.

2. Consolidation

These financial statements are consolidated financial statements and include the Parent company and its subsidiaries (the "Group").

The Bank's ultimate owner is UniCredit S.p.A, Milan, which consolidates the entire UniCredit group in accordance with International Financial Reporting Standards as adopted by the European Union.

Certain subsidiaries maintain their accounts under Czech or Slovak Accounting Standards and the Group makes reclassifications and adjustments to figures under IFRS.

As of 31 December 2019, the consolidation group includes the Parent Company and the following entities (hereinafter „consolidation entities“):

Name of the entity percentage	Business activities Consoli-dation method	Registered office		Owner	Ownership
UniCredit Factoring Czech Republic and Slovakia, a.s.	Factoring	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Leasing CZ, a.s.	Leases	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredti pojišťovací makléřská spol. s r.o.	Mediation of services	Prague	UniCredit Leasing CZ, a.s.	100%	Full
RCI Financial Services, s.r.o.*	Financing of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	50%	Equity
ALLIB Leasing s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
BACA Leasing Alfa s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CA-Leasing OVUS s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
HVB Leasing Czech Republic s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Leasing Slovakia, a.s.	Leases	Bratislava	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Broker, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Leasing Insurance Services, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full

*RCI Financial Services, s.r.o. is an associate that is consolidated using the equity method of accounting. The Group holds 49.9% of voting rights in this entity and does not exercise control over this entity.

Changes in the Group during year 2019

There were no changes in the Group in 2019.

Principles of Consolidation

Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of the subsidiary. Relevant activities of the subsidiary are those which most significantly affect its variable returns.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable to the owners of the Bank. The Bank has no non-controlling interests.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date of on which control originates to the date on which control ceases to exist. The financial statements of the Bank’s subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated during consolidation.

Associates

Associates are entities over which the Group has significant (but not controlling) influence on the management or operations of the entity (ie the Group’s power to participate in the financial and operating policy decisions of the investee but not control over those policies). The consolidated statement of comprehensive income includes the Group’s share in total reported profits or losses of associates using the equity method of accounting, from the date of on which significant influence originates to the date on which significant influence ceases to exist. The consolidated statement of financial position reflects the value of the investment in an associate determined using the equity method of accounting.

Transactions under Common Control

A business combination between entities or companies under common control is a business combination where all combining entities or companies are ultimately controlled by the same party or parties as prior to and post the business combination and this control is not temporary. For business combinations under common control the Group has adopted the pooling of interest method, i.e. taking over the carrying amounts of the acquired business and concurrently reporting these transactions prospectively, ie without adjustments in comparative periods, with the difference of the consideration transferred and the carrying amount of net assets acquired being recognised directly in equity.

Disclosure of interests in other entities

IFRS 12 requires disclosure about significant judgments and assumptions used to define the character of an investment in a company or in an agreement, investments in subsidiaries, joint agreements and affiliates and in non-consolidated structured entities. Based on the analysis performed by management, the Group does not have any interest in consolidated structured entities, nor in unconsolidated structured entities.

3. Foreign Currency and Foreign Currency Translation

The Czech crown is the functional currency of the Bank and the entities based in the Czech Republic. Euro is the functional currency of the Slovak branch and the entities based in the Slovak Republic. The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the branch are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch". Figures in brackets represent negative amounts.

Transactions in foreign currencies (ie other than the functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing foreign exchange rate at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as "Net income/loss from financial assets and liabilities held for trading".

III. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements excluding:
- Implementation of accounting policies based on IFRS 16 "Leases" since 1 January 2019 (for details see point 13. Leases) and
- Accounting policy for valuation of owned real estates and investment property (for details see point 10. Property and Equipment and point 11. Investment Property).

Terminology used in the Consolidated Financial Statements (incl. Notes to the Consolidated Financial Statements) and the structure of some disclosure tables were refined in comparison to the Consolidated Financial Statements for the comparative period. The adjustments have no impact on the presented figures.

1. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Group classifies financial instruments in the following categories:
- Financial assets measured at amortised cost ("AC"),
- Financial assets measured at fair value through other comprehensive income ("FVTOCI"),
- Financial assets mandatorily measured at fair value through profit or loss ("FVTPL"),
- Financial assets held for trading ("FVTPL"),
- Financial liabilities measured at amortised cost ("AC") and
- Financial liabilities measured at fair value through profit or loss ("FVTPL").

The Group has applied a IFRS 9 approach to the classification and measurement of financial assets that takes into account:
- The business model for managing financial assets and
- Characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at *amortised cost* if both the following conditions are met:
- The asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and
- The contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of principal and interest on the unpaid part of the principal.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred, or are expected to occur.

A financial asset is measured at *fair value through other comprehensive income* if both the following conditions are met:
- The asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and
- The contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.

Financial assets at fair value through other comprehensive income can also include investments in equity instrument if they are not held for trading and are designated so on initial recognition.

A financial asset is measured at *fair value though profit or loss* if it is not measured at amortised cost or at fair value through other comprehensive income, or if it is designated at FVTPL on initial recognition.

All financial liabilities of the Group, except for financial liabilities held for trading, financial liabilities designated at FVTPL on initial recognition and hedging derivatives, are measured at amortised cost.

a) Business Model Assessment

Business model ("BM") refers to the way the Group manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The following is considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) is evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the Group are compensated (eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity; and
- Whether sales activity and the collection of contractual cash flows are integral or incidental to the business model

The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument but is determined at a higher level of aggregation.

The business model assessment resulted in the following business models of the Group:

Business model "Held to collect" comprises the banking book and was assigned mainly to the lending portfolio and the portfolio of debt securities that are held with the intention to collect contractual cash flows.

Although the objective of the business model is to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus this business model can be to hold loans and bonds to collect contractual cash flows even where limited sales of financial assets occur or are expected to occur in the future.

Sales are consistent with the held-to-collect business model in the following situations:
- The sales are due to an increase in the credit risk of a financial asset;
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent).

The *business model "Held to collect and sell"* comprises the banking book and was assigned mainly to:
- The portfolio of debt securities whose objective is achieved by both collecting contractual cash flows and selling financial assets; these are used primarily for liquidity, interest and duration management, and
- Equity instruments irrevocably designated at FVTOCI on initial recognition.

The *"Other" business model* was assigned to financial instruments (debt securities, derivatives and equity instruments) that are not allocated to any of the above business models and the main strategy is:
- Trading:
  - To realise cash flows through sale of the assets or
  - To manage the instruments actively on fair value basis in order to realise fair value changes arising from market factor changes like yield curves, credit spreads etc.
- Managing Risk Weighted Assets, or
- Liquidity and interest rate management up to one year.

b) Analysis of Contractual Cash Flow Characteristics

For the classification of financial assets based on the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows – assessment whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest ("SPPI Test"). This analysis is only performed at initial recognition of the instrument.

For this purpose, interest is defined as a consideration for the time value of money, the credit risk associated with the principal during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

This analysis is performed for loan products either at "contract template" level for standardised products, or at contract by contract level for tailored corporate loan contracts. For securities, the analysis is performed at ISIN level using mainly an external data provider.

Modified Time Value of Money

The time value of money is the element of interest that provides consideration for the passage of time. It does not take into account other risks (credit, liquidity, etc) or costs (administrative, etc) associated with holding a financial asset.

In some cases, the time value of the money element may be modified (imperfect). This is the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case, the Group must assess the modification to determine whether the contractual cash flows still represent solely payments of principal and interest, ie the modification term does not significantly alter the cash flows from a perfect benchmark instrument. For this assessment, the Group uses a Benchmark tool developed at UniCredit Group level.

c) Recognition and Measurement of Financial Assets

Financial assets at amortised cost

"Financial assets at amortised cost" are recognised in the Group's accounting books from the moment of settlement. Foreign exchange gains and losses and impairment losses are recognised in the Group's profit or loss from the trade date.

Financial assets at amortised cost are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts during the expected life of the financial asset or liability to the gross carrying amount of the financial asset or liability. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using an effective interest rate over the expected life of the loan. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate.

Financial assets at amortised cost represent loans and advances to banks, loans and advances to customers and debt securities.

"Purchased or originated credit-impaired financial assets" (POCI) are financial assets that are credit-impaired on initial recognition. The Group recognises POCI when fresh money is granted to a credit-impaired borrower or if a restructuring results in the "renewed ability to draw existing unused credit lines/commitments". The Group identified no POCI assets during 2019, or in 2018.

POCI is measured at amortised cost using credit-adjusted EIR. On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the credit-adjusted EIR. The credit-adjusted EIR is calculated using the expected cash flows inclusive of future lifetime expected credit losses – ie the estimated contractual cash flows are reduced by lifetime expected credit losses. For subsequent measurement, the expected credit losses for POCI assets are measured as lifetime expected credit losses. However, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance, and not the total amount of expected credit losses. Interest income on POCI, is calculated using the credit adjusted EIR.

Gains and losses arising from financial assets carried at amortised cost are recognised in profit or loss when the financial asset is derecognised (in the item *"Net income/(loss) from the sale or repurchase of: Financial assets at amortised cost")* or impaired (in the item *"Impairment losses on: Financial assets at amortised cost")*, and through the amortisation process in the item *"Interest income"* using the effective interest rate method.

Financial assets at fair value through other comprehensive income

"Financial assets at fair value through other comprehensive income" are recognised in the Group's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Group's other comprehensive income since the trade date; impairment losses are recognised since the trade date.

Financial assets at FVTOCI are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value.

Gains and losses arising from a change in the fair value of debt instrument assets at fair value through other comprehensive income are recognised in other comprehensive income and become the equity item *"Reserve funds from revaluation"*, with the exception of expected credit losses that are reported in profit or loss as *"Impairment losses on: Financial assets at fair value through other comprehensive income"*. When financial assets are sold, transferred or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to profit or loss as *"Net income/(loss) from the sale or repurchase of: Financial assets at fair value through other comprehensive income"*. Interest income from fair value through OCI debt securities is recognised in the income statement as "*Interest income*" using the effective interest rate method.

Financial assets at FVTOCI include debt instruments and equity instruments (designated at FVTOCI on initial recognition).

"Equity instruments designated at FVTOCI on initial recognition" – on initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income.
This decision is made on an investment–by–investment basis for each investment and covers strategic interests. Subsequent changes in fair value from revaluation are recognised during the life of the equity instrument in the item *"Reserve funds from revaluation"* and, on its derecognition, the subsequent changes are not recognised in profit or loss. After derecognition of the investment, the final cumulative changes in fair value are recognised in retained earnings.

Dividend income from equity instruments is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

Financial assets at fair value through profit and loss

"Financial assets at fair value through profit or loss" are recognised in the Group's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Group's profit or loss since the trade date.

Initial and subsequent measurement of the financial assets at fair value through profit or loss is at fair value.

Financial assets at FVTPL include financial assets:

- *Held for trading* (debt instruments or derivatives)
- *Mandatorily at fair value*
- *Designated at FVTPL* on initial recognition.

"Financial assets at fair value through profit or loss: Held for trading" include instruments held by the Group principally for the purpose of short-term profit taking. These instruments include investments in debt and equity instruments, certain purchased receivables and derivative contracts that are not designated as hedging instruments.

A gain or loss arising from sale or redemption, or a change in the fair value of a held for trading financial asset is recognised in profit or loss in the item *"Net income/(loss) from trading"*, including gains or losses related to derivative contracts that are linked to assets and/or liabilities designated at fair value. Interest income from financial assets held for trading is recognised in profit or loss in the item *"Interest income"*. If the fair value of a financial instrument falls below zero, which may happen in the case of derivative contracts, it is recognised in the item *"Financial liabilities at fair value through profit or loss: Held for trading"*.

All purchases and sales that require delivery within the time frame established by regulation or market convention *("regular way")* are recognised as *spot transactions*. Regular way transactions / spot transactions are recognised at the settlement date, which is the date when a financial instrument is delivered. Transactions that do not meet the regular way settlement criteria are treated as derivatives.

A *derivative* is a financial instrument or other contract that has all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the "underlying"), provided for a non-financial variable that the variable is not specific to a party to the contract;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- It is settled at a future date (except for regular way transactions).

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The host instrument is not a financial asset pursuant to IFRS 9;
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is either not measured at fair value or it is measured at fair value but changes in fair value are recognised in other comprehensive income.

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

Derivatives are recognised in the Group's accounting books from the trade date. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of the assets are recognised in the Group's profit or loss in the item *"Net income/(loss) from trading"* since the trade date.

Derivatives are classified as trading derivatives unless they qualify as hedging instruments in effective hedging. For hedging derivatives policy, see section III. Significant Accounting Policies, point 4. Hedging Derivatives.

Financial assets are classified as *"Financial assets at fair value through profit or loss: Mandatorily at fair value"* if they do not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income. The following assets are classified in this portfolio:

- Debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- Debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- Units in investment funds;
- Equity instruments not held for trading for which the Group does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

These assets are accounted as for *"Financial assets at fair value through profit or loss: Held for trading"*, however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/*

(loss) from financial assets/liabilities at fair value through profit or loss". Interest income from financial assets mandatorily at fair value is recognised in profit or loss as *"Interest income"*.

"Financial assets at fair value through profit or loss: Designated at FVTPL"- the Group has the option at initial recognition to irrevocably designate a non-derivative financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency, ie an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on a different basis. In 2019 and in 2018 the Group held no such assets.

These assets are accounted as for *"Financial assets held for trading"* however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*".

Interest income from financial assets designated at FVTPL is recognised in profit or loss as *"Interest income"*.

d) Modification and Derecognition of Financial Asset

A financial asset is derecognised when the Group loses the contractual rights to the cash flow from an asset or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or surrendered.

Assets measured at fair value through other comprehensive income and assets at fair value through profit or loss that are sold are generally derecognised and the corresponding receivables from the buyer are recognised at the settlement date.

The Group also derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified in stage 1 for the purposes of ECL calculation unless it is credit impaired, in which case it is classified as POCI.

When assessing whether the change is a material change in contractual cash flows, the Group considers the following factors:
- Change in the currency of the loan;
- Change of the debtor;
- Change causing failure to meet the SPPI test; and
- Change for business reasons (eg maturity extension, change in interest rate).

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such case, the Group recognises gains or losses from modification (modification accounting), representing the difference between:
- The present value of modified expected cash flows (disregarding the credit losses) discounted using the original EIR and
- The current gross carrying amount.

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing a failure to meet the SPPI test as if performed at the modification date) are considered to be changes that do not significantly affect the related cash flows.

e) Write-offs

The Group writes off a financial asset or a part thereof when it has no reasonable expectations of recovering the respective cash flows (from the receivable itself or the collateral received). When performing a write-off, the gross carrying amount of the asset is reduced together with the related loss provision. Direct write-offs and recoveries on written-off loans are reported in line *"Impairment losses on: Financial assets at amortised cost"*.

Financial assets written off which are subject to further enforcement are recorded in the off-balance sheet. If the Group, after writing off a financial asset, collects additional amounts from the client, the additional recovery is recognised in the income statement under the item *"Impairment losses on: Financial assets at amortised cost"*.

f) Recognition, Measurement and Derecognition of Financial Liabilities

"Financial liabilities at amortised cost" comprise financial instruments (other than liabilities held for trading or those designated at fair value) representing the various forms of third-party funding. Financial liabilities at amortised cost include deposits from banks, deposits from customers and debt securities issued.

These financial liabilities are recognised at the settlement date initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method. Such interest is recognised in the item *"Interest expenses"*.

"Debt securities issued" are recognised net of repurchased amounts; the difference between the carrying value of a liability and the amount paid to buy it is recognised in the income statement in the line *"Net income/(loss) from the sale or repurchase of: Financial liabilities"*. Subsequent disposal by the issuer is considered as a new issue which does not produce gains or losses.

The item *"Financial liabilities at fair value through profit or loss"* includes financial liabilities held for trading and financial liabilities designated at FVTPL on initial recognition. Related interest is recognised in the item *"Interest expenses"*.

"Financial liabilities at fair value through profit or loss: Held for trading" include financial instruments held by the Group principally for the purpose of short-term profit taking. These instruments include short sales (obligations to deliver financial assets borrowed by a short seller (ie an entity that sells financial assets it does not yet own)) and derivatives that are not designated as hedging instruments.

"Financial liabilities at fair value through profit or loss: Held for trading", including derivatives contracts, are measured at fair value on initial recognition, as well as during the life of the transaction. A gain or loss arising from sale or redemption or a change in the fair value of a held for trading financial liability is recognised in profit or loss in the item *"Net income/(loss) from trading"*.

"Financial liabilities at fair value through profit or loss: Designated at FVTPL" – financial liabilities, like financial assets, may also be designated, according to IFRS 9, on initial recognition as measured at fair value, provided that:

- This decision provides more relevant information as:
  - It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of assets or liabilities or recognition of the respective profits or losses on a different basis; or
  - The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Group on this basis; or
- The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Group can include the entire hybrid contract in this category, with the exception of cases where:
  - The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
  - It is clear from the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
- The financial liability that arises when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

Financial liabilities presented in this category are measured at fair value at initial recognition as well as during the life of the transaction. The changes in fair value are recognised in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss",* except for those changes in fair value arising from changes in the creditworthiness of these financial liabilities. In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to shareholders' equity. If such accounting treatment results in an inconsistency that arises from the application of different methods of measuring assets and liabilities, and related gains or losses, then the changes in fair value deriving from changes in creditworthiness are also recorded in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss*".

In 2019 and in 2018 the Group held no such liabilities.

A financial liability is derecognised when it is settled.

g) Reclassification of Financial Instruments

Financial instruments are not reclassified subsequent to their initial recognition aside from reclassification in the reporting period after a change in the respective business model.

Reclassifications are expected to be very infrequent. Such changes must be determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties.

The following external or internal changes may result in a business model change:

- Changes in laws and regulations concerning certain assets that obliges the entity to review its business model;
- Changes in strategy concerning certain asset's class, asset's geography, product type;
- Business combinations that induce the entity to review its business model concerning certain financial assets;
- The Group begins or ceases to perform an activity that is significant to its operations.

The following are not considered to be changes to a business model:

- A change in intention related to specific financial assets (even in circumstances of significant changes in market conditions);
- A temporary disappearance of a particular market for financial assets; or
- A transfer of financial assets between parts of the entity with different business models.

Any reclassification is applied by the Group prospectively, so the Group does not adjust any previously recognised gains, losses (including impairment gains or losses) or interest.

Investments in equity instruments that are designated as at FVTOCI at initial recognition may not be reclassified, as a decision to designate them as at FVTOCI is irrevocable.

h) Day 1 Profit/Loss

If the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in profit or loss, except for Level 3 fair value measurement. The Group typically does not conduct this type of transactions.

2. Impairment of Financial Instruments

The Group recognises impairment losses on its debt financial instruments, other than those measured at FVTPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supporting information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For reporting and provisioning purposes, the Group uses a three-stage model in line with IFRS 9 that takes into account changes in credit risk since initial recognition ("staging"):

- Stage 1 includes financial assets with a credit risk which has not increased significantly since initial recognition, as well as assets with low credit risk at the balance sheet date. The 12-month expected credit losses (or shorter depending on the maturity of the instrument) are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 2 includes financial assets with a credit risk which has increased significantly since initial recognition but for which there is no objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 3 includes financial assets for which there is objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category includes non-performing receivables.

Impairment models are adapted to comply with the accounting requirements stated in IFRS 9, and also follow the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

Subject to expected losses calculation are financial assets at amortised cost and the applicable off balance sheet exposures (such as loan commitments and financial guarantee contracts), all credit exposures assets classified at Fair Value through Other Comprehensive Income and Lease receivables.

Furthermore, specific adjustments are developed to the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters used for regulatory reporting purposes (Basel) to compound the Expected Credit Loss (ECL), and a model is developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is the time horizon which the ECL is expected to be calculated on.

On LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are to:

- Remove the conservatism only required for regulatory purposes;
- Introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- Include forward-looking information; and
- Extend the credit risk parameters in a multiyear perspective.

As for PDs, dedicated lifetime PD curves are developed for each main client segment based on cumulated default rates, and are calibrated to reflect a point in time and forward-looking expectation regarding portfolio default rates.

The Expected Credit Loss derived from such adjusted parameters is also compounded taking into consideration macroeconomic forecasts.

A key aspect deriving from the model when compounding the final Expected Credit Loss is the stage allocation model, which allocates credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets). Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant increase in credit risk since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

Stage 2 allocation assessment includes a combination of relative and absolute triggers. The main triggers include:

- The relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set to include all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (eg age, maturity, level of PD at origination). This procedure assesses whether there has been a material deterioration in credit quality since initial recognition;
- Absolute triggers such as backstops required by the regulation (ie 30 days past due); and
- Other internal relevant triggers (eg new classifications to Forborne).

The Group uses the "client default" definition in line with Regulation No. 575/2013 of the European Parliament and of the Council; specifically, a debtor's default involves situations where:

a. The debtor is in default with at least one repayment of the principal or related interest on any of its payables to the bank for a period greater than 90 days; and/or

b. It is likely that the debtor will be unable to settle its payables on a timely basis and in full without the bank resorting to realising collateral.

Standard cases where the debtor will be unable to settle its payables:
- Changes in contractual cash flows due to granting relief to the debtor (the "forbearance measure");
- The loan has been restructured or deferred for a long period;
- The debtor has committed credit fraud or has violated the financial commitments of the loan;
- The debtor is dead or insolvent;
- It is probable that the debtor will enter into bankruptcy or legal restructuring of its debts, etc.

In this evaluation, expected disposal scenarios are also considered as far as UniCredit Group Non-Performing Assets Strategy foresees the recovery of defaulted assets via their transfer.

When defining the perimeter of impaired assets, the Definition of Default currently applied by UniCredit Group has been adopted, which incorporates some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so-called "debtor approach").

Financial assets at amortised cost
Financial assets at amortised cost predominantly include loans and advances to banks, loans and advances to customers and trade receivables and are reported net, ie reflecting impairment losses.

Individual impairment losses adjust the net book value of individually assessed financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument. Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on historical losses while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

Financial assets at fair value through other comprehensive income
Impairment of debt financial assets at fair value through other comprehensive income in the amount of the expected credit loss is reported in profit or loss under "Impairment losses on financial assets". Impairment losses on equity securities classified as financial assets at fair value through other comprehensive income are not reported.

Trade receivables
Trade receivables impairment is calculated using a simplified approach based on days past due.

For additional information on Credit Risk Management, please refer to section V. Other Notes, point 35 b).

Loan commitments and financial guarantees
Under IFRS 9, the impairment requirements also apply to loan commitments and financial guarantees off the statement of financial position. The Group assesses on a forward-looking basis the expected credit losses associated with exposures from loan commitments and financial guarantee contracts.

When estimating life-time Expected Credit Loss for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The Expected Credit Loss is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of scenarios.

For financial guarantees, the Group estimates Expected Credit Losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of scenarios.

The Expected Credit Losses related to loan commitments and financial guarantee contracts are recognised under the item *"Provisions for risks and charges"* in the statement of financial position and under the item *"Net provisions for risks and charges: Loan commitments and financial guarantees given"* in the income statement.

3. Fair Value Measurement Principles

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and financial liabilities is based on their quoted market price on an active market at the balance sheet date without deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques that maximises market observable inputs and minimizing those unobservable.

Where discounted cash flow techniques are used, estimated future cash flows are based on Group management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Group would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties and of the Group.

Bonds in the Group's portfolio are valued on a daily basis using available market rates quoted by market participants using Bloomberg services. A group of contributors who provide reliable and regular bond valuations is selected for each of the bonds. The credit spread of the bond is calculated from particular contributions and discount curves.

If there are sufficient current market prices of contributions available, the valuation is calculated as an average value. To prevent possible errors of particular contributions, a comparison of daily changes is made at the same time.

If no market price is available as a source of valuation or the number of actual contributions is not sufficient, the Group will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Group continues to apply this method until:
- Market quotations are again available;
- The credit spread of a particular bond is adjusted based on a comparison of credit spreads of similar bonds;
- The Group receives other information about a change of the spread applied;
- The issuer's credit rating changes (change of internal and/or external rating, evidence from the market that creditworthiness is worsening); and
- The liquidity of the specific securities has deteriorated significantly.

Subsequently, the Group will carry out the valuation comprising new aspects of the market price, including an assessment of possible impairment losses (see section III. Significant Accounting Policies, point 2. Impairment, namely impairment of financial assets at fair value through other comprehensive income).

Group management believes that the fair value of the assets and liabilities presented in these financial statements can be measured reliably.

Financial assets and financial liabilities are classified into fair value levels depending on the quality of the input used in the valuation. Individual levels are defined as follows:
- Level 1 input – quoted (unadjusted) prices on active markets for identical assets or liabilities available to the Group as of the date of valuation;
- Level 2 input – input data other than the quoted prices contained in level 1 that are observable for an asset or liability either directly or indirectly. This category includes the instruments valued at: quoted prices of similar assets or liabilities on active markets; quoted prices of identical or similar assets or liabilities on markets that are not active; valuation techniques for which a significant input is observable on the market directly or indirectly; and
- Level 3 input – unobservable input data for an asset or liability. This category includes instruments under which valuation techniques contain an input not based on observable data and the unobservable input may have a significant impact on the instrument's valuation.

The Group evaluates the levels at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Fair Value Adjustments

Fair value adjustment is defined as the amount to be added to the market observed mid-price or to the theoretical price generated by a valuation model to obtain a fair value of the position. Therefore FVA are aimed at ensuring that the fair value reflects the exit price of a certain position.

Adjustments used are as follows:
- Credit/debit valuation adjustment (CVA/DVA);
- Model Risk;
- Close-out Costs;
- Other Adjustments.

Credit/Debit valuation adjustment (CVA/DVA)

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

Group CVA/DVA methodology is based on the following inputs/assumptions – simulation approach:
- New products that can be valuated are automatically included for CVA,
- Two sided bilateral CVA is used,
- EAD derived by simulation techniques – the whole portfolio of trades as well as risk mitigation techniques such as netting and margining with this counterpart is taken into account,
- PD – precise computation of counterparty exposure
  - Implied by current market default rates, obtained from Credit Default Swaps,
  - Use single name CDS where available, use sector curve approximations (based on internal rating and sector).

Funding Cost and Benefit Adjustment (FCA/FBA)

Funding Valuation Adjustment (FundVA) is the sum of a Funding Cost Adjustment (FCA) and of a Funding Benefit Adjustment (FBA) that accounts for the expected future funding costs/benefits for derivatives that are not fully collateralised. Most material contributors are in-the-money trades with uncollateralised counterparties.

UniCredit FVA methodology is based on the following inputs:

- Positive and Negative exposure profiles derived from leveraging on a risk-neutral spin-off of the Counterparty Credit Risk internal model;
- PD term structure implied by current market default rates obtained from credit default swaps;
- A funding spread curve that is representative of the average funding spread of peer financial groups.

Model Risk

Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available. In general, model risk is represented by the possibility that a financial instrument's evaluation is sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing. The model risk adjustment refers to the risk that the actual fair value of the instrument differs from the value produced by the model.

Close-out Costs

This measures the implicit costs of closing an (aggregated) trading position. The short position could be closed by a long position and vice versa, or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. Close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid, but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. In addition a close-out adjustment of the NAV is applied when there are penalties relating to a position write-off in an investment fund.

Other Adjustments

Other fair value adjustments not included in the previous categories may be taken into consideration to align the evaluation to the current exit price, according to the level of liquidity of the market and valuation parameters, eg adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

For Fair Value disclosures see section V. Other Notes, point 37. Fair Value of Financial Assets and Financial Liabilities.

4. Hedging Derivatives

Hedging derivatives are carried at fair value. Positive fair value is presented in the item *"Positive fair value of hedging derivatives"*, negative fair value is presented in the item *"Negative fair value of hedging derivatives"*. The method of recognising fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- The hedge is in line with the Group's risk management strategy;
- The hedge relationship is formally documented at the inception of the hedge;
- It is expected that the hedge relationship will be highly effective throughout its life;
- The effectiveness of the hedge relationship can be objectively measured;
- The hedge relationship is highly effective throughout the accounting period; and
- For hedging future expected transactions, it is highly probable that the transaction will occur.

As regards hedge accounting, the Group additionally used the option under IFRS 9 to continue applying the existing requirements for hedge accounting pursuant to IAS 39.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in the income statement in *"Net income from hedging against risk of changes in fair value"*. Realised interest income and expenses are reported on a net basis in *"Interest income"* or *"Interest expenses"*.

If a derivative hedges an exposure to the variability of cash flows related to recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in other comprehensive income in equity item *"Reserve funds from revaluation"*. The ineffective part of the hedge is recognised in the income statement.

If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately recognised in the income statement.

"Macro hedging" – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them). Accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates.

The Group applies macro hedging to some financial liabilities. Net changes, gains or losses, in the fair value of the macro-hedged liabilities attributable to the hedged risk are recognised in the liability item *"Changes in fair value of the portfolio of hedged instruments"* and offset the income statement item *"Net income/(loss) from hedging against the risks of changes in fair value"*.

5. Repo transactions and reverse repo transactions

Securities sold under an agreement to repurchase them at a specified future date are also known as *"repo transactions"* or *"sale and repurchase agreements"*. Securities sold in such transactions are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, as the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another counterparty under a repo transaction are measured in accordance with the appropriate accounting policy for such financial asset.

Securities sold under a repo transaction are recorded as assets in the line *"Financial assets at fair value through other comprehensive income"* or in the line *"Financial assets at fair value through profit or loss: Held for trading"*, and received loan, including accrued interest, is included in the line *"Financial liabilities at amortised cost: Deposits from banks"* or in the line *"Financial liabilities at amortised cost: Deposits from customers"*.

Debt securities purchased under agreements to purchase and resell at a specified future date, also known as "*reverse repos*" are not recorded in the Group´s statement of financial position but are presented in the off-balance sheet. The consideration paid (provided loan), including accrued interest, is recorded in the line *"Financial assets at amortised cost: Loans and advances to banks"* or in the line *"Financial assets at amortised cost: Loans and advances to customers"*.

The difference between the sale and repurchase considerations for both repo and reverse repo transactions are recognised on an accrual basis over the period of the transaction using the EIR and are recognised in the income statement in *"Interest income"* or *"Interest expenses"*.

For sale of a security acquired from reverse repo, the Group derecognises the securities acquired from off-balance sheet and records a payable from a *"short sale"*, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading"* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

"Sell-buy" and "Buy-Sell" transactions are accounted for in the same way as *"repo transactions" and* "*reverse repos*".

6. Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements continue to be recognised in the statement of financial position if the risks and rewards of ownership are retained by the Group and are measured in accordance with the appropriate accounting policy for such financial assets.

Financial assets borrowed under securities borrowing agreements are not recognised in the Group's statement of financial position but are presented in off-balance sheet.

For sale of a security acquired on the basis of securities borrowing arrangements, the Group derecognises the securities acquired from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading",* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

Income and expenses arising from the borrowing and lending of securities are recognised on an accrual basis over the period of the transactions in the item *"Fee and commission income"* or *"Fee and commission expenses"*.

7. Offsetting

Financial assets and liabilities may be offset against each other, and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis. In the current and comparative period, the Group does not offset any financial assets and financial liabilities.

8. Cash and cash balances

Cash comprises cash in hand and cash in transit. Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

"Cash and cash balances" are not carried at fair value on the statement of financial position, but are carried at amounts that approximate to fair value, due to their short-term nature and generally negligible credit risk.

Cash, cash balances at central banks and other demand deposits consist of cash balances and advances with the Czech National Bank and National Bank of Slovakia.

The item *"Cash and cash balances"* does not include the compulsory minimum reserve which is presented in the item *"Financial assets at amortised cost: Loans and advances to banks"*.

The compulsory minimum reserve held at the Czech National Bank and at the National Bank of Slovakia is a required deposit with restricted drawing which must be held by all commercial banks licensed in the Czech Republic and in Slovakia respectively.

9. Property and Equipment

Accounting policy applied in 2018 and in 2019

Property and equipment are assets which may be used for a period longer than one year. The Group has property and equipment to conduct its activities.

Property and equipment are initially recognised at cost including all costs directly attributable to bringing an asset into use.

After being recognised as an asset:

- Buildings and lands used in the business are measured according to cost model;
- Tangible assets used in the business, other than lands and buildings, are measured according to cost model.

In the cost model, assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over the respective estimated useful lives) for individual categories of property and equipment are as follows:

• Buildings	20–50 years
• Technical improvement of buildings protected as cultural heritage	15 years
• Technical improvement of rented premises	10 years or in accordance with contract
• Air-conditioning equipment	5 years
• Machinery and equipment	3–10 years
• Bank vaults	20 years
• Fixtures and fittings	5–10 years
• Motor vehicles	4–5 years
• IT equipment	4 years
• Low value tangible assets	2–3 years

Tangible assets (including right of use assets) are assessed for potential impairment or a reduction in useful life. If events or changes in the conditions occur that could result in the carrying amount not being recoverable, the carrying amount is written down to the recoverable amount if the carrying amount is higher than the estimated recoverable value. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

The gains and losses on disposal are determined based on the net book value and are included in the item "*Other operating income and expenses*". The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised.

Property and equipment which the Group intends to sell within 12 months, is classified as *"Non-current assets held for sale"*. Such property and equipment is reclassified at the lower of its carrying amount or its sales value less disposal costs. Profit or loss from the sale is presented in the item *"Profit/(loss) from the sale of non-financial assets"*.

Change in accounting policy since 31 December 2019

For the purposes of preparing the financial statements at 31 December 2019, the Group decided to change subsequent measurement of the following assets:

- Properties used in business (ruled by IAS 16 "Property, plant and equipment") being reclassified from the cost model to the revaluation model for the measurement subsequent to initial recognition;
- Properties held for investment (ruled by IAS 40 "Investment property") being reclassified from the cost model to the fair value model.

This decision was driven by the decision of the ultimate parent company UniCredit S.p.A. made by its Board of Directors during a meeting held on 2 December 2019.

The Group believes that measuring real estate assets at fair values (instead of at cost) provides more reliable and relevant information about the Group's financial position and economic result in line with the provisions of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

The Group believes that the change in the measurement of properties will provide a more accurate representation of the financial position, as fair values will reflect the increase in the value of the properties which the Group expects to occur as a result of the enhancement of the properties with a view to potential disposal of the properties. In 2019, UniCredit Group adopted a new strategy of managing its real estate portfolio which it will actively seek to optimise in the light of changing market circumstances and changes to its operational models. The Group expects to realise value from a portion of the portfolio over the medium term through targeted disposals.

The fair value model allows the Group to represent the changes in value of the properties at the moment they arise, in compliance with the objectives of the newly-adopted active management of the real estate portfolio. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in the sale price) and cost which, as stated, may no longer be meaningful if the acquisition of real estate assets did not take place recently.

In addition, the adoption of a fair value model allows a more accurate representation of the financial position of the Group, as it represents the value of the real estate properties at a single reference date – the date of preparation of the financial statements. This avoids heterogeneity in valuation inherent in the cost model which reflects market conditions at different times, ie the purchase dates.

Voluntary changes in accounting principles (accounting policies) are regulated by IAS 8 which establishes, as a general rule, that these changes must be made retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. Paragraph 17 of IAS 8 states that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost model to the revaluation model must be made prospectively. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle in IAS 8. Therefore no adjustment of the opening balances of the comparative year and of the comparative data have been made.

Consequently, for the properties used in business, under IAS 16, the transition from a cost valuation to a valuation at fair value, required the determination of the related fair value at 31 December 2019.

The differences between this value and the previous value determined by applying the "cost" criterion are recognised:
- If negative, in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value*",
- If positive, in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"*.

The "*Reserve funds from revaluation"* will be linearly transferred to the item "*Retained earnings and reserve funds*" over the residual life of the particular property used in business. In the event of the sale of the asset, the reserve not yet reversed will be reclassified to the item "*Retained earnings and reserve funds*".

The pay out of the revaluation surplus to shareholders is restricted and is eligible only in the event of the disposal of property.

As the change in the measurement method took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made in line with cost model.

From 2020 on, properties used in business, measured according to the IAS 16 revaluation model, will continue to be depreciated using the straight-line method over their useful life from the higher revalued amount.

The Group has chosen to apply the "restatement approach" when accounting for revaluation. This approach adjusts the gross carrying amount so that it matches the revaluation of the carrying amount of the property used in business and a concurrent adjustment of the cumulated depreciation (ie the restatement approach requires adjustment of the gross carrying amount and the cumulated depreciation by the ratio given by Fair Value/Net Carrying Amount before revaluation).

There is no exception from retrospective application for investment properties either in IAS 8 or in IAS 40 "Investment properties".

As a result, except for cases where it is not feasible to determine the related effects, the change in accounting policy is applied retrospectively.

This has determined:
- The carrying amount of the properties held for investment as of 1. January 2018 was adjusted to their fair value while the difference between cost and fair value was recognised in retained earnings;
- Properties held for investment were revalued at fair value as of 31. December 2018 and 31. December 2019 with changes recognised in the income statement (both the positive and negative differences); comparative information as of 31. December 2018 was restated.

Starting from 2020, properties held for investment will continue to be measured at fair value with recognition of the differences in the income statement and will no longer be subject to depreciation and / or impairment.

Fair value was determined through the use of external independent expert valuations.

Impacts deriving from the change in the valuation criterion for tangible assets

In the consolidated financial statements as at 31 December 2019, the change in the measurement model of the real estate properties resulted in an overall positive balance sheet effect of MCZK 425 as detailed below:
- For properties used in business, the recognition of a revaluation of MCZK 329 gross of the tax effect. This value, net of deferred tax, in the amount of MCZK 261 was attributed to the item "*Reserve funds from revaluation"* in equity. In addition to this higher value, net losses of MCZK (1) were recognised in the income statement

gross of the tax effect in the item "*Net income/(loss) on property and investment property measured at fair value*".

- For properties held for investment:
  - The recognition of a revaluation of MCZK 112 gross of the tax effect as a re-exposure of the opening balances of equity as of January 1, 2018 (as a reserve from the first application of the new accounting principle). This value, net of deferred tax, in the amount of MCZK 90 was attributed to the item "*Retained earnings and reserve funds*" in the equity as of January 1, 2018;
  - The restatement of the item "*Retained earnings and reserve funds*" relating to 31 December 2018 (incl. the item "*Profit for the period*") as a consequence of changes in the fair value of properties during the previous year and the fact that properties held for investment are no longer subject to depreciation, for an equal amount MCZK (21) gross of the tax effect (MCZK 0 net of the tax effect);
  - The recognition in 2019 income statement of a result equal to MCZK 203 gross of the tax effect (MCZK 164 net of the tax effect);

The following tables summarise the effects on the balance sheet assets and liabilities as of 1. January and 31. December 2018 as well as the changes in the income statement for the year ended at that date following the retrospective application of the change in the measurement model of the properties held for investment:

	1 Jan 2018		31 Dec 2018	
	Before change	After change	Before change	After change
Assets				
Investment property	680	792	646	646
Total assets	**672 056**	**672 168**	**671 615**	**671 615**
Liabilities				
Tax liabilities, of which deferred tax	606	628	702	702
Total liabilities	**600 686**	**600 708**	**595 876**	**595 876**
Equity				
Retained earnings and reserve funds	49 650	49 740	53 530	53 620
Profit for the period	n/a	n/a	9 047	8 957
Total shareholder's equity	**71 370**	**71 460**	**75 739**	**75 739**
Total liabilities and shareholder's equity	**672 056**	**672 168**	**671 615**	**671 615**

The Group has evaluated idiosyncratic risk connected to its single-tenant investment properties portfolio and concluded that the fair value should be decreased due to the increased risk of the single tenant leaving. The information about the tenants intentions only came to the Group's intention in during financial year 2018.

	31 Dec 2018	
	Before change	After change
Depreciation and impairment of property, equipment and right of use assets	(908)	(873)
Operating expenses	**(8 514)**	**(8 479)**
Net income/(loss) on property and investment property measured at fair value	n/a	(146)
Profit before income tax	**11 144**	**11 033**
Income tax	(2 097)	(2 076)
Profit after tax	**9 047**	**8 957**
Net profit attributable to the Group's shareholders	**9 047**	**8 957**
Total comprehensive income	**8 115**	**8 025**
Total comprehensive income attributable to the Group's shareholders	**8 115**	**8 025**

10. Investment Property

Investment property represents assets held by the Group in order to earn rentals or for further capital appreciation.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value and changes in fair value (positive as well as negative) are recognised in P&L in the item *"Net income/(loss) on property and investment property measured at fair value"*. Fair value of investment property is reported in the item *"Investment property"*. No depreciation charges or impairment adjustments are recognised.

Rental income is recognised in the item *"Other operating income and expenses"*.

The transition from the cost model to the fair value model was carried out retrospectively since 1 January 2018. For the description of the change in accounting policy see previous point 9. Property and Equipment.

11. Intangible Assets

Intangible assets are assets which may be used for a period longer than one year.
Intangible assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation period (over respective estimated useful lives) for intangible assets is as follows:

• Software and intangible assets	2–7 years or in accordance with the contract

Intangible assets are assessed for potential impairment or a reduction in useful life. If events or changes in the conditions occur that could result in the carrying amount not being recoverable, the carrying amount is written down to the recoverable amount if the carrying amount is higher than the estimated recoverable value. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

12. Leases

As of 1 January 2019, the Group has implemented the new standard IFRS 16 "Leases", which revises the current set of international accounting principles and interpretations on leasing accounting.

IFRS 16, effective from 1 January 2019 and endorsed by EU by Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a new definition for leases (ie received leases) and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor (ie provided leases). Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

a) Provided Finance Lease

A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards of ownership.

Receivables from finance leases are reported as equal to the net investment in the lease upon receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equal the gross investment in the lease (as finance lease contracts include a clause on purchase at the end of the lease period, there is no unsecured net book value). The difference between the gross and net investment in the lease represents deferred financial income reported as interest income over the lease period with the constant periodic profitability of the net investment in the finance lease. The amounts received from the lessee reduce the net investment.

Group receivables from finance leases include the cost of assets leased under finance leases in contracts where the asset has been already acquired, but the finance lease contract was not capitalised at the balance sheet date.

Significant contractual conditions for finance leases are as follows:

- The subject of the lease is specified in the text of the lease contract or in the acceptance certificate (part of the lease contract);
- The duration of the lease begins on the day of the acceptance of the subject of the lease by the lessee and ends upon the expiration of the agreed lease term;
- The lessee is authorised to purchase the subject of the lease from the lessor;
- The subject of the lease remains in the exclusive ownership of the lessor throughout the duration of the lease. The ownership is transferred to the lessee/buyer on the day the purchase price as per the purchase agreement is credited to the lessor's account;
- The purchase price and all amounts in the lease contract are net of VAT. The VAT rate is set by law and is indicated separately in invoices;
- The consideration for the lease includes an extraordinary lease payment, contractual flat fee (e.g. the processing and administration of the lease contract) and the number of lease payments indicated by the contract and calculated from the acquisition cost (in CZK or a foreign currency);
- The subject of the lease must be insured throughout the lease term; and

- The lessor may prematurely terminate the lease contract at any time without a notice period by withdrawal or by a notice with immediate effect if the lessee significantly breaches or fails to meet the obligations and commitments arising from the lease contract. In such a case, the lessee is obliged to make all the remaining lease payments to the lessor in line with the payment calendar. Payments are due upon the premature termination of the lease contract.

The finance lease receivables are presented in the item "*Financial assets at amortised cost: Loans and advances to customers*".

b) Provided Operating Leases

Other leases are classified as operating leases. The leased asset continues to be owned by the lease company after the termination of the lease contract.

Income from operating leases is reported in "*Other operating income and expenses*".

c) Received Operating Leases

Accounting policy applied in 2018

Payments under contracts for received operating leases are included in "*Administrative expenses*" evenly over the period of the lease contract.

In the event of contract cancellation before the end of the lease contract, all penalty payments are accounted for as a period cost at the time of cancelling the lease.

Accounting policy applied in 2019

IFRS 16 requires that a lessee recognises an asset, representing the right of use of the underlying asset, and at the same time, a liability reflecting future payments of the lease contract for all of the leasing types.

At initial recognition, such an asset is measured on the basis of the lease contract cash flows which include, in addition to the present value of lease payments, any initial direct cost attributable to the lease, lease payments paid before the commencement date and any other costs required to dismantle/remove the underlying asset at the end of the contract and is decreased by incentives received. Right of use assets are reported in the item "*Property, equipment and right of use assets"*.

After initial recognition, the right-of-use is measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any accumulated impairment losses. The depreciation period is equal to the determined lease term. Accumulated depreciation and any accumulated impairment losses are reported in the item "*Depreciation and impairment of property, equipment and right of use assets*".

In this respect, the Group performed activities to ensure compliance with IFRS 16, especially in relation to the calculation and initial recognition of the right of use and lease liability, which represent the primary discontinuity compared to the accounting model required under IAS 17 "Leases".

The activities focused on the development of rules, principles and IT systems to be used for assessment of new assets and liabilities and the subsequent calculation of economic effects have been finalised.

To calculate the lease liability and related assets based on the right of use, the Group discounts future lease payments using an appropriate discount rate. Lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, as the obligation to pay this tax originates at the moment an invoice issued by the lessor and not as of the date of commencement of the lease contract.

To perform these calculations, payments must be discounted using the implicit interest rate based on the lease contract or, if this is not available, the incremental borrowing rate. This is determined based on the costs of financing a liability of similar duration and similar security to what is contained in the lease contract.

Lease liabilities are reported in the item "*Financial liabilities at amortised cost: Deposits from customers"* based on the counterparty. After initial recognition, lease liabilities are increased by the interest expenses calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expenses are reported in the item "*Interest expenses*".

<u>IFRS 16 "Leases" – First time adoption ("FTA")</u>

The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

In line with the standard, the Group decided not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets. Related expenses are presented on an accrual basis in the item "*Administrative expenses*".

The Group decided to use a modified retrospective approach and not to recalculate the comparative information for the reporting period before 1 January 2019. For the purposes of initial recognition as of 1 January 2019 it recognised the right to use in the amount corresponding to the lease liability adjusted by prepaid or deferred lease payments.

Upon adoption of IFRS 16, the Group recognised lease liabilities in relation to leases previously classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.00%.

IFRS 16 FTA impact in relation to Consolidated Statement of Cash Flows is included in the item "*Other non-monetary changes*".

Reconciliation of lease commitments disclosed as at 31 December 2018 to the Lease liability recognised as at 1 January 2019	
Operating lease commitments disclosed as at 31 December 2018	1 455
Discounted using the Group's incremental borrowing rate of 1.00%	1 424
(Less): short-term leases recognised on a straight-line basis as expenses	(13)
Add: adjustments as a result of a different treatment of extension and termination options	886
Lease liability recognised as at 1 January 2019	**2 297**

Impact of IFRS 16 first time adoption on the statement of financial position (increase/(decrease)) as at 1 January 2019 on balances as at 31 December 2018	
Assets	
Right of use assets in the item "Property, equipment and right of use assets"	2 213
Prepayments in the item "Other assets"	(17)
Liabilities	
Lease liabilities in the item "Financial liabilities at amortised cost: Deposits from customers"	2 297
Accrued payments in the item "Other liabilities"	(101)
Net impact on equity	**–**

The vast majority of right of use assets / lease liabilities is related to the Group's headquarter and its branches.

A summary of amounts in relation to operating leases received under IFRS 16 as of 31 December 2019 is presented in the following tables:

Consolidated Statement of Comprehensive Income	Point in the section V. Other Notes	**2019**
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(352)
Interest expenses	1. Net interest income	(21)
Consolidated Statement of Financial Position	Point in the section V. Other Notes	**31 Dec 2019**
Right of use assets	18. Property, equipment and right of use assets	1 953
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	2 047

13. Factoring

Factoring represents the purchase of short-term receivables at nominal values that originated on the basis of supplies of goods or services made by a supplier to a customer and that are not past due.

The factoring company pays part of the purchase price "pre-financing" to the supplier. Receivables from purchased receivables are reported in *"Financial assets at amortised cost: Loans and advances to customers"* net of the payable arising from the purchased receivables. Once the customer makes the payment, the remaining part of the purchase price is paid to the supplier.

In return for its services, the Group collects a fee for the provided pre-financing. The fee is recognised in revenues at the point in time when the transaction takes place and reported in the item *"Fee and commission income"*. In addition to the fee, the Group charges interest, the absolute amount of which depends on the amount of pre-financing made and the length of the time period between the provision of part of the purchase price and collection of the payment from the customer. This interest is reported in the item *"Interest income"*.

14. Provisions for Risks and Charges

Provisions for risks and charges relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions for risks and charges are recognised when:

- There is an obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%); and
- The amount of the obligation can be reliably estimated.

A restructuring provision is recognised when the following criteria are met:

- The Group has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place as the implementation of the plan has commenced or its main features have been announced.

When creating provisions for off-balance sheet items, the Group proceeds analogically as for the impairment losses on financial assets at amortised cost or financial assets at fair value through other comprehensive income, in line with IFRS 9 requirements.

The provisions for off-balance sheet items are recorded in the statement of financial position in the item *"Provisions for risks and charges"*.

15. Deferred Bonuses

The Group accounts for deferred bonuses on an accrual basis. Related liability is recognised in the item *"Other liabilities"* against the income statement item *"Administrative expenses".*

The Group Incentive System and the Local Incentive System are applied to the identified positions. Payment of the bonus for the given period is spread out over a multiple-year period.

Based on the Group Incentive System, the bonus payment is spread over 6 years (senior management) or 4 years (other identified staff). In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to a bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments or shares.

Based on the Local Incentive System, the bonus payment is spread over 4 years. In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments.

16. Contingent Assets and Liabilities

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The Group does not recognise contingent assets/liabilities in the statement of financial position, but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50%, the Group recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100%, the Group recognises an asset and revenue.

17. Interest Income and Interest Expenses

Interest income and interest expenses are recognised in the income statement in the period to which they relate, using the effective interest rate method. Interest income is recognised using the effective interest rate on financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting, interest bearing financial assets measured at FVTOCI. Interest expenses are also calculated using the effective interest rate method for all financial liabilities at amortised cost.

Interest from loans and deposits is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial assets at amortised cost or at FVTOCI classified in stage 1 and 2 (ie performing assets) is calculated from the gross carrying amount (ie before allowances). Interest income on financial assets at amortised cost or at FVTOCI classified in stage 3 (ie credit impaired assets) is calculated from the net carrying amount (ie after allowances) using "*unwinding*".

Interest on financial assets and liabilities at FVTPL is calculated using the effective interest rate method.

In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Net interest income comprises interest income and interest expenses calculated using the effective interest method and other methods.

Interest income calculated using the effective interest method is disclosed separately in the income statement to provide symmetrical and comparable information.

18. Fee and Commission Income and Expenses

Fee and commission income and expenses consist of fees and commissions received/paid by the Group for providing financial services, other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expenses.

Fees and commissions from financial services provided by the Group, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services.

Fees and commission income are accounted for in the income statement as the Group satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules.

In particular:

- If the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognised in the income statement when the service is provided;
- If the performance obligation is satisfied over-time, the related revenue is recognised in the income statement in order to reflect the progress of satisfaction of such obligation.

Transaction fees coming from securities transactions and payment services are typically booked at the point in time when the service is provided and immediately withdrawn from customer account.

Fees related to management, administration, deposit and custody services, account administration and payment cards are normally recognised over time during the term of the contract. The revenue is measured on straight-line basis and is evenly distributed during the term of the contract as this method best depicts the Group's commitment to stand ready for fulfilment of customer requests. These services are mostly invoiced on regular basis (typically monthly), selected services are invoiced in advance.

Fees related to loans provided, other than those related to the origination, which form a part of the effective interest income, are either booked at the point in time when the service is provided or recognised over time during the term of the contract based on the type of services provided.

The amount of revenues linked to fee and commission income is determined based on contractual conditions. Variability that would have impact on amount that the Group expects to receive is not usually foreseen for services provided by the Group.

If a contract regards different goods/services which are not priced and charged on the stand-alone price level, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client. The stand-alone selling prices for free-of-charge customer options are determined using the adjusted market assessment method. Contract liability given by the customer options is not material.

The Group has decided, as practical expedient permitted under IFRS 15, not to disclose the amount of transaction price allocated to unsatisfied performance obligations related to fees and commissions from financial services. This is because the Group does not typically contract respective services for period that would be enforceable longer than 12 months. The only significant contract with deferred revenue for longer period than 12 months (contract with non-refundable up-front fees not related to specific services transferred to customer and thus linearly amortised to the item "*Fee and Commission Income*" during live of the contract – 5 and 15 years respectively) is included in the item *"Other liabilities"* in amount of MCZK 661 as of 31 December 2019 (as of 31 December 2018 MCZK 657).

19. Dividend income

Dividend income is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

20. Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period pursuant to Czech Accounting Standards to arrive at the taxable income base in the Czech Republic, which is further adjusted by tax allowances and relevant credits. The tax payable (item *"Tax liabilities: Income tax")* or receivable (item *"Tax receivables: Income tax")* is calculated using the tax rate valid at the year-end and reported in the expected amount of the settlement with the tax authorities.

The income tax of entities based in Slovakia is calculated in line with the regulations applicable in the Slovak Republic.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement, based on tax rates that have been enacted or substantially enacted. A deferred tax asset (item *"Tax receivables: Deferred tax"*) is only recognised to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised. A deferred tax liability (item *"Tax liabilities: Deferred tax"*) is recognised for all taxable temporary differences.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

These exceptions are subsequently reclassified from OCI to the income statement, together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only offsets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

21. Segment Reporting

IFRS 8 Operating segments states that presentation and reporting of operating segments shall be in accordance with performance criteria monitored by the chief operating decision-maker who is responsible for operational decisions. At the Group, that decision-maker is the Board of Directors of the Bank.

The Group's primary segment reporting is broken down by types of customers, which correspond to the Group's various operations: retail and private banking, corporate and investment banking and other.

The performance of all the segments is monitored monthly by the Board of Directors and other members of the Group's management. The reporting segments generate income primarily from the provision of loans and other banking products.

Retail and private banking encompasses in particular providing loans, mortgages, bank account maintenance, payment services (including payment cards), term and saving deposits, investment advisory services.

Corporate and investment banking, leases include especially the following products and services: providing banking services to companies and public institutions, including loans, leasing, factoring, bank guarantees, account maintenance, payment services, opening documentary letters of credit, term deposits, derivative and foreign currency operations, and capital market activities inclusive of securities underwriting for customers, investment advisory, and consulting on mergers and acquisitions.

Other reporting segment includes banking services that are not included within the aforementioned segments.

22. Standards and Interpretations Effective in the Current Period

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)" resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's financial statements, except for the adoption of IFRS 16 "Leases", whose impact is described in section III. Significant Accounting Policies, point 12. Leases.

23. Standards and Interpretations Published by the IASB, but not yet Effective or not yet Adopted by the European Union

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and are not yet effective:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board, and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation ("BMR"), UniCredit Group launched in October 2018 UniCredit Group wide project in order to manage the IBORs discontinuation.

The implications of IBOR reform on Group's financial statements are deemed to be insignificant as most of the Group's contract with variable interest rates are based on interest rate benchmarks that already fulfil the conditions set by BMR, ie based on PRIBOR or EURIBOR.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liabilities and derivatives cannot be excluded.

On this regard, on 15 January 2020 the Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform ("the Amendment") have been endorsed by the European Commission for use in EU. The Amendment solves a potential source of uncertainty on the effects of IBOR reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for the Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, the Group has adopted the Amendment with reference to 2019 Financials for its existing hedge accounting relationships involving other IBORs. Adopting the Amendment allows the Bank to continue hedge accounting during the period of uncertainty arising from IBOR reform as the Amendment includes a number of reliefs, that apply to all hedging relationships directly affected by IBOR reform. The Amendment permits continuation of hedge accounting even if:

- In the future the hedged benchmark interest rate may no longer be separately identifiable;
- Even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms;
- Even though there is uncertainty about the replacement of the floating interest rates included in its cross-currency interest rate swaps; or
- The retrospective assessment of hedge effectiveness fall outside the 80% - 125% range when the hedging relationship is subject to interest rate benchmark reforms.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The Group's hedge relationships with interest rate benchmark affected by IBOR reform are those with LIBOR whose notional values represents 2,1% of total notional value of all hedging instruments as of 31 December 2019 and thus insignificant.

Details of the Bank's hedge accounting relationships are disclosed in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives and Note 35 Financial risk management, part (c) Market risk.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations. The Group participates at the UniCredit Group wide project and analyses the IBOR reform affected contracts.

None of the Group's current IBOR reform affected contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Bank will consider to implement when appropriate.

New and amended IFRS standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the date of publication of these financial statements (the effective dates stated below are for IFRS as issued by IASB):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the Group's financial statements in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

IV. Critical accounting judgments, estimates and assumptions

These disclosures supplement the commentary on financial risk management (see section V. Other Notes, point 35. Financial Risk Management).

The presentation of the consolidated financial statements in conformity with IFRS requires Group management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. These estimates, which relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions and other areas, are based on the information available at the balance sheet date.

Business model assessment

The classification of financial assets is driven by the business model. Management applies judgment when determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment of whether cash flows are solely payments of principal and interest

Judgment is required to determine whether a financial asset's cash flows are solely payments of principal and interest and whether they are in line with the SPPI test. Judgment is required to assess whether risks and volatility of contractual cash flows are related to the basic lending arrangement. Features that require judgments include the modification of time value of money, assessment of whether prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments.

Impairment of financial assets

Assets accounted for at amortised cost and at fair value recognised through other comprehensive income (except for the FVTOCI option), lease receivables, trade receivables and loan commitments and financial guarantees (not accounted at FVTPL) are subject to impairment. Impairment is determined in the amount of the 12-month (or shorter depending on the instrument's maturity) expected credit loss for assets that have not experienced a significant increase in credit risk since initial recognition, and in the amount of lifetime expected losses for assets which have experienced a significant increase in credit risk since initial recognition or which are impaired. When assessing impairment, the return on financial assets is evaluated separately using the best possible estimate of the present value of future cash flows that are expected to be received. When estimating these cash flows, the Group management makes judgments about the debtor's financial situation and the net realisable value of any underlying collateral.

The creation of impairment allowances for expected credit losses and identified contingent liabilities involves many uncertainties concerning the outcomes of the risks stated above and requires Group management to make many subjective assessments when estimating the amount of losses. Measurement of impairment allowances for expected credit losses for financial assets of amortised cost and at fair value through other comprehensive income requires the application of models and significant judgments regarding future economic conditions and credit behaviour. Given current economic conditions, the result of estimates may differ from the impairment provisions recognised as at 31 December 2019 that are reported in items "*Impairment losses on: Financial assets at amortised cost*", "*Impairment losses on: Financial assets at fair value through other comprehensive income*" and "*Net provisions for risks and charges: Loan commitments and financial guarantees given*".

Determining Fair Values

Determining fair value of financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy, section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. For financial instruments that trade infrequently and have low price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Determining lease term – valid since the implementation of IFRS 16 as of 1 January 2019

To determine the duration of a lease, it is necessary to take into account the non-cancellable period set in the contract when the lessee is entitled to use the underlying asset, while taking into account the possibility of an extension if the lessee is reasonably certain to use the possibility of extension.

Especially for contracts that allow the extension of the lease contract after the end of the first period without the need to explicitly express the intention to use this extension, the period is determined with respect to factors such as the length of the first period, existence of plans to change the use of/abandon the asset and any other circumstances with an impact on the reasonable certainty of the extension of the lease contract.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is under its control and affects its ability to exercise or not exercise the option to renew or to terminate.

Hedge Accounting

When designating financial instruments as qualifying hedge relationships, the Group has determined that it expects a hedge to be highly effective over the life of the hedging instrument.

When accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Provisions for liabilities

The amounts recognised as provisions are based on management's judgment and represent the best estimate of expenses needed to settle a liability of uncertain timing or uncertain amount.

V. Other notes

1. Net interest income

	2019	2018
Interest income		
Financial assets at amortised cost:		
Loans and advances to central banks	5 693	3 446
Loans and advances to banks	613	648
Loans and advances to customers:	11 398	10 146
finance lease	668	670
other than finance lease	10 730	9 476
Financial assets at fair value through other comprehensive income	568	648
Financial assets at fair value through profit or loss:		
Held for trading	23	18
Mandatorily at fair value	–	5
Hedging derivatives	302	511
Other assets	–	13
Interest income	**18 597**	**15 435**
Interest expenses		
Financial liabilities at amortised cost:		
Deposits from central banks	(1)	(1)
Deposits from banks	(495)	(252)
Deposits from customers	(2 013)	(356)
Debt securities issued	(281)	(575)
Financial liabilities at fair value through profit or loss:		
Held for trading	(36)	(20)
Hedging derivatives	(1 172)	–
Lease liabilities	(21)	n/a
Interest expenses	**(4 019)**	**(1 204)**
Net interest income	**14 578**	**14 231**

Negative interest expenses from liabilities are reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2019 MCZK 72 (as of 31 December 2018 MCZK 163)
- Loans and advances to banks – as of 31 December 2019 MCZK 462 (as of 31 December 2018 MCZK 436)
- Loans and advances to customers – as of 31 December 2019 MCZK 11 (as of 31 December 2018 MCZK 8)

Negative interest income from assets is reported in interest expenses in the following lines:
- Deposits from central banks – as of 31 December 2019 MCZK (1) (as of 31 December 2018 MCZK (1))
- Deposits from banks – as of 31 December 2019 MCZK (7) (as of 31 December 2018 MCZK (12))
- Deposits from customers – as of 31 December 2019 MCZK (-) (as of 31 December 2018 MCZK (1))

2. Net fee and commission income

	2019	2018
Fee and commission income from		
Securities transactions	8	8
Management, administration, deposit and custody services	723	711
Loans	1 512	1 243
Payment services	923	1 013
Account administration	548	593
Payment cards	1 198	1 017
Other	475	516
Fee and commission income	**5 387**	**5 101**
Fee and commission expenses from		
Securities transactions	(12)	(13)
Management, administration, deposit and custody services	(99)	(101)
Loans	(206)	(171)
Payment services	(55)	(53)
Payment cards	(887)	(780)
Other	(126)	(91)
Fee and commission expenses	**(1 385)**	**(1 209)**
Net fee and commission income	**4 002**	**3 892**

3. Dividend income

	2019	2018
Dividend income		
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	3	2
Financial assets at fair value through other comprehensive income	2	2
Total	**5**	**4**

4. Net income/(loss) from trading

	2019	2018
Net realised and unrealised gain/(loss) from debt instruments held for trading	(17)	36
Net realised and unrealised gain/(loss) from derivatives held for trading	682	1 647
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 220	78
Net income/loss from trading	**1 885**	**1 761**

5. Net income/(loss) from hedging against risk of changes in fair value

	2019	2018
Hedging instruments	198	698
Hedged instruments	(210)	(696)
Net income/loss from hedging against risk of changes in fair value	**(12)**	**2**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

6. Net income/(loss) from the sale or repurchase

	2019	2018
Financial assets at amortised cost: Loans and advances to customers	154	99
Financial assets at fair value through other comprehensive income	335	142
Financial liabilities: Debt securities issued	–	(2)
Net income/loss from the sale or repurchase	**489**	**239**

7. Net income/(loss) from financial assets/liabilities at fair value through profit or loss

	2019	2018
Shares	139	73
Net income/loss from financial assets and liabilities at fair value through profit or loss	**139**	**73**

8. Impairment losses

	2019	2018
Financial assets at amortised cost, of which:	**(1 310)**	**(619)**
Loans and advances to banks	**2**	**(2)**
Stage 1	2	(2)
Loans and advances to customers	**(1 312)**	**(617)**
Corporate Customers	*(777)*	*(530)*
Stage 1	142	(39)
Stage 2	(7)	(39)
Stage 3	(912)	(452)
Retail Customers	*(535)*	*(87)*
Stage 1	(126)	55
Stage 2	(216)	(49)
Stage 3	(193)	(93)
Financial assets at fair value through other comprehensive income	**1**	**9**
Stage 1	1	9
Total	**(1 309)**	**(610)**

9. Administrative expenses

	2019	2018
Personnel expenses		
Wages and salaries paid to employees	(2 557)	(2 443)
Social costs	(940)	(891)
Other	(190)	(178)
	(3 687)	**(3 512)**
Other administrative expenses		
Rent and building maintenance	(258)	(615)
Information technologies	(1 357)	(1 259)
Promotion and marketing	(221)	(270)
Consumables used	(51)	(65)
Audit, legal and advisory services	(156)	(211)
Administrative and logistic services	(170)	(329)
Deposits and transactions insurance	(540)	(734)
Other services	(262)	(257)
Other	(247)	(235)
	(3 262)	**(3 975)**
Total	**(6 949)**	**(7 487)**

A summary of remuneration to key managers is presented in the following table:

	2019	2018
Short-term employee benefits	167	182
Post-employment benefits	20	8
Other long-term employee benefits	32	29
Termination benefits	–	–
Share-based payments	–	–
Total	**219**	**219**

Key managers are persons with authority and direct or indirect responsibilities as regards planning, managing and supervising the Group's activities, including all (executive and other) managers. Information on equity-based bonuses is included in section V. Other Notes, point 30. Equity-based bonuses.

The Group's average number of employees was as follows:

	2019	2018
Employees	3 249	3 251
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	30	30

Employees include all the employees of the Group. Members of the Board of Directors, Members of the Supervisory Board and Other executives directly reporting to the Board of Directors include persons representing the Bank.

The maturity analysis of lease liabilities in relation to leases received pursuant IFRS 16 valid from 1 January 2019 is presented in Liquidity Risk table in section V. Other Notes, point 35. Financial Risk Management.

A summary of operating leases received pursuant IAS 17 valid until 31 December 2018 is presented in the following table:

2018	Due within 1 year	Due in 1 – 5 years	Due in the following years
Minimum future payments	309	1 146	–

10. Other operating income and expenses

	2019	2018
Income from rent	665	656
Income from rent of investment properties	79	75
Other income related to leases	107	49
Other income	508	619
Total other operating income	**1 359**	**1 399**
Other taxes	(43)	(12)
Fines and penalties	(192)	(202)
Other expenses related to leases	(118)	–
Other	(312)	(453)
Total other operating expenses	**(665)**	**(667)**
Total	**694**	**732**

The following table summarises cash flows to be received from operating leases where the Group is the lessor:

	Due within 1 year	Due in 1 – 5 years	Due in the following years
2019			
Cash flows to be received from operating leases	428	705	99
2018			
Cash flows to be received from operating leases	295	256	86

11. Cash and cash balances

	31 Dec 2019	31 Dec 2018
Cash in hand	4 400	4 601
Other balances with central banks	234	241
Total	**4 634**	**4 842**

For cash flow reporting purposes, cash is defined as cash and cash equivalents.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Debt securities	2 392	2 236
Derivatives	9 306	7 438
Total	**11 698**	**9 674**

From debt securities, no securities are provided as collateral as of 31 December 2019 (as of 31 December 2018: MCZK 6).

(ii) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Debt securities		
Public administration	2 392	1 246
Other	–	990
Total	**2 392**	**2 236**

(b) Mandatorily at fair value

(i) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Shares	487	346
Total	**487**	**346**

(ii) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Shares		
Other financial institutions	487	346
Total	**487**	**346**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Debt securities	23 175	29 182
Shares	6	6
Total	**23 181**	**29 188**

From debt securities, MCZK 2 360 are provided as collateral (as of 31 December 2018: MCZK 7 930).

Debt securities are included in financial assets at fair value through other comprehensive income pursuant to paragraph 4.1.2.a) of IFRS 9 – classified based on the business model and meeting the SPPI test. Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVTOCI option.

(b) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Debt securities		
Government institutions	16 099	21 244
Credit institutions	–	909
Other	7 076	7 029
Shares		
Other	6	6
Total	**23 181**	**29 188**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2019 are classified by credit quality in stage 1 with the total allowance of MCZK 5 (as of 31 December 2018: MCZK 5).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2019	Net book value 2018	Share of the Group at 31 Dec 2019	Share of the Group at 31 Dec 2018
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10 October 2001	0.24	0.24	0.24	20%	20%
Total			**0.24**	**0.24**	**0.24**		

14. Financial assets at amortised cost – loans and advances to banks

(a) Analysis of Receivables from Banks, by Type

	31 Dec 2019	31 Dec 2018
Current accounts	31	30
Term deposits	18 907	3 385
Loans	623	1 046
Reverse repurchase commitments (see section V, point 32)	165 823	189 921
Obligatory minimum reserves with central banks	591	5 683
Total	**185 975**	**200 065**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2019 are classified by credit quality at stage 1 with the total allowance of MCZK 2 (as of 31 December 2018: MCZK 6).

Only MCZK 5 of financial assets at amortised cost – loans and advances to banks as of 31 December 2019 are classified by credit quality at stage 2 with the total allowance of MCZK 0 (as of 31 December 2018 no financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2).

(b) Analysis of Receivables from Banks, by Geographical Sector

	31 Dec 2019	31 Dec 2018
Czech Republic	184 030	195 730
Slovakia	32	47
Other EU countries	1 665	4 088
Other	248	200
Total	**185 975**	**200 065**

15. Financial assets at amortised cost – loans and advances to customers

(a) Analysis of Receivables from Customers, by Type

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	31 050	(133)	30 917	5 254	(106)	5 148	2 828	(2 527)	301	39 132	(2 766)	36 366
Mortgage loans	95 427	(199)	95 228	7 065	(115)	6 950	2 632	(2 127)	505	105 124	(2 441)	102 683
Credit cards	11	–	11	1	–	1	2	(1)	1	14	(1)	13
Leases	18 760	(94)	18 666	1 804	(70)	1 734	1 084	(693)	391	21 648	(857)	20 791
Factoring	5 542	(32)	5 510	1 050	(57)	993	104	(39)	65	6 696	(128)	6 568
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Other loans	129 554	(328)	129 226	7 211	(128)	7 083	1 953	(1 381)	572	138 718	(1 837)	136 881
Total	**280 344**	**(786)**	**279 558**	**22 385**	**(476)**	**21 909**	**8 603**	**(6 768)**	**1 835**	**311 332**	**(8 030)**	**303 302**
31 Dec 2018												
Current accounts (overdrafts)	34 757	(154)	34 603	4 074	(80)	3 994	3 145	(2 814)	331	41 976	(3 048)	38 928
Mortgage loans	77 408	(159)	77 249	4 628	(130)	4 498	2 798	(2 094)	704	84 834	(2 383)	82 451
Credit cards	11	–	11	1	–	1	2	(2)	–	14	(2)	12
Leases	20 070	(121)	19 949	702	(40)	662	1 053	(713)	340	21 825	(874)	20 951
Factoring	6 333	(48)	6 285	11	–	11	82	(58)	24	6 426	(106)	6 320
Debt securities	177	–	177	–	–	–	–	–	–	177	–	177
Other loans	137 806	(463)	137 343	5 782	(220)	5 562	2 304	(1 796)	508	145 892	(2 479)	143 413
Total	**276 562**	**(945)**	**275 617**	**15 198**	**(470)**	**14 728**	**9 384**	**(7 477)**	**1 907**	**301 144**	**(8 892)**	**292 252**

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	1 105	(8)	1 097	134	(10)	124	372	(305)	67	1 611	(323)	1 288
Mortgage loans	109 689	(130)	109 559	3 147	(148)	2 999	811	(279)	532	113 647	(557)	113 090
Credit cards and consumer loans	8 206	(106)	8 100	1 192	(171)	1 021	380	(253)	127	9 778	(530)	9 248
Leases	2 513	(13)	2 500	136	(6)	130	61	(33)	28	2 710	(52)	2 658
Other loans	10 753	(52)	10 701	437	(27)	410	178	(115)	63	11 368	(194)	11 174
Total	**132 266**	**(309)**	**131 957**	**5 046**	**(362)**	**4 684**	**1 802**	**(985)**	**817**	**139 114**	**(1 656)**	**137 458**
31 Dec 2018												
Current accounts (overdrafts)	1 024	(7)	1 017	75	(7)	68	423	(336)	87	1 522	(350)	1 172
Mortgage loans	98 779	(60)	98 719	2 081	(67)	2 014	1 023	(296)	727	101 883	(423)	101 460
Credit cards and consumer loans	8 260	(98)	8 162	718	(62)	656	325	(203)	122	9 303	(363)	8 940
Leases	897	(1)	896	4	0	4	9	(3)	6	910	(4)	906
Other loans	7 126	(26)	7 100	179	(12)	167	118	(79)	39	7 423	(117)	7 306
Total	**116 086**	**(192)**	**115 894**	**3 057**	**(148)**	**2 909**	**1 898**	**(917)**	**981**	**121 041**	**(1 257)**	**119 784**

From financial assets at amortised cost – Loans and advances to customers MCZK 77 041 are provided as collateral (as of 31 December 2018: MCZK 78 393).

(b) Classification of Gross Receivables from Customers according to Internal Rating

	31 Dec 2019	31 Dec 2018
Performing receivables – stage 1 and 2		
Internal rating 1	13 422	10 529
Internal rating 2	34 408	17 954
Internal rating 3	48 988	52 822
Internal rating 4	112 384	150 187
Internal rating 5	116 413	68 171
Internal rating 6	78 503	66 669
Other internal rating	29 218	20 241
Receivables without internal rating	6 705	24 330
Total	**440 041**	**410 903**
Non-performing receivables – stage 3	10 405	11 282
Total	**450 446**	**422 185**

(c) Analysis of Net Receivables from Customers, by Sector

	31 Dec 2019	31 Dec 2018
Financial institutions	8 642	8 253
Non-financial institutions	289 253	280 141
Government sector	5 407	3 859
Individuals and others	137 458	119 783
Total	**440 760**	**412 036**

(d) Analysis of Net Receivables from Customers, by Type of Collateral Provided and Classification

	Maximum exposure to credit risk	Bank and similar guarantee	Mortgage	Corporate guarantee	Movable assets	Other security	Total collateral	Net exposure
31 Dec 2019								
Stage 1	411 515	3 629	104 202	4 553	7 324	51 688	171 396	240 119
Stage 2	26 593	59	5 253	154	212	0	5 678	20 915
Stage 3	2 652	20	1 182	43	35	647	1 927	725
Total	**440 760**	**3708**	**110637**	**4750**	**7 571**	**52 335**	**179 001**	**261 759**
31 Dec 2018								
Stage 1	391 511	4 496	101 676	3 825	43 479	7 083	160 559	230 952
Stage 2	17 637	43	3 964	275	–	211	4 493	13 144
Stage 3	2 888	10	1 679	42	485	153	2 369	519
Total	**412 036**	**4 549**	**107 319**	**4 142**	**43 964**	**7 447**	**167 421**	**244 615**

The item "Net exposure" includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 36 452 (as of 31 December 2018: MCZK 36,452). For the project funding of commercial real estate (IPRE), the collateral quality is taken into account when determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

If the exposure is fully collateralised, no loss allowance is calculated.

(e) Analysis of Net Receivables from Customers, by Geographical Sector

	31 Dec 2019	31 Dec 2018
Czech Republic	285 139	260 923
Slovakia	133 856	128 701
Other EU countries	18 131	17 500
Other	3 634	4 912
Total	**440 760**	**412 036**

(f) Analysis of Net Receivables from Customers, by Industry Sector

	31 Dec 2019	31 Dec 2018
Real estate services	73 267	68 846
Financial services	8 430	8 132
Wholesale	31 993	31 248
Households (individuals)	126 539	116 252
Retail (entrepreneurs)	11 997	10 307
Leasing and rental	3 815	3 797
Automotive industry	11 186	8 014
Power industry	29 797	25 897
Other	143 736	139 543
Total receivables from customers	**440 760**	**412 036**

(g) Analysis of Forborne receivables

The Group's approach to forbearance reporting is disclosed in section V. Other Notes, point 35. Financial Risk Management.

Analysis of forborne receivables by sectors:

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2019							
Non-financial institutions	13 806	2 428	16 234	(162)	(1 960)	(2 122)	14 112
Individuals and others	182	90	272	(1)	(39)	(40)	232
Total	**13 988**	**2 518**	**16 506**	**(163)**	**(1 999)**	**(2 162)**	**14 344**

All forborne performing receivables are classified as stage 2 receivables, while all forborne non-performing receivables are classified as stage 3 receivables.

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2018							
Non-financial institutions	7 486	2 055	9 541	(124)	(1 548)	(1 672)	7 869
Individuals and others	114	62	176	(1)	(20)	(21)	155
Total	**7 600**	**2 117**	**9 717**	**(125)**	**(1 568)**	**(1 693)**	**8 024**

Net balance of forborne receivables represented 3.25% of the total net receivables from customers as of 31 December 2019 (2018: 1.95%).

The table below provides an analysis of forborne receivables balance based on past due days:

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2019			
Performing receivables			
Before due	12 969	(137)	12 832
Past due	1 019	(26)	993
Total forborne performing receivables	13 988	(163)	13 825
Non-performing receivables			
Up to 90 days past due	2 254	(1 836)	418
91 to 180 days past due	60	(11)	49
181 days to 1 year past due	35	(25)	10
Over 1 year past due	169	(127)	42
Total forborne non-performing receivables	2 518	(1 999)	519
Total	**16 506**	**(2 162)**	**14 344**

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2018			
Performing receivables			
Before due	6 772	(98)	6 674
Past due	828	(27)	801
Total forborne performing receivables	7 600	(125)	7 475
Non-performing receivables			
Up to 90 days past due	1 095	(648)	447
91 to 180 days past due	22	(8)	14
181 days to 1 year past due	399	(335)	64
Over 1 year past due	601	(577)	24
Total forborne non-performing receivables	2 117	(1 568)	549
Total	**9 717**	**(1 693)**	**8 024**

The table below shows movements in gross balance of forborne receivables:

Balance as of 1 January 2018	8 588
Transfer to forborne receivables balance	5 462
Additions	351
Write-offs	(33)
Settled	(782)
Transfer from forborne receivables balance	(3 942)
Other	73
Total gross balance of forborne receivables as of 31 December 2018	**9 717**
Balance as of 1 January 2019	9 717
Transfer to forborne receivables balance	10 604
Additions	385
Write-offs	–
Settled	(1 606)
Transfer from forborne receivables balance	(2 562)
Other	(32)
Total gross balance of forborne receivables as of 31 December 2019	**16 506**

The table below shows movements in the impairment of forbearance:

Balance as of 1 January 2018	(1 354)
Transfer to forborne receivables balance	(431)
Charge during the current year	(435)
Release during the current year	144
Receivables written off – use	33
Transfer from forborne receivables balance	386
Other decreases	(36)
Total impairment of forborne receivables as of 31 December 2018	**(1 693)**
Balance as of 1 January 2019	(1 693)
Transfer to forborne receivables balance	(1 061)
Charge during the current year	(190)
Release during the current year	248
Receivables written off – use	0
Transfer from forborne receivables balance	536
Other decreases	(2)
Total impairment of forborne receivables as of 31 December 2019	**(2 162)**

(h) Impairment of Receivables from Customers

Movement in Impairment of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2019	(942)	(468)	(7 474)	(8 884)
Charge during the current year	(723)	(517)	(2 678)	(3 918)
Release during the current year	865	510	1 766	3 141
Net effect on profit or loss	142	(7)	(912)	(777)
Receivables written off – use	15	1	1 613	1 629
FX differences	2	1	2	5
Total impairment of receivables from customers as of 31 December 2019	**(783)**	**(473)**	**(6 771)**	**(8 027)**
Impact of IFRS 9				(18)
Balance as of 1 January 2018	(916)	(422)	(8 086)	(9 424)
Charge during the current year	(577)	(356)	(2 777)	(3 710)
Release during the current year	538	317	2 325	3 180
Net effect on profit or loss	(39)	(39)	(452)	(530)
Receivables written off – use	16	–	1 087	1 103
FX differences	(3)	(7)	(23)	(33)
Total impairment of receivables from customers as of 31 December 2018	**(942)**	**(468)**	**(7 474)**	**(8 884)**
Retail Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 1 January 2019	(195)	(150)	(920)	(1 265)
Charge during the current year	(360)	(350)	(387)	(1 097)
Release during the current year	234	134	194	562
Net effect on profit or loss	(126)	(216)	(193)	(535)
Receivables written off – use	9	1	130	140
FX differences	–	–	1	1
Total impairment of receivables from customers as of 31 December 2019	**(312)**	**(365)**	**(982)**	**(1 659)**
Impact of IFRS 9				(2)
Balance as of 1 January 2018	(248)	(99)	(858)	(1 205)
Charge during the current year	(91)	(122)	(301)	(514)
Release during the current year	146	73	208	427
Net effect on profit or loss	55	(49)	(93)	(87)
Receivables written off – use	–	–	31	31
FX differences	(2)	(2)	–	(4)
Total impairment of receivables from customers as of 31 December 2018	**(195)**	**(150)**	**(920)**	**(1 265)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2019				
Transfer of the gross amount of receivables from Stage 1	(18 165)	15 097	3 068	–
Transfer of the gross amount of receivables from Stage 2	4 533	(5 218)	685	–
Transfer of the gross amount of receivables from Stage 3	395	109	(504)	–
2018				
Transfer of the gross amount of receivables from Stage 1	(845)	565	280	–
Transfer of the gross amount of receivables from Stage 2	842	(1 019)	177	–
Transfer of the gross amount of receivables from Stage 3	404	81	(485)	–
Retail Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2019				
Transfer of the gross amount of receivables from Stage 1	(4 298)	3 870	428	–
Transfer of the gross amount of receivables from Stage 2	1 702	(1 901)	199	–
Transfer of the gross amount of receivables from Stage 3	318	109	(427)	–
2018				
Transfer of the gross amount of receivables from Stage 1	(37)	28	9	–
Transfer of the gross amount of receivables from Stage 2	164	(179)	15	–
Transfer of the gross amount of receivables from Stage 3	34	21	(55)	–

i) Receivables Written-Off and Being Subject to Enforcement

The amount of written-off receivables due from customers still subject to enforcement as of 31 December 2019 was MCZK 3 126 (as of 31 December 2018: MCZK 3 118).

j) Receivables from Finance Leases

	31 Dec 2019 Cash Flow to be received (gross receivables from finance lease)
Receivables from finance leases:	
Within 1 year	9 403
From one year to two years	6 189
From two years to three years	4 495
From three years to four years	3 081
From four years to five years	2 298
More than five years	915
Total cash flows to be received from finance leases	26 381
Unearned finance income	(2 023)
Lease receivables	**24 358**

	31 Dec 2018	
	Minimum lease payment	Present value of the minimum lease instalment (net receivables from finance lease)
Receivables from finance leases:		
Within 1 year	8 555	7 072
From one year to five years	15 583	12 488
More than five years	3 006	2 297
	27 144	21 857
Minus: unrealised income	(1 833)	–
Present value of the receivable from the minimum lease instalment	**25 311**	**21 857**

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2019	31 Dec 2018
Fair value hedging	1 370	837
Cash flow hedging	5 828	4 799
Total	**7 198**	**5 636**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

17. Equity investments

	Assets	Liabilities	Equity	Operating income	Profit/(loss)	Net book value
31 December 2019						
RCI Financial Services, s.r.o. (50%)	4 080	3 401	679	287	140	372
Total						**372**
31 December 2018						
RCI Financial Services, s.r.o. (50%)	3 820	3 252	568	259	131	332
Total						**332**

Changes in Investments in Associates

	2019	2018
Balance at 1 January	332	398
Change in the income statement	70	66
Dividend	(30)	(132)
Change in equity	–	–
Total at 31 December	**372**	**332**

18. Property, equipment and right of use assets

	31 Dec 2019	31 Dec 2018
Property and equipment for operations		
Buildings and land	849	558
Leasehold improvements of rent buildings	166	162
Fixtures and fittings	23	29
IT equipment	38	72
Assets provided under operating leases	2 882	2 985
Other	485	297
Property and equipment held as an investment		
Buildings and land	371	646
Right of use assets		
Buildings and land	1 963	n/a
Total	**6 777**	**4 749**

(a) Movements in Property and Equipment Held for Operations

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Cost at 1 January 2018	1 573	928	191	685	3 970	369	7 716
Accumulated depreciation and impairment at 1 January 2018	(976)	(694)	(156)	(588)	(871)	(228)	(3 513)
Net Book Value at 1 January 2018	**597**	**234**	**35**	**97**	**3099**	**141**	**4 203**
Additions	22	31	1	28	1 117	198	1 397
Disposals	–	–	–	–	(772)	(9)	(781)
Depreciation charges	(64)	(103)	(8)	(53)	(562)	(83)	(873)
Other and FX rate gains or losses	3	–	1	0	103	50	157
Net Book Value at 31 December 2018	**558**	**162**	**29**	**72**	**2 985**	**297**	**4 103**
Cost at 31 December 2018	1 602	960	176	666	4 093	540	8 037
Accumulated depreciation and impairment at 31 December 2018	(1 044)	(798)	(147)	(594)	(1 108)	(243)	(3 934)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Cost at 1 January 2019	1 602	960	176	666	4 093	540	8 037
Accumulated depreciation and impairment at 1 January 2019	(1 044)	(798)	(147)	(594)	(1 108)	(243)	(3 934)
Net Book Value at 1 January 2019	**558**	**162**	**29**	**72**	**2 985**	**297**	**4 103**
Revaluation to Fair value – change of accounting policy	1 081	n/a	n/a	n/a	n/a	n/a	1 081
Accumulated depreciation adjustment (based on revalued amount) – change of accounting policy	(753)	n/a	n/a	n/a	n/a	n/a	(753)
Additions	18	41	2	28	1 300	183	1 572
Disposals	–	–	–	–	(681)	(8)	(689)
Depreciation charges	(19)	(32)	(5)	(59)	(492)	(33)	(640)
Transfer to the item “Non-current assets held for sale”	(31)	–	–	–	–	–	(31)
Other and FX rate gains or losses	(5)	(5)	(3)	(3)	(230)	46	(200)
Net Book Value at 31 December 2019	**849**	**166**	**23**	**38**	**2 882**	**485**	**4 443**
Fair Value (Buildings and land) / Cost at 31 December 2019	2 587	994	168	664	4 021	729	9 163
Accumulated depreciation and impairment at 31 December 2019	(1 738)	(166)	(23)	(38)	(2 882)	(485)	(4 443)

(b) Movements in property and Equipment Held as an Investment

	Buildings and land	Total
Net Book Value at 31 December 2017	**680**	**680**
Change in accounting policy to revaluation model	112	112
Fair Value at 1 January 2018	**792**	**792**
Disposals	–	–
Change in Fair Value	(146)	(146)
Fair Value at 31 December 2018	**646**	**646**
Fair Value at 1 January 2019	**646**	**646**
Disposals	(251)	(251)
Change in Fair Value	(24)	(24)
Fair Value at 31 December 2019	**371**	**371**

(c) Movements in Right of Use Assets

	Buildings and land	Total
Net Book Value at 1 January 2019	**2 213**	**2 213**
Additions	122	122
Disposals	(11)	(11)
Depreciation	(352)	(352)
Other and FX rate gains or losses	(9)	(9)
Net Book Value at 31 December 2019	**1 963**	**1 963**
Cost at 31 December 2019	2 315	2 315
Accumulated depreciation and impairment at 31 December 2019	(352)	(352)

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2018	3 115	3 115
Accumulated amortisation and impairment at 1 January 2018	(1 175)	(1 175)
Net Book Value at 1 January 2018	**1 940**	**1 940**
Additions	515	515
Amortisation charges	(302)	(302)
Other	26	26
Net Book Value at 31 December 2018	**2 179**	**2 179**
Cost at 31 December 2018	3 514	3 514
Accumulated amortisation and impairment at 31 December 2018	(1 335)	(1 335)
Cost at 1 January 2019	**3 514**	**3 514**
Accumulated amortisation and impairment at 1 January 2019	(1 335)	(1 335)
Net Book Value at 1 January 2019	**2 179**	**2 179**
Additions	630	630
Amortisation charges	(540)	(540)
Other	76	76
Net Book Value at 31 December 2019	**2 345**	**2 345**
Cost at 31 December 2019	3 747	3 747
Accumulated amortisation and impairment at 31 December 2019	(1 402)	(1 402)

20. Other assets

	31 Dec 2019	31 Dec 2018
Deferred expenses and accrued income	1 000	476
Trade receivables	175	213
Receivables from securities	6	9
Clearing and settlement accounts	788	852
Other	180	147
Total	**2 149**	**1 697**
Impairment losses on other assets	(19)	(18)
Net other assets	**2 130**	**1 679**

21. Financial liabilities held for trading

Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Liabilities from short sales	3 010	2 606
Derivatives	8 527	6 108
Total	**11 537**	**8 714**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2019	31 Dec 2018
Deposits from central banks	6 631	17 945
Current accounts	5 527	3 991
Loans	10 838	10 062
Term deposits	106 657	110 150
Sale and repurchase agreements (see section V, point 32)	11 433	30 003
Other	6	–
Total	**141 092**	**172 151**

The Bank participates in the European Central Bank TLTRO II (Targeted Long Term Refinancing Operation) programme. The Bank borrowed MEUR 263.9 in March 2017 with a maturity of 4 years, until March 2021. The funding obtained is used to refinance corporate loans in Slovakia. The instrument is reported in the line “Deposits from central banks”. TLTRO II has the characteristics of a long-term repo transaction and as such it is secured by collateral accepted by the Eurosystem.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2019	31 Dec 2018
Current accounts	354 051	350 294
Term deposits	55 287	20 841
Sale and repurchase agreements (see section V, point 32)	–	–
Lease Liabilities	2 047	n/a
Other	3 568	3 610
Total	**414 953**	**374 745**

Lease liability	2019
As at 1 January	2 297
Additions	111
Accretion of interest	21
Lease payments	(374)
Other and FX rate gains or losses	(8)
Total at 31 December	**2 047**

The Group had total cash outflows for leases of MCZK 387 in 2019 (incl. those leases that are not in-scope of IFRS 16).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2019	31 Dec 2018
Mortgage bonds	16 812	35 385
Structured bonds	3 329	3 834
Other issued debt securities	441	781
Total	**20 582**	**40 000**

Structured bonds (included in the line "Structured bonds" and partly in the line "Mortgage bonds") include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 4,068 (at 31 December 2018: MCZK 6,451). The positive fair value of these derivatives of MCZK 4 is reported under "Financial assets held for trading" (at 31 December 2018: MCZK 34); the negative fair value of these derivatives of MCZK 182 is recognised under "Financial liabilities held for trading" (at 31 December 2018: MCZK 234).

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2019	31 Dec 2018
Fair value hedging	360	525
Cash flow hedging	7 264	5 132
Total	**7 624**	**5 657**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

26. Other liabilities

	31 Dec 2019	31 Dec 2018
Deferred income and accrued expenses	1 807	1 629
Trade payables	715	998
Payables to employees	618	689
Unsettled security transactions	20	11
Clearing and settlement accounts	5 219	5 128
Other	354	278
Total	**8 733**	**8 733**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2019	31 Dec 2018
Provisions for off-balance sheet credit exposures	721	1 118
a. Stage 1	113	146
b. Stage 2	100	43
c. Stage 3	508	929
Legal disputes	37	70
Provision for restructuring	62	12
Other	62	120
Total	**882**	**1 320**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	146	43	929	1 118
Charge during the year	92	127	244	463
Release during the year	(125)	(70)	(665)	(860)
Other – FX rate gains or losses	–	–	–	–
Total provisions for off-balance sheet credit items at 31 December 2019	**113**	**100**	**508**	**721**
Impact of IFRS 9				129
Balance at 1 January 2018	205	109	318	632
Charge during the year	162	38	622	822
Release during the year	(221)	(102)	(13)	(336)
Other – FX rate gains or losses	–	(2)	2	–
Total provisions for off-balance sheet credit items at 31 December 2018	**146**	**43**	**929**	**1 118**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2019	70	12	120	202
Charge during the year	24	59	–	83
Usage during the year	(35)	(5)	(56)	(96)
Release of redundant provisions and other	(22)	(4)	(2)	(28)
Total other provisions at 31 December 2019	**37**	**62**	**62**	**161**
Balance at 1 January 2018	73	100	179	352
Charge during the year	21	–	60	81
Usage during the year	(18)	(84)	(111)	(213)
Release of redundant provisions and other	(6)	(4)	(8)	(18)
Total other provisions at 31 December 2018	**70**	**12**	**120**	**202**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2019	31 Dec 2018
Current tax payable	(2 386)	(2 008)
Prior year tax	24	57
Deferred tax	(121)	(125)
Total income tax	**(2 483)**	**(2 076)**

The income tax of the Group differs from the theoretical tax which would arise if the tax rate effective in the Czech Republic were applied as follows:

	31 Dec 2019	31 Dec 2018
Profit/loss for the year before tax	12 605	11 144
Tax calculated using the tax rate of 19%	(2 395)	(2 117)
Impact of prior years on the current tax payable	132	58
Non-taxable income	43	20
Tax non-deductible expenses	(239)	(203)
Impact of prior years on the deferred tax	(1)	(4)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(23)	(34)
Recognition of previously unrecognised deferred tax	1	96
Other	(1)	(24)
Total income tax	**(2 483)**	**(2 076)**

The effective tax rate of the Group is 19.70% (2018: 18.63%).

(b) Deferred Tax Asset/Liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method under the application of the appropriate tax rate.

When calculating net tax assets and liabilities, the Group offsets deferred tax assets against deferred tax liabilities arising from income tax paid to the same tax institution in the same tax category.

Group Management believes that the Group will be able to fully recover deferred tax assets reported as of 31 December 2019 based on the current and anticipated future level of taxable profits.

(i) Deferred Tax Asset

	31 Dec 2019	31 Dec 2018
Tax non-deductible provisions	144	101
Impairment of loans and off-balance sheet items	915	895
Differences arising from the net book values of tangible assets	98	73
Reserve from revaluation of hedging instruments	188	1
Other	103	125
Offsetting against deferred tax liability	(443)	(363)
Net deferred tax asset	**1 005**	**832**

(ii) Deferred Tax Liability

	31 Dec 2019	31 Dec 2018
Impairment of loans and off-balance sheet items	835	26
Differences arising from the net book values of tangible assets	119	99
Differences arising from the net book values of intangible assets	94	52
Reserve from revaluation of hedging instruments	–	49
Reserve from revaluation of financial assets at fair value through other comprehensive income	149	147
Reserve from revaluation of property measured at fair value	68	n/a
Other	–	692
Offsetting against deferred tax asset	(443)	(363)
Net deferred tax liability	**822**	**702**

The Group additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions recognised by UniCredit Leasing Slovakia, a.s. of MCZK 18.

29. Issued capital and share premium

The recorded, issued and fully paid capital of the Group amounted to MCZK 8,755 as of 31 December 2018 and 2019.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2019				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2018				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2019 Number of shares	31 Dec 2019 MCZK	31 Dec 2018 Number of shares	31 Dec 2018 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Group's governance and the entitlement to a share on profit.

The most significant topics that are within the scope of authority of the general meeting and that a shareholder can therefore make decisions about include:

a. Decisions about changes to the Articles of Association, unless it is a change resulting from the increase of share capital by the Board of Directors as per Section 511 et seq. of Act No. 90/2012 Coll., on Business Corporations (BCA), or a change that occurred based on other legal facts;
b. Decisions on the increase in share capital or on authorising the Board of Directors as per Section 511 et seq. of the BCA, or about the possibility of offsetting a cash receivable from a bank against a receivable for the payment of the issue rate;
c. Decisions to decrease the share capital and to issue bonds as per Section 286 et seq. of the BCA;
d. Appointing and recalling members of the Supervisory Board, Audit Committee and other bodies set by the Articles of Association;
e. Approving regular, extraordinary or consolidated financial statements and in cases defined by the law also interim financial statements, decisions about the allocation of profit and or other own resources or about the settlement of loss and the determination of shares in profit for the members of the Board of Directors and the Supervisory Board;
f. Decisions about remuneration of members of the Supervisory Board and the Audit Committee;
g. Decisions about filing a request for equity securities of the Bank to be accepted for trading on a European regulated market or to be excluded from trading on a European regulated market;
h. Appointing the Bank's auditors based on the recommendation of the Audit Committee; and
i. Decisions about establishing discretionary funds of the Bank and the methods of their creation and use.

The effective date for the exercise of the right to a dividend is the same as the effective date for participation at the General Meeting; this date is the seventh calendar day before the General Meeting is held. The right to a dividend lapses after the three-year legal period passes in line with Section 629 of Act No. 89/2012 Coll., Civil Code.

After the dissolution of the Bank, each shareholder has a right to a share in the liquidation proceeds in line with Section 37 of the BCA; this share is paid out in cash. The decision to dissolve the Bank with liquidation, to appoint and recall a liquidator including the determination of remuneration, and the approval of the proposed distribution of the liquidation proceeds are within the authority of the General Meeting.

Both at 31 December 2019 and 31 December 2018, the Group held no treasury shares.

30. Equity-based bonuses

The Group has not implemented any employee motivation or stabilisation programme for the purchase of treasury shares or remuneration in the form of treasury share options.

31. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

	31 Dec 2019	31 Dec 2018
Reserve funds	5 243	5 240
Special-purpose reserve fund	13 240	12 423
Retained earnings	38 132	36 045
Exchange rate differences arising on consolidation	(111)	(88)
Total	**56 504**	**53 620**

The Group may create the reserve fund (reported under “Reserve funds”) from the net profit reported in the ordinary financial statements pursuant to the resolution of the general meeting. The established reserve fund can be used solely to cover the Bank’s loss, pursuant to the resolution of the general meeting.

As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank. In 2019, this fund was increased by MEUR 32 (profit of the Slovak branch for 2018).

32. Borrowings and lending of securities, repurchase and reverse repurchase transactions

(a) Reverse Repurchase Transactions

	31 Dec 2019	31 Dec 2018
Loans and advances to banks	165 823	189 922
Fair value of securities received	162 878	186 686
Loans and advances to customers	–	–
Fair value of securities received	–	–

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2019 and as of 31 December 2018.

(b) Repurchase Transactions

	31 Dec 2019	31 Dec 2018
Deposits from banks	11 433	30 003
Fair value of securities provided	11 193	33 443
Deposits from customers	–	–
Fair value of securities provided	–	–

33. Contingent liabilities, contingent assets and financial derivatives

In the ordinary course of business, the Group conducts various financial transactions that are not reported the Group's statement of financial position and that are designated as off-balance sheet financial instruments.

Unless stated otherwise, the information below represents the nominal values of off-balance sheet transactions.

(a) Contingent Liabilities

Legal Disputes
As of 31 December 2019, the Group assessed the legal disputes in which it acted as a defendant. The Group recorded provisions for these legal disputes (see section V, point 27). In addition to these disputes, legal actions arising from ordinary business activities were taken against the Group. The management does not anticipate the result of these legal disputes to have a material impact on the Group's financial position.

Taxation
Czech and Slovak tax legislation has significantly changed in recent years. Many complicated legislation areas remained unresolved, and it may not be possible to determine the interpretation of taxation authorities in specific cases in advance. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations are adopted in practice or in the event that official interpretations are available.

Contingent Liabilities arising from Guarantees, Loan Commitments and Other Contingent Liabilities
Contingent liabilities predominantly include undrawn amounts of loans. Loan commitments issued by the Group include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include undrawn loans that may be revoked by the Group at any time without stating the reason. On the contrary, irrevocable commitments represent the Group's liability to provide a credit or issue a guarantee, the performance of which, even though bound on meeting the contractual terms by the client, is to a certain extent independent of the Group's will.

Contingent liabilities arising from financial guarantees include irrevocable commitments made by the Group to repay debts in lieu of the debtor owed to the guarantee beneficiary in case the debtor defaults on their obligation to pay subject to terms and conditions of the individual contracts. As such, commitments bear similar risk to loans, the Group creates the relevant provisions using a similar algorithm as for provisions (see section V. Other Notes, point 35. Financial Risk Management).

Documentary letters of credit represent a written irrevocable commitment of the Group issued based on a client's request (orderer), to provide a third party or to its order (recipient, beneficiary), with certain performance, under the condition the terms of the letter of credit are met by a specified deadline. For these financial instruments, the Group creates provisions using a similar algorithm as applied for credits (see section V. Other Notes, point 35. Financial Risk Management).

The Group recorded provisions for off-balance sheet items to cover expected credit losses and arising from the impairment losses on the off-balance sheet items due to credit risk. As of 31 December 2019, the aggregate provisions amounted to MCZK 721 (as of 31 December 2018: MCZK 1,118), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2019			
Letters of credit and financial guarantees	45 283	(464)	44 819
– Stage 1	42 116	(64)	42 052
– Stage 2	2 686	(26)	2 660
– Stage 3	481	(374)	107
Other contingent liabilities (undrawn credit facilities)	130 357	(257)	130 100
– Stage 1	122 373	(49)	122 324
– Stage 2	7 632	(74)	7 558
– Stage 3	352	(134)	218
Total	**175 640**	**(721)**	**174 919**
31 Dec 2018			
Letters of credit and financial guarantees	41 136	(881)	40 255
– Stage 1	39 013	(93)	38 920
– Stage 2	1 183	(19)	1 164
– Stage 3	940	(769)	171
Other contingent liabilities (undrawn credit facilities)	119 957	(237)	119 720
– Stage 1	116 099	(53)	116 046
– Stage 2	3 301	(24)	3 277
– Stage 3	557	(160)	397
Total	**161 093**	**(1 118)**	**159 975**

(b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 385.9 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 226.2 (MUSD 10) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

	Nominal value	Positive fair value	Negative fair value
31 Dec 2019			
Trading instruments – interbank market (OTC)			
Options	76 298	705	701
Interest rate swap contracts	538 519	4 883	4 304
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	143 887	2 289	1 777
Foreign exchange forwards and swaps	40 320	145	500
Other instruments	2 310	1 249	1 245
Total	**801 334**	**9 271**	**8 527**
Trading instruments – stock exchange			
Futures	1 880	35	–
Total trading instruments	**803 214**	**9 306**	**8 527**
Hedging instruments			
Interest rate swap contracts	629 060	6 719	6 761
Cross currency swap contracts	112 354	479	863
Total hedging instruments	**741 414**	**7 198**	**7 624**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2018			
Trading instruments – interbank market (OTC)			
Options	87 741	769	781
Interest rate swap contracts	391 766	3 689	3 039
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	230 178	2 281	1 917
Foreign exchange forwards and swaps	49 488	532	240
Other instruments	1 562	137	131
Total	**760 735**	**7 408**	**6 108**
Trading instruments – stock exchange			
Futures	1 646	30	–
Total trading instruments	**762 381**	**7 438**	**–**
Hedging instruments			
Interest rate swap contracts	585 163	5 492	4 997
Cross currency swap contracts	164 358	144	660
Total hedging instruments	**749 521**	**5 636**	**5 657**

(ii) Residual Maturity of Financial Derivatives Concluded on the Interbank Market

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2019				
Trading instruments				
Interest rate instruments	68 763	308 187	189 506	566 456
Equity instruments	3 560	4 871	–	8 431
Currency instruments	162 796	63 221	–	226 017
Other	2 226	84	–	2 310
Total	**237 345**	**376 363**	**189 506**	**803 214**
Hedging instruments				
Interest rate instruments	100 548	269 524	258 988	629 060
Currency instruments	77 425	11 864	23 065	112 354
Total	**177 973**	**281 388**	**282 053**	**741 414**
31 Dec 2018				
Trading instruments				
Interest rate instruments	107 122	233 947	86 522	427 591
Equity instruments	5 694	7 520	–	13 214
Currency instruments	245 962	73 503	549	320 014
Other	1 549	13	–	1 562
Total	**360 327**	**314 983**	**87 071**	**762 381**
Hedging instruments				
Interest rate instruments	163 500	256 394	165 269	585 163
Currency instruments	140 486	20 771	3 101	164 358
Total	**303 986**	**277 165**	**168 370**	**749 521**

34. Segment reporting

The Group presents the segment information based on performance criteria as disclosed in section III. Significant Accounting Policies, point 21. Segment reporting.

(a) Segment Information by Client Category

	Retail and private banking	Corporate and investment banking, leases	Other	Total
31 Dec 2019				
Net interest and dividend income	3 539	8 859	2 185	**14 583**
Other net income	1 849	4 692	701	**7 242**
Depreciation/impairment of property and equipment and intangible assets	(627)	(565)	(340)	**(1 532)**
Impairment loss	(826)	(554)	71	**(1 309)**
Segment expenses	(3 093)	(3 688)	402	**(6 379)**
Profit before tax	842	8 744	3 019	**12 605**
Income tax	–	–	(2 483)	(2 483)
Result of segment	**842**	**8 744**	**536**	**10 122**
Segment assets	149 276	524 293	13 024	**686 593**
Segment liabilities	183 885	407 144	16 951	**607 980**

	Retail and private banking	Corporate and investment banking, leases	Other	Total
31 Dec 2018				
Net interest and dividend income	3 503	8 112	2 620	**14 235**
Other net income	1 794	4 801	24	**6 619**
Depreciation/impairment of property and equipment and intangible assets	(446)	(419)	(310)	**(1 175)**
Impairment loss	(110)	(511)	11	**(610)**
Segment expenses	(3 659)	(4 397)	20	**(8 036)**
Profit before tax	1 082	7 586	2 365	**11 033**
Income tax	–	–	(2 076)	(2 076)
Result of segment	**1 082**	**7 586**	**289**	**8 957**
Segment assets	132 191	527 920	11 504	**671 615**
Segment liabilities	171 611	407 473	16 792	**595 876**

The income tax for all segments is presented in the segment "Other".

The Group does not have a customer or a group of customers that would comprise more than 10 percent of the Group's income.

(b) Information on Geographical Areas

	Czech Republic	Slovakia	Total
31 Dec 2019			
Net interest and dividend income	11 793	2 790	**14 583**
Other net income	5 566	1 676	**7 242**
Depreciation/impairment of property and equipment and intangible assets	(1 061)	(471)	**(1 532)**
Impairment loss	(538)	(771)	**(1 309)**
Segment expenses	(4 564)	(1 815)	**(6 379)**
Profit before tax	11 196	1 409	**12 605**
Income tax	(2 068)	(415)	(2 483)
Result of segment	**9 128**	**994**	**10 122**
Segment assets	552 651	133 942	**686 593**
Segment liabilities	509 338	98 642	**607 980**

	Czech Republic	Slovakia	Total
31 Dec 2018			
Net interest and dividend income	11 363	2 872	**14 235**
Other net income	4 724	1 895	**6 619**
Depreciation/impairment of property and equipment and intangible assets	(775)	(400)	**(1 175)**
Impairment loss	(96)	(514)	**(610)**
Segment expenses	(5 677)	(2 359)	**(8 036)**
Profit before tax	9 539	1 494	**11 033**
Income tax	(1 844)	(232)	(2 076)
Result of segment	**7 695**	**1 262**	**8 957**
Segment assets	539 254	132 361	**671 615**
Segment liabilities	484 546	111 330	**595 876**

35. Financial risk management

(a) Introduction

The Group is exposed to the following types of risk:
- Credit risk;
- Market risk; and
- Operational risk.

The Board of Directors is responsible for the overall risk management strategy which it approves and assesses on a regular basis. The Board of Directors has established the Assets and Liabilities Committee (ALCO), the Credit Committee and the Committee for Operational Risk Management. These committees are in charge of monitoring and managing individual risks with regard to individual specific fields. The committees report to the Board of Directors on a regular basis.

The principal part of the Group is the Bank; for this reason, the below description primarily relates to the risk management in the Bank. Risk management in subsidiaries is described in section V. Other Notes, point 35b (vi).

(b) Credit Risk

The Group is exposed to credit risk as a result of its trading, lending, hedging investment and brokerage activities.

Credit risk is managed at the level of individual customers (transactions) and at the portfolio level.

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. These departments are organisationally independent of the business divisions and report directly to a member of the Board of Directors in charge of the Risk management division (Chief Risk Officer).

Under its credit risk management policy, the Group defines the general principles, methods and tools applied when identifying, measuring and managing credit risk. The Group's credit risk management policy is set by the Strategic Credit Risk Management department. This policy is reviewed on a regular basis at least once a year.

In its internal guidelines, the Group defines the underwriting approval competencies, including the definition of responsibilities and competencies of the Credit Committee.

The table below presents the maximum credit risk exposure related to balance sheet assets. Maximum credit risk exposure excludes impact of received collateral:

	2019	2018
Cash and cash balances	4 634	4 842
Financial assets at fair value through profit or loss, *of which:*	12 185	10 020
Held for trading	11 698	9 674
Mandatorily at fair value	487	346
Financial assets at fair value through other comprehensive income	23 181	29 188
Financial assets at amortised cost, *of which:*	626 735	612 101
Loans and advances to banks	185 975	200 065
Loans and advances to customers	440 760	412 036
Positive fair value of hedging derivatives	7 198	5 636
Other assets	2 130	1 679
Total	**676 063**	**663 466**

The table below presents the maximum credit risk exposure related to off-balance sheet items. Maximum credit risk exposure excludes impact received collateral:

	2019	2018
Letters of credit and financial guarantees	44 819	40 255
Other contingent liabilities (undrawn credit facilities)	130 100	119 720
Total	**174 919**	**159 975**

(i) Credit Risk Management at the Level of Individual Customers

Corporate customers

Credit risk at the level of individual customers is managed by analysing customers' financial health and determining maximum credit risk exposure (credit limit). Analysis is focused on the customers' competitive position in the relevant market, a rating of their financial statements, prediction of future liquidity, etc. The result of this analysis is, inter alia, a rating that reflects the probability of client default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is undertaken prior to the granting of a loan. Subsequently the rating is reviewed and creditworthiness is reassessed at least annually.

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc). When classifying customers, the Bank assesses (in addition to the number of days past due with regard to overdue receivables, if any) financial indicators related to the client (such as the structure of and proportion between the statement of financial position, the income statement, and the cash flow statement), management quality, ownership structure, individual customers' market position, reporting quality, production equipment, account-use history, etc. Customers in default are assigned internal ratings of 8-, 9 or 10.

Retail customers

For receivables from individuals, the ability of the client to fulfil their obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring). The Bank sets and regularly updates the probability of client default, using the behavioural scoring method. A client's final rating combines both application and behavioural components.

Credit registries

The Bank uses information provided by credit registries as an additional source of information for assessing a client's financial standing for both Corporate and Retail Client

Collateral

In accordance with its credit risk management strategy, prior to granting the loans, the Bank may require that the customers post collateral for the loans. The amount and type of collateral depends on the client's financial health and the type of the loan. The Bank considers the following to be acceptable types of collateral: cash, investment grade securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of mortgage over real estate property. When determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing the collateral for personal collateral (eg guarantees) and the nominal value of the collateral for non-personal collaterals such as pledge of property. The collateral is valued based on expert appraisals made by a special department of the Bank or external valuations. The realisable value of collateral is determined based on this appraised value by applying an adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management at the Portfolio Level

The Bank regularly analyses and monitors trends in individual credit sub-portfolios

The Bank monitors its overall credit risk exposure, ie it takes into account all on-balance and off-balance sheet exposures and quantifies the expected losses from its credit exposure on regular basis. The expected loss is determined based on internal estimates of risk parameters, ie the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.

The Bank assesses the concentration risk of the loan portfolio on a regular basis and establishes concentration limits as appropriate in relation to specific industries, countries, or economically-connected groups of debtors.

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a regular basis, in accordance with IFRS 9 Financial instruments; in particular, it divides its receivables into non-performing receivables = receivables in default (stage 3) and performing receivables = receivables without default (stages 1 and 2).

Stage 2 receivables are receivables which have experienced significant increase in credit risk between two subsequent balance sheet dates. All receivables are regularly monitored for default and significant increase in credit risk.

Impairment Losses on Non-Performing Receivables

Impairment losses related to individual non-performing receivables (ie stage 3 under IFRS 9 Financial Instruments) are recognised if carrying amount of individual receivables is less than recoverable amount and the Bank does not write off such receivables (fully or partially). The Bank assesses recoverable of the amount of all receivables in respect of which the debtors are in default: (i) individually if the amount of the receivable exceeds an equivalent of MEUR 1, (ii) collectively using recovery rate derived from the relevant model which reflects historic recovery experience. The Bank writes off receivables if no income is anticipated on it or on the collateral received with regard to the given receivable.

The impairment loss is (i) for individually assessed receivables equal to the difference between the carrying amount of the receivable and the discounted value of estimated future cash flows; (ii) for collectively assessed receivables equal to the lifetime expected credit loss determined on portfolio basis.

Impairment Losses on Performing Receivables

For performing receivables that have experienced no significant increase in credit risk since origination (ie stage 1), the Bank determines the impairment loss as the expected credit loss until maturity of the receivable, but no more than the next 12 months (1-year expected loss). For Performing receivables that have experienced a significant increase in credit risk since origination, but are still performing receivables (ie stage 2), the Bank determines the impairment loss as the expected loss until the final maturity of the receivable (lifetime expected credit loss).

Provisions for Off-Balance Sheet Items

The Bank recognises such provisions using the same methods as are used in determining impairment losses on receivable portfolios while taking into account conversion factors related to the specific type of the off-balance exposure.

(iv) Forbearance

The Bank classifies loan receivables as forborne if the originally agreed payment conditions were changed since the loan provision due to customers' financial difficulties (changes predominantly include payment deferral, temporary payment reduction, postponement of the ultimate due date, etc). These items are recognised in the statement of financial position either as non-performing loan receivables or performing loan receivables.

Loan receivables with a change in the originally-agreed payment conditions are generally classified as non-performing loan receivables. Following a robust assessment, the Bank may categorise individual receivables as performing receivables, despite a change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious and the Bank does not anticipate incurring a loss from the future collection of such loan receivables.

Performing receivables also include receivables originally classified as non-performing receivables upon the change of payment conditions and which were subsequently transferred into the category of Performing loan receivables because the debtor complied with newly-agreed conditions in line with the Bank's internal rules. This group accounts for the majority of loan receivables reported as forborne – performing receivables.

Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout Department and are subject to standard restructuring and workout procedures and monitoring. The exception is receivables that are not assessed as non-performing receivables upon a change of the payment conditions. These loans are only managed by Credit Restructuring & Workout Department after a thorough assessment of the need to use the know-how of this specialised unit. When releasing receivables from the management of this unit, the statues of individual cases and the need to use the know-how of the Credit Restructuring & Workout staff is also carefully reviewed.

The period for which the client is designated as forborne is referred to as the probation period and lasts a minimum of two years from the client default /forbearance if the forbearance was without client default. In addition, this period can only be terminated if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days. For amortizing loans, the debt must be reduced by at least 10% during probation period.

Due to the size of the forborne portfolio and the above procedures and practices, we have not identified any serious threats for the Bank resulting from this portfolio. This is supported by the fact that a portion of receivables with changed payment conditions in order to overcome the debtor's deteriorated financial position is reclassified once more as non-performing (recognised in the Bank's statement of financial position as non-performing forborne receivable – see above).

(v) Recovery of Receivables

The Bank has established the Credit Workout & Restructuring Department which manages the receivables whose recoverability is at risk (both Non-performing and Performing). The purpose of this unit involves achieving one or a number of the following goals in respect of risk-bearing credit receivables:

a) "Revitalisation" of the credit arrangement, restructuring and subsequent reclassification into standard receivables;

b) Full repayment of the credit;
c) Minimisation of the loss from the credit (realisation of collateral, sale of the receivable with a discount, etc); and/or
d) Prevention of additional losses from the loan (comparison of future expenses versus income).

(vi) Risk Management in Subsidiaries

The risk management in subsidiaries follows similar principles as the risk management in the Bank taking into account specific features of products provided by subsidiaries and their portfolios.

These specific features primarily include the following:
– Determination of the fair value of financed assets when deciding on the provision of funding;
– Management of risk of a market value change of financed assets during financing;
– Valuation and selling activities after an extraordinary termination of a contract (or due termination of a contract in respect of operating leases) and management of the risk arising from these operations;
– Control activities to prove the connection of the purpose of financing with the existence of the financed asset before the conclusion of the contract and during the contract period (including the prevention against fraudulent activities); and
– Management of the risk of concentration in relation to types of financed assets (classes of assets).

The organisational structure of risk management, risk decision-making committees and system for the allocation of authorities are adjusted to reflect the specific features or products and risks of subsidiaries. This ensures both the independence of risk management from business activities and independence of the persons participating in the valuation of assets and their realisation from the persons having the decision-making authority in the provision of funding.

(c) Market Risk

(i) Trading

The Group holds trading positions in various financial instruments, including financial derivatives. The majority of the Group's business activities are driven by the requirements of the Group's customers. Depending on the predicted demand of its customers, the Group holds a supply of financial instruments and maintains access to the financial markets through quoting of the bid and offer prices and by trading with other market makers. These positions are also held for the purpose of short term profit taking on the expected future development of financial markets and the instruments are classified in line with IFRS 9 Financial instruments as held for trading. The Group's business strategy is thus affected by short term profit taking and market-making and its goal is to maximise net income from trading.

The Group manages risks associated with its trading activities at the level of individual types of risk and types of financial instruments. The basic tools used for market risk management are limits on the volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits, and value at risk (VaR) limits. The description quantitative methods applied in risk management are included in the following section "Market risk management".

The majority of derivatives are negotiated on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(ii) Market Risk Management

Below are described selected types of risk to which the Group is exposed through its trading activities as well as managing the positions resulting from these activities and managing these risks. There is also market risk exposure in the Group's banking book which corresponds to portfolios of financial instruments not held for trading. Market Risk is measured for the Trading and Banking book separately and also collectively. The procedures applied by the Group to measure and manage these risks are described in detail in the following paragraphs.

The Group is exposed to market risk arising from its open positions in interest rate, equity and foreign currency instrument transactions that are sensitive to changes in the situation on the financial market.

The Group's risk management focuses on managing the total net exposure to interest rate risk resulting from the Group's structure of assets and liabilities. The Group monitors interest rate risk by measuring the sensitivity of particular assets and liabilities which mature/reprice in specific time interval. This sensitivity is expressed by the change in the values of assets and liabilities if interest rates increase by one basis point (BPV). For hedge accounting purposes, the Group identifies specific assets/liabilities causing this mismatch so that the accounting criteria for the application of hedge accounting are met.

Value at Risk

Value at Risk represents the main method for managing market risks arising from the Group's open positions. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. Value at Risk is measured based on a 1-day holding period and a confidence level of 99%. The Group's Value at Risk model calculations have the following limitations:
– The one-day holding period assumes that all positions can be closed during a single day. This assumption does not necessarily apply to markets with lower liquidity.
– The 99% confidence level does not reflect all possible losses that can occur at this confidence level.

- VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened on an "intra-day" basis.
- Using historical data as a basis for determining possible future developments does not necessarily cover all possible future scenarios, especially crisis scenarios.

The Group uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with the negative movements in the prices of market factors (spread risk, option risk, etc). The aggregate structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO). At least once a year, the structure and amount of limits are revised in accordance with the Group's needs and developments on the financial markets. The results of the VaR calculation are published daily for selected users (Board of Directors, selected employees of the Financial Markets Department, the Market Risk Department, the Assets & Liabilities Management Unit, and the MARS department of the parent bank/sub-holding).

The VaR calculation divides the calculated risk into interest rate and credit portions. The credit portion of VaR is calculated based on the volatility of the credit spread between securities and the risk free interest rate. For this purpose, the yield curves of particular issuers, industries, or groups of issuers with identical rating are downloaded into the system for market risk management. Specific securities are mapped to these yield curves and the volatility of the credit spread is calculated. The Bank regularly reassesses the mapping of debt securities with the relevant yield curves and, if necessary, the debt securities are re-mapped to curves that reliably reflect the credit risk of the specific debt securities

The outputs of the VAR calculation model are back-tested and compared with the results of the changes to interest rates on the financial markets on a daily basis. If the Group identifies any inaccuracies, the model is adjusted to correspond with the current development on the financial markets.

The table below shows the Values at Risk:

	At 31 Dec 2019	Average for 2019	At 31 Dec 2018	Average for 2018
Aggregate VaR	247.5	193.7	210.6	248.9
VaR of currency instruments	2.4	5.6	4.8	4.2
VaR of equity instruments	–	–	–	–

Interest Rate Risk

The Group is exposed to interest rate risk because of mismatch in interest-bearing assets and liabilities maturities, re-pricing periods and notionals in defined time buckets (gap or mismatch risk). In the event of a change in interest rates, the Group is also exposed to interest rate risk as a result of the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest rates on deposits (basis risk and yield curve risk). Interest risk management is focused on optimising the Group's net interest income in accordance with the strategies approved by the Board of Directors.

The Group's overall interest rate position as of 31 December 2019 is characterised by sensitivity to a decrease in rates – this is reflected in the negative aggregate basis point value (BPV) – if the interest rates in individual currencies increased in parallel, there would be a decrease in market revaluation. The Group's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

Interest rate derivatives are generally used to manage the mismatch between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the internal Liquidity Management Policy and the internal Funds Transfer Pricing Policy and by the Strategy of Interest Rate Risk Management in the Banking Book approved by the Board of Directors. Part of the Group's income is generated by the intentional mismatch between the assets and liabilities that are interest rate-sensitive.

The Group applies a "Basis Point Value (BPV)" approach for measuring interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by one basis point (0.01%), ie it represents the sensitivity of instruments to interest rate risks.

The Group has set up interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the "BPV limit").

Stress Testing of Interest Rate Risk

The Group carries out weekly stress testing of interest rate sensitivity by simulating impact on Net interest income under of historical scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Group's results. The Group uses the euro as the base currency for stress testing. All values are translated to CZK using the Czech National Bank's exchange rate as of the respective date.

	Basic stress test		MM stress test
	–200bp	+200bp	+250bp
*)			
Value at 31 December 2019	7 498	(4 822)	(1 928)
Average for the period	8 429	(4 471)	(2 075)
Maximum value	12 141	(2 633)	(302)
Minimum value	4 593	(6 220)	(3 391)
Value at 31 December 2018	10 870	(5 485)	(2 414)
Average for the year	7 248	(4 806)	(1 384)
Maximum value	14 909	(1 580)	1 007
Minimum value	1 244	(6 929)	(2 635)

On 7 December 2015, stress scenarios for negative market interest rates were introduced.

As a large portion of the market interest rate curve shows negative rates and a further decrease cannot be excluded, the Group applies a stress scenario to reflect a possible Net interest income effect of a further decrease in the market interest rates. This approach is applied to the entire portfolio of assets and liabilities, including products for which a decrease of the market interest rates (as an element of client rates) into negative values is restricted in contracts (as well as in the general business terms and conditions).

Using this approach, the Group also reflects the possible risk of profit/loss for products where the market interest rates cannot achieve negative values according to contracts.

Hedge Accounting

As part of its market risk management strategy, the Group hedges against interest rate risk. The Group's hedge strategy uses both fair value hedges and cash flow hedges.

Fair value hedges are used for reducing the price interest rate risk of issued bonds, purchased securities, loans or deposits. Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise Net interest income; in other words to manage reinvestment risk.

Fair Value Hedging

Hedged instruments include financial assets and liabilities recognised at amortised cost and debt financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the hedge relationship, the Group performs a prospective fair value hedge effectiveness test on the basis of future changes in fair values of hedged and hedging instruments and of expected interest rates movements (the "prospective test"). On the basis of actual interest rate developments, a test of effectiveness is carried out monthly. The Bank undertakes monthly effectiveness testing to be able to detect possible non-effectiveness of the hedge relationships.

For particular hedged items and hedging transactions (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedge relationship until the maturity of the hedged instrument. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of the discount factors for specific currencies. The fair value of a transaction is the sum of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further netted for realised cash flows by adding them back or subtracting. The hedge effectiveness is measured using the comparison of the cumulative change in the fair value of the hedged and hedging instrument. The hedge is considered effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

In the table below, the Group sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

31 Dec 2019	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	18 590	(6 706)	(112)	(28)
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(35 280)	–	(1 097)

31 Dec 2018	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	15 626	(40 513)	46	(47)
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(30 690)	–	(608)

The corresponding Consolidated Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:

“A” represents hedging of”

- Loans presented in the line *“Financial assets at amortised cost, of which: Loans and advances to customers”*,
- Purchased bonds presented in the line *“Financial assets at fair value through other comprehensive income”*,
- Money-markets trades presented in the line *“Financial liabilities at amortised cost, of which: Deposits from banks”* and
- Issued bonds presented in the line *“Financial liabilities at amortised cost, of which: Debt securities issued”*.

“B” represents hedging of currents accounts presented in the line *“Financial liabilities at amortised cost, of which: Deposits from customers”*.

The table below sets out the outcome of the Group’s hedging strategy, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

31 Dec 2019	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	282	(292)	(10)
Portfolio fair value hedges			
Interest rate risk	(489)	489	–

31 Dec 2018	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(88)	88	–
Portfolio fair value hedges			
Interest rate risk	(608)	610	2

Cash Flow Hedging
The Group uses the cash flow hedging to eliminate interest rate risk on an portfolio basis. Hedged items are future forecasted transactions in the form of interest income and expenses which is sensitive to changes in market interest rates. Future forecasted transactions arise from concluded contracts and future forecasting transactions established on the basis of portfolio replication models. The hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

The effectiveness of a cash flow hedge is determined in accordance with UniCredit Group standards, based on an approved methodology. First, the nominal values (divided into assets and liabilities) of external trades by currency are identified, for which the interest cash flow (established on the basis of the re-financing – the "funding" rate) may be considered variable (hedged cash flows). Secondly, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (ie net cash in/outflows).

The Group monitors whether the absolute value of future variable interest cash flows from hedged deals for specific time periods exceeds the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedging derivatives.

The time periods are defined as follows: up to 2 years by months, subsequently by individual years, 10-15 years, and more than 15 years. The hedge is judged effective if the aggregate volume of variable interest cash flows from hedged deals is greater than the net variable interest cash flows from hedged deals (designated with an opposite – positive/negative sign) in each of the time periods, measured separately for each monitored currency.

The table below sets out the Group's financial assets and financial liabilities designated as hedged items in continuing cash flow hedge relationships and the outcome of the Group's hedging strategy:

	Cash flow hedge reserve		**Changes in fair value of hedging instruments used for measuring hedge ineffectiveness**		
			in total	**Effective portion**	**Hedge ineffectiveness**
	Continuing hedges	Discontinued hedges		recognised in OCI	recognised in the income statement in net trading income
31 Dec 2019					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(1 196)	212	(1 238)	(1 238)	–
31 Dec 2018					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(123)	376	(418)	(418)	–

The corresponding Consolidated Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:
"A" comprises hedging of:
- Loans presented in the line *"Financial assets at amortised cost, of which: Loans and advances to customers"* and line *"Financial assets at amortised cost, of which: Loans and advances to banks"*,
- Purchased float bonds presented in the line *"Financial assets at fair value through other comprehensive income"*,
- Deposits presented in the line *"Financial liabilities at amortised cost, of which: Deposits from customers"* and line *"Financial liabilities at amortised cost, of which: Deposits from banks"* and
- Issued bonds presented in the line *"Financial liabilities at amortised cost, of which: Debt securities issued"*.

The maturity profile of hedging instruments is included in section V. Other Notes, point 33. Contingent liabilities, contingent assets and financial derivatives.

Currency Risk
Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, comprise the Group's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the income statement.

The Group has established a system of currency risk limits based on its net currency exposure in individual currencies.

The following table shows the structure of assets and liabilities by currency:

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2019						
Cash and cash balances	2 168	2 233	115	22	96	4 634
Financial assets at fair value through profit or loss, *of which:*	11 070	628	487	–	–	12 185
Held for trading	11 070	628	–	–	–	11 698
Mandatorily at fair value	–	–	487	–	–	487
Financial assets at fair value through other comprehensive income	11 527	11 654	–	–	–	23 181
Financial assets at amortised cost	390 966	232 348	2 026	21	1 374	626 735
of which:						
Loans and advances to banks	184 316	1 329	200	13	117	185 975
Loans and advances to customers	206 650	231 019	1 826	8	1 257	440 760
Positive fair value of hedging derivatives	7 198	–	–	–	–	7 198
Equity investments	372	–	–	–	–	372
Property, equipment and right of use assets	4 235	2 171	–	–	–	6 406
Investment property	371	–	–	–	–	371
Intangible assets	1 914	431	–	–	–	2 345
Tax receivables	263	742	–	–	–	1 005
Non-current assets held for sale	–	31	–	–	–	31
Other assets	1 230	820	74	–	6	2 130
Total assets	431 314	251 058	2 702	43	1 476	686 593
Financial liabilities at fair value through profit or loss, *of which:*						
Held for trading	11 535	2	–	–	–	11 537
Financial liabilities at amortised cost *of which:*	287 236	269 704	15 828	637	3 222	576 627
Deposits from banks	7 093	131 629	2 367	–	3	141 092
Deposits from customers	270 426	127 210	13 461	637	3 219	414 953
Debt securities issued	9 717	10 865	–	–	–	20 582
Negative fair value of hedging derivatives	7 624	–	–	–	–	7 624
Changes in fair value of the portfolio of hedged instruments	672	424	–	–	–	1 096
Tax liabilities	1 272	209	–	–	–	1 481
Other liabilities	4 917	3 523	209	5	79	8 733
Provisions for risks and charges	386	403	62	9	22	882
Equity	62 264	16 266	170	1	(88)	78 613
Total liabilities and equity	375 906	290 531	16 269	652	3 235	686 593
Gap	55 408	(39 473)	(13 567)	(609)	(1 759)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2018						
Cash and cash balances	2 382	2 162	111	26	161	4 842
Financial assets at fair value through profit or loss, *of which:*	8 197	1 477	346	–	–	10 020
Held for trading	8 197	1 477	–	–	–	9 674
Mandatorily at fair value	–	–	346	–	–	346
Financial assets at fair value through other comprehensive income	11 555	17 498	135	–	–	29 188
Financial assets at amortised cost	399 598	208 281	2059	16	2 147	612 101
of which:						
Loans and advances to banks	196 117	3 489	315	5	139	200 065
Loans and advances to customers	203 481	204 792	1 744	11	2 008	412 036
Positive fair value of hedging derivatives	5 636	–	–	–	–	5 636
Equity investments	332	–	–	–	–	332
Property and equipment	3 082	1 667	–	–	–	4 749
Intangible assets	1 833	346	–	–	–	2 179
Tax receivables	161	728	–	–	–	889
Non-current assets held for sale	–	–	–	–	–	–
Other assets	877	710	84	2	6	1 679
Total assets	433 653	232 869	2 735	44	2 314	671 615
Financial liabilities at fair value through profit or loss, *of which:*						
Held for trading	8 714	–	–	–	–	8 714
Financial liabilities at amortised cost *of which:*	259 319	294 597	12 221	589	3 010	569 736
Deposits from banks	19 076	153 044	29	–	2	172 151
Deposits from customers	228 864	130 092	12 192	589	3 008	374 745
Debt securities issued	11 379	11 461	–	–	–	22 840
Negative fair value of hedging derivatives	5 657	–	–	–	–	5 657
Changes in fair value of the portfolio of hedged instruments	500	108	–	–	–	608
Tax liabilities	1 070	38	–	–	–	1 108
Other liabilities	4 579	3 597	370	5	182	8 733
Provisions for risks and charges	531	688	81	–	20	1 320
Equity	60 593	15 338	(124)	–	(68)	75 739
Total liabilities and equity	340 963	314 366	12 548	594	3 144	671 615
Gap	92 690	(81 497)	(9 813)	(550)	(830)	–

Equity Risk

Equity risk is the risk of movement in the prices of equity instruments held in the Group's portfolio and
of financial derivatives derived from these instruments. The main source of this risk is trading in equity instruments, although equity risk also arises as a result of the Group's non-trading activities. The risks associated with equity instruments are managed using trading limits. The methods used to manage these risks are described above.

Liquidity Risk

Liquidity risk arises due to the way the Group's finances its activities and manages its positions. It includes the risk the Group would be unable to finance its assets using instruments with appropriate maturity and the risk that the Group would be unable to dispose of its assets for an appropriate price within the necessary time period.

The Group has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Group flexible and limits its dependency on a single funding source. The Group regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Group's liquidity risk management strategy, which is approved by the Board of Directors. As part of its liquidity risk management strategy, the Group holds a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Group by analysing of differences between the residual maturity of assets and liabilities across time buckets. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Group daily monitors and in detail the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows with an outlook of several weeks. If limits are breached, the Group takes action to reduce the liquidity risk. In the long-term (structural) perspective, the Group monitors the difference between the maturity of assets and liabilities for periods longer than one year. The Group sets limits and appropriate action is taken if they are breached (eg by acquiring long-term sources of refinancing).

The Group has a contingency plan in the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation.

Stress tests of short-term liquidity are performed by the Group on a weekly basis. The stress tests verify the Group's ability to overcome extreme situations, such as systemic interruption of the inter-bank money market, a decrease in the Group's credit rating, IT system breakdowns, and reputation risk to the Group. The stress scenarios' results are presented to the ALCO.

The following table shows undiscounted cash flows of assets and liabilities, issued guarantees and provided loan facilities:

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2019							
Cash and cash balances	4 634	4 634	4 634	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	12 185	12 735	938	1 949	5 071	4 773	4
– held for trading	11 698	12 248	938	1 949	5 071	4 286	4
– mandatorily at fair value	487	487	–	–	–	487	–
Financial assets at fair value through other comprehensive income	23 181	25 471	139	2 290	19 870	3 172	–
Financial assets at amortised cost *of which:*	626 735	663 993	234 598	66 442	188 653	169 586	4 714
Loans and advances to banks	185 975	190 582	184 647	1 861	3 238	823	13
Loans and advances to customers	440 760	473 411	49 951	64 581	185 415	168 763	4 701
Positive fair value of hedging derivatives	7 198	7 198	93	457	2 296	4 352	0
Equity investments	372	372	–	–	–	–	372
Property, equipment and right of use assets	6 406	6 406	–	–	–	–	6 406
Investment property	371	371	–	–	–	–	371
Intangible assets	2 345	2 345	–	–	–	–	2 345
Tax receivables	1 005	1 005	(66)	–	1 071	–	–
Non-current assets held for sale	31	31	–	31	–	–	–
Other assets	2 130	2 130	1 395	735	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*							
Held for trading	11 537	11 537	4 153	1 525	3 604	2 252	3
Financial liabilities at amortised cost *of which:*	576 627	578 512	516 936	33 432	20 745	7 235	164
Deposits from banks	141 092	141 113	119 915	6 427	12 877	1 733	161
Deposits from customers, *of which:*	414 953	415 255	393 174	17 261	3 827	990	3
Lease liabilities	2 047	2 150	100	319	1 229	502	–
Other than lease liabilities	412 906	413 105	393 074	16 942	2 598	488	3
Debt securities issued	20 582	22 247	82	10 361	6 321	5 483	–
Negative fair value of hedging derivatives	7 624	7 624	155	854	2 346	4 269	–
Changes in fair value of the portfolio of hedged instruments	1 096	1 096	1 096	–	–	–	–
Tax liabilities	1 481	1 481	570	911	–	–	–
Other liabilities	8 733	8 733	6 960	1 772	–	1	–
Provisions for risks and charges	882	882	–	–	–	–	882
Equity	78 613	78 613	–	–	–	–	78 613
Undrawn loan facilities	130 357	130 357	6 169	27 829	25 169	66 489	4 701
Bank guarantees	45 283	45 283	4 801	10 596	24 741	5 142	3

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2018							
Cash and cash balances	4 842	4 842	4 842	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	10 020	10 343	1 416	1 493	5 045	2 389	–
– held for trading	9 674	9 997	1 416	1 493	5 045	2 043	–
– mandatorily at fair value	346	346	–	–	–	346	–
Financial assets at fair value through other comprehensive income	29 188	33 046	134	2 496	24 888	5 528	–
Financial assets at amortised cost *of which:*	612 101	638 264	252 926	58 719	179 547	141 515	5 557
Loans and advances to banks	200 065	200 132	199 488	462	–	–	182
Loans and advances to customers	412 036	438 132	53 438	58 257	179 547	141 515	5 375
Positive fair value of hedging derivatives	5 636	5 636	75	212	2 822	2 527	–
Equity investments	332	332	–	–	–	–	332
Property and equipment	4 749	4 749	–	–	–	–	4 749
Intangible assets	2 179	2 179	–	–	–	–	2 179
Tax receivables	889	889	17	–	872	–	–
Non-current assets held for sale	–	–	–	–	–	–	–
Other assets	1 679	1 679	1 373	306	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*							
Held for trading	8 714	8 714	2 979	966	3 773	996	–
Financial liabilities at amortised cost *of which:*	569 736	572 561	456 688	67 531	39 491	8 851	–
Deposits from banks	172 151	172 159	87 081	59 806	22 894	2 378	–
Deposits from customers	374 745	375 557	368 992	5 195	1 011	359	–
Debt securities issued	22 840	24 845	615	2 530	15 586	6 114	–
Negative fair value of hedging derivatives	5 657	5 657	128	477	2 427	2 625	–
Changes in fair value of the portfolio of hedged instruments	608	608	608	–	–	–	–
Tax liabilities	1 108	1 108	–	1 108	–	–	–
Other liabilities	8 733	8 733	6 813	1 920	–	–	–
Provisions for risks and charges	1 320	1 320	–	–	–	–	1 320
Equity	75 739	75 739	–	–	–	–	75 739
Undrawn loan facilities	119 957	119 957	6 134	30 235	22 359	54 856	6 373
Bank guarantees	41 136	41 136	4 950	10 392	20 778	5 016	–

(d) Operational Risk

Operational risk is the risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes legal risk, however, it does not include strategic or reputation risk. Legal risk includes, inter alia, the risk of fines, sanctions or punitive damages resulting from supervision measures and private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties to prevent conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to a member of the Board of Directors in charge of risk management. The Operational Risk Department is authorised to secure unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company.

Operational risk management and monitoring is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and assesses the control and management system's functionality.

The Group has continued developing and setting up its comprehensive system for the identification, monitoring and management of operational risk. In line with the 2019 Operational Risk Management Strategy, the Group defined its priorities with respect to mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Group and the Bank. The operational risk appetite is the operational risk level acceptable to the Bank and is measured using ELOR (Expected Loss on Revenue), which is the proportion of anticipated losses arising from operational risk (estimate based on historical data) to income (budgeted income on a quarterly basis). Setting the ELOR limit and its monitoring was performed in line with the Group's policies.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management pursuant to Basel III. The data acquired through the system is taken into account when calculating the capital requirement and when managing operational risk. It serves as the basis for designing processes that reduce the number of particular events and mitigate the consequences (eg when preparing process mitigation measures or the Group's strategic insurance plan). The data is also used for reviewing the reliability of proposed measures for operational risk mitigation. The data is collected on a continuous basis in cooperation with individual departments of the Bank (all significant events are reported and resolved immediately). Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Board of Directors, the Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or immediately if necessary. The data is regularly reconciled with the accounting records and other sources in order to ensure data completeness and accuracy.

In 2019, the Group analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances overall awareness of operational risk within the Group and trains the Group's staff via training sessions and e-learning courses.

Based on the consent obtained from the regulatory body, the Group calculates the capital requirement for operational risk under the advanced measurement approach (AMA). Under this approach, the UniCredit Group model based on internal and external data, the results of scenario analyses and risk indicator data is used.

(e) Capital Management

Management of the Group monitors the development of the Group's capital adequacy on a consolidated basis and its capital position. The regulator of the banking market, the Czech National Bank, established rules for the calculation of capital requirements and monitors their development. Since 1 January 2014, the Group has met the requirements of Basel III (Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms) that was implemented by the Czech National Bank through Decree No. 163/2004 Coll. on the performance of the activity of banks, credit unions and investment firms. The Basel III rules were established in response to the financial crisis and introduce requirements for increased capital quality, requirement for an increased coverage of risks, the minimum standard for liquidity management, rules for the leverage ratio and improve risk management and corporate governance.

The Bank's regulatory capital consists of the following:

- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting; minus intangible assets and gaps in the coverage of anticipated losses through adjustments for credit risk using the internal rating based approach;
- Tier 1 (T1) capital creating CET1; and
- Tier 2 (T2) capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

The Group complies with the defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

Statement of capital for the Group's capital adequacy calculation on a consolidated basis as reported to the regulator in accordance with applicable rules as of 31 December 2019 and as of 31 December 2018:

	2019	2018
Tier 1 capital	71 100	66 369
Total capital	71 106	67 784
Exposure to credit risk	326 971	312 713
Exposure to market risk	5 076	5 053
Exposure to operational risk	25 546	23 006
Total risk exposure	**357 593**	**340 772**
Capital adequacy ratio for the year (Tier 1 ratio)	**19,81 %**	**19,48 %**
Capital adequacy ratio for the year (Total capital ratio)	**19,81 %**	**19,89 %**

36. Related party transactions

Entities are deemed to be related parties in the event that one entity is able to control the activities of another, or is able to exercise significant influence over the other entity's financial or operational policies. As part of its ordinary business, the Group enters into transactions with related parties. These transactions principally comprise loans, deposits and other types of transactions and are concluded under arm's length conditions and at arm's length prices in order to prevent any detriment to any party.

Related parties principally include the Bank's parent company, Bank's fellow subsidiaries and other companies controlled by UniCredit Group or where UniCredit Group exercises significant influence the, the Bank's subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

UniCredit Group has prepared an equity programme for the employees of UniCredit Group under which the employees may purchase shares of UniCredit Group parent at a discounted price. The Discounted employee shares may not be sold during the vesting period. Vested shares are forfeited if the respective employee's employment by the UniCredit Group ends. The provided discount is allocated to individual UniCredit Group companies involved in the programme and these companies recognise and defer the discount over the vesting period.

(a) Transactions with the parent company

	31 Dec 2019	31 Dec 2018
Assets		
Loans and advances to banks	928	2 474
Financial assets held for trading	1 836	598
Financial assets at fair value through other comprehensive income	–	774
Positive fair value of hedging derivatives	925	996
Total	**3 689**	**4 842**
Liabilities		
Deposits from banks	118 092	123 403
Financial liabilities held for trading	1 656	312
Negative fair value of hedging derivatives	1 417	859
Total	**121 165**	**124 574**
Off-balance sheet items		
Issued guarantees	1 490	963
Irrevocable credit facilities	311	132
Total	**1 801**	**1 095**

	2019	2018
Interest income	296	442
Interest expenses	(193)	(54)
Fee and commission income	1	–
Fee and commission expenses	(1)	(4)
Net profit/loss from financial assets and liabilities held for trading	201	308
Net profit/loss from hedging of the risk of change in fair values	(3)	1
Administrative expenses	(13)	(9)
Total	**288**	**684**

(b) Transactions with key management members

	31 Dec 2019	31 Dec 2018
Assets		
Loans and advances to customers	114	98
of which:		
Board of Directors	17	8
Other management members	97	90
Total	**114**	**98**
Liabilities		
Payables to customers	169	223
of which:		
Board of Directors	85	113
Other management members	84	109
Total	**169**	**223**
Off-balance sheet items		
Irrevocable credit facilities	3	4
of which:		
Board of Directors	1	1
Other management members	2	3
Total	**3**	**4**

(c) Transactions with other related parties

	31 Dec 2019	31 Dec 2018
Assets		
Financial assets held for trading	1 654	1 020
of which:		
UniCredit Bank AG	1 654	1 020
Loans and advances to banks	166	991
of which:		
UniCredit Bank AG	1	823
UniCredit Bank Austria AG	79	95
Yapi ve Kredi Bankasi AS	54	31
UniCredit Bank Hungary Zrt.	16	6
AO UniCredit Bank	1	20
Loans and advances to customers	801	724
of which:		
UCTAM Czech Republic s.r.o.	398	404
UCTAM SVK, s.r.o	403	320
Positive fair value of hedging derivatives	4 139	1915
of which:		
UniCredit Bank AG	4 139	1915
Total	**6 760**	**4 650**

	31 Dec 2019	31 Dec 2018
Liabilities		
Deposits from banks	3 800	20 626
of which:		
UniCredit Bank Austria AG	2 973	19 933
UniCredit Bank AG	750	649
UniCredit Bank Hungary Zrt.	55	5
Deposits from customers	339	501
of which:		
UniCredit Services S.C.p.A.	110	80
Financial liabilities held for trading	2 563	2 378
of which:		
UniCredit Bank AG	2 563	2 378
Negative fair value of hedging derivatives	3 310	1 500
of which:		
UniCredit Bank AG	3 310	1 500
Total	**10 012**	**25 005**

	31 Dec 2019	31 Dec 2018
Off-balance sheet items		
Issued guarantees	2 348	1 240
of which:		
UniCredit Bank AG	1 853	311
UniCredit Bank Austria AG	325	623
UniCredit Bank Hungary Zrt.	12	19
AO UniCredit Bank	53	102
Irrevocable credit facilities	534	287
of which:		
UniCredit Bank AG	433	119
Total	**2 882**	**1 527**

	2019	2018
Interest income	109	717
of which:		
UniCredit Bank AG	2	239
UniCredit Bank Austria AG	90	442
Interest expenses	(452)	(191)
of which:		
UniCredit Bank AG	(175)	(4)
UniCredit Bank Austria AG	(268)	(178)
Fee and commission income	129	96
of which:		
UniCredit Bank AG	12	14
UniCredit Bank Hungary Zrt.	2	1
UniCredit Bank Austria AG	111	75
Fee and commission expenses	(8)	(16)
of which:		
UniCredit Bank Austria AG	(4)	(5)
Net profit/loss from financial assets and liabilities held for trading	(303)	(2 452)
of which:		
UniCredit Bank AG	(302)	(2 400)
UniCredit Bank Austria AG	–	(52)
Net profit/loss from hedging against risk of changes in fair value	50	28
of which:		
UniCredit Bank AG	50	29
Administrative expenses	(909)	(1 086)
of which:		
UniCredit Services S.C.p.A.	(900)	(1 090)
Total	**(1 384)**	**(2 904)**

37. Fair value of financial assets and financial liabilities

Based on the Quality of the Input Data Used for Valuation at Fair Value

Financial assets at fair value through profit or loss

Held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Debt securities	2 392	–	–	2 392
Derivatives	35	9 159	112	9 306
Total	**2 427**	**9 159**	**112**	**11 698**
31 Dec 2018				
Debt securities	1 246	–	990	2 236
Derivatives	30	6 067	1 341	7 438
Total	**1 276**	**6 067**	**2 331**	**9 674**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Shares	–	–	487	487
Total	**–**	**–**	**487**	**487**
31 December 2018				
Shares	–	–	346	346
Total	**–**	**–**	**346**	**346**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Debt securities	19 829	3 281	65	23 175
Shares	–	–	6	6
Total	**19 829**	**3 281**	**71**	**23 181**
31 Dec 2018				
Debt securities	24 889	4 229	64	29 182
Shares	–	–	6	6
Total	**24 889**	**4 229**	**70**	**29 188**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Fair value hedging	–	1 370	–	1 370
Cash flow hedging	–	5 828	–	5 828
Total	**–**	**7 198**	**–**	**7 198**
31 Dec 2018				
Fair value hedging	–	837	–	837
Cash flow hedging	–	4 799	–	4 799
Total	**–**	**5 636**	**–**	**5 636**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Liabilities from short sales	3 010	–	–	3 010
Derivatives	–	8 442	85	8 527
Total	**3 010**	**8 442**	**85**	**11 537**
31 Dec 2018				
Liabilities from short sales	2 606	–	–	2 606
Derivatives	–	4 804	1 304	6 108
Total	**2 606**	**4 804**	**1 304**	**8 714**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Fair value hedging	–	360	–	360
Cash flow hedging	–	7 264	–	7 264
Total	**–**	**7 624**	**–**	**7 624**
31 Dec 2018				
Fair value hedging	–	525	–	525
Cash flow hedging	–	5 132	–	5 132
Total	**–**	**5 657**	**–**	**5 657**

The following table shows the carrying amounts and fair values of financial assets and liabilities that are not reported at fair values in the Group's balance sheet (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual customers are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2019					
Financial assets					
Loans and advances to banks	185 975	185 972	–	168 194	17 778
Loans and advances to customers	440 760	437 534	–	139 136	298 398
Financial liabilities					
Deposits from banks	141 092	141 569	–	125 423	16 146
Deposits from customers	414 953	414 960	–	1 758	413 202
Debt securities issued	20 582	20 798	–	20 374	424

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2018					
Financial assets					
Loans and advances to banks	200 065	201 392	–	19	201 373
Loans and advances to customers	412 036	386 988	174	144 280	242 534
Financial liabilities					
Deposits from banks	172 151	157 215	–	77 164	80 051
Deposits from customers	374 745	374 072	–	11 432	362 640
Debt securities issued	22 840	23 194	–	23 121	73

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.

Financial assets at fair value based on Levels 1 and 2:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Total
	Held for trading	Other than held for trading mandatorily at fair value			
31 Dec 2018					
Transfer from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	13	–	–	–	13

For the year ended 31 December 2019, no financial assets reported at fair value were transferred between Levels 1 and 2.

For the years ended 31 December 2019 and 31 December 2018, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

The following tables show transfers of financial assets reported at fair value from and to Level 3.

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Impact of IFRS 9	–	254	(254)	–	–	–
Impact of implementation of investment property revaluation	–	–	–	–	112	–
Opening balance at 1 Jan 2018	**–**	**254**	**6**	**–**	**792**	**1 052**
Revaluation gains and losses						
In the income statement	–	73	–	–	(146)	(73)
In other comprehensive income	–	–	–	–	–	–
Purchases	2 290	–	–	–	–	2 290
Sales/maturity	–	–	–	–	–	–
Transfers from/to other levels	77	–	65	–	–	142
Other	(36)	19	(1)	–	–	(18)
Closing balance at 31 Dec 2018	**2 331**	**346**	**70**	**–**	**646**	**3 393**
Total revaluation gains and losses included in the income statement for the period:						(73)
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						(73)

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2019	**2 331**	**346**	**70**	**–**	**646**	**3 393**
Revaluation gains and losses						
In the income statement	–	139	–	–	(24)	115
In other comprehensive income	–	–	–	–	–	–
Purchases	43	–	–	–	–	43
Sales/maturity	(2 178)	–	–	–	(251)	(2 429)
Transfers from/to other levels	(122)	–	–	–	–	(122)
Other	38	2	1	–	849	890
Closing balance at 31 Dec 2019	**112**	**487**	**71**	**–**	**1 220**	**1 890**
Total revaluation gains and losses included in the income statement for the period:						115
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						115

The following table contains the transfers of financial liabilities at fair value to and from level 3.

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2018	**–**	**–**	**–**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	1 291	–	1 291
Sales/maturity	–	–	–
Transfers from/to other levels	14	–	14
Other	(1)	–	(1)
Closing balance at 31 Dec 2018	**1 304**	**–**	**1 304**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2019	**1 304**	**–**	**1 304**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	30	–	30
Sales/maturity	(1 173)	–	(1 173)
Transfers from/to other levels	(75)	–	(75)
Other	(1)	–	(1)
Closing balance at 31 Dec 2019	**85**	**–**	**85**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

38. Offseting of financial assets and financial liabilities

The Group does not offset financial assets and financial liabilities.

The below table shows assets which are subject to netting agreements according to Credit risk management arrangements included in the Derivative Framework agreements such as ISDA or similar. The assets are subject to netting on settlement (performance netting) and on position closeout.

	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Potential amounts available for offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2019						
Derivatives	14 361	–	14 361	12 079	–	2 282
31 Dec 2018						
Derivatives	10 569	–	10 569	8 479	–	2 090

Financial liabilities that are subject to offset, recoverable framework contracts for offset and similar arrangements:

	Gross reported financial liabilities	Gross offset financial assets	Net reported financial liabilities	Potential amounts available for offset		Net amount
				Financial instruments	Provided cash collateral	
31 Dec 2019						
Derivatives	13 348	–	13 348	12 079	–	1 269
31 Dec 2018						
Derivatives	10 480	–	10 480	8 479	–	2 001

39. Subsequent Events

The Group's management is not aware of any post balance sheet events that would require adjustment to the Group's financial statements.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 4 February 2020.

The financial statements were signed on behalf of the Board of Directors by:

Mgr. Jakub Dusílek, MBA
Chairman of the Board of Directors

Ljubiša Tešić
Member of the Board of Directors

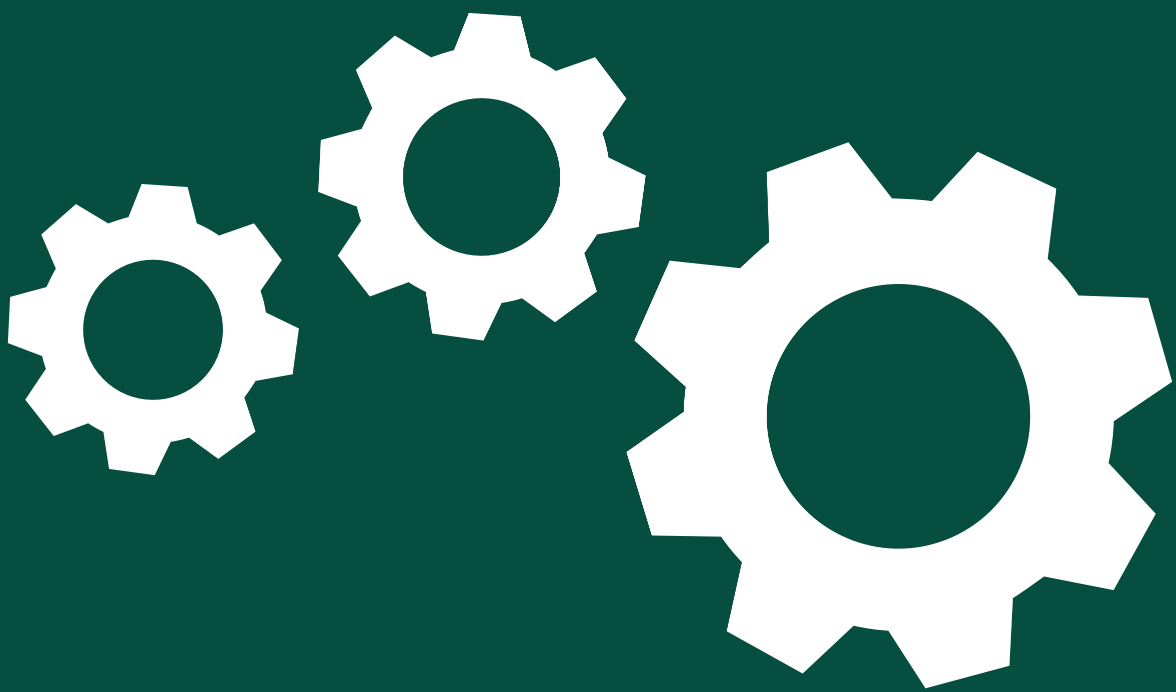
Individual in charge of the accounting records

Ing. Jiří Houška

Individual in charge of the financial statements

Mgr. Michaela Mrštíková

Transform and Maximise Productivity.



Our customer focus drives the right process optimisation, leading to new ways of working. We will continue to maximise productivity across the value chain, improving processes and products while minimising operational risk. A great example of our transformation is the paperless bank, currently being rolled out across our networks.

Separate financial statements

Statement of comprehensive income for the year ended 31 December 2019

	Note	2019 MCZK	2018 MCZK
Interest income, of which:		17 138	14 173
– interest income calculated using the effective interest method		16 813	13 639
Interest expenses		(3 885)	(1 089)
Net interest income	(1)	**13 253**	**13 084**
Fee and commission income		4 877	4 582
Fee and commission expenses		(1 277)	(1 124)
Net fee and commission income	(2)	**3 600**	**3 458**
Dividend income	(3)	455	703
Net income/(loss) from trading	(4)	1 888	1 765
Net income/(loss) from hedging against risk of changes in fair value	(5)	(12)	2
Net income/(loss) from the sale or repurchase of:	(6)	471	236
Financial assets at amortised cost		136	96
Financial assets at fair value through other comprehensive income		335	142
Financial liabilities		–	(2)
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, of which:	(7)	139	73
Mandatorily at fair value		139	73
Operating income		**19 794**	**19 321**
Impairment losses on:	(8)	(1 128)	(503)
Financial assets at amortised cost		(1 129)	(512)
Financial assets at fair value through other comprehensive income		1	9
Administrative expenses	(9)	(6 433)	(6 961)
Net provisions for risks and charges:	(27)	308	(551)
Loan commitments and financial guarantees given		371	(499)
Other net provisions		(63)	(52)
Depreciation and impairment of property, equipment and right of use assets	(18)	(473)	(243)
Amortisation and impairment of intangible assets	(19)	(491)	(258)
Other operating income and expenses	(10)	18	61
Operating expenses		**(7 071)**	**(7 952)**
Net income/(loss) on property measured at fair value	(18)	(1)	n/a
Profit/(loss) from the sale of non-financial assets		1	–
Profit before income tax		**11 595**	**10 866**
Income tax	(28)	(2 162)	(1 943)
Profit after tax		**9 433**	**8 923**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property measured at fair value, of which:		261	n/a
Change in fair value		329	n/a
Deferred tax		(68)	n/a
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, of which:		(1 000)	(339)
Change in fair value		(1 238)	(418)
Revaluation reclassified to profit or loss		–	–
Deferred tax		238	79
Reserve from revaluation of financial assets at fair value through other comprehensive income, of which:		(264)	(697)
Change in fair value		(53)	(733)
Revaluation reclassified to profit or loss		(224)	(97)
Deferred tax		13	133
Foreign exchange rate gains from the consolidation of a foreign branch		(171)	101
Other comprehensive income, net of tax		**(1 174)**	**(935)**
Total comprehensive income, net of tax		**8 259**	**7 988**

The notes on pages 121–189 form a part of these financial statements.

Statement of financial position as of 31 December 2019

	Note	2019 MCZK	2018 MCZK
Assets			
Cash and cash balances	(11)	4 633	4 841
Financial assets at fair value through profit or loss, of which:	(12)	12 185	10 024
Held for trading		11 698	9 678
Mandatorily at fair value		487	346
Financial assets at fair value through other comprehensive income	(13)	23 181	29 188
Financial assets at amortised cost, of which:		613 747	601 624
Loans and advances to banks	(14)	185 944	200 035
Loans and advances to customers	(15)	427 803	401 589
Positive fair value of hedging derivatives	(16)	7 199	5 636
Equity investments	(17)	3 979	3 979
Property, equipment and right of use assets	(18)	2 955	828
Intangible assets	(19)	2 097	1 950
Tax receivables, of which:	(28)	853	703
Current income tax		–	17
Deferred tax		853	686
Non-current assets held for sale		31	–
Other assets	(20)	1 692	1 367
Total assets		**672 552**	**660 140**
Liabilities			
Financial liabilities at fair value through profit or loss, of which:		11 537	8 714
Held for trading	(21)	11 537	8 714
Financial liabilities at amortised cost, of which:		567 206	561 744
Deposits from banks	(22)	132 031	164 072
Deposits from customers	(23)	415 017	374 904
Debt securities issued	(24)	20 158	22 768
Negative fair value of hedging derivatives	(25)	7 624	5 657
Changes in fair value of the portfolio of hedged instruments		1 096	608
Tax liabilities, of which:	(28)	570	386
Current income tax		570	386
Deferred tax		–	–
Other liabilities	(26)	7 884	8 172
Provisions for risks and charges	(27)	869	1 277
Total liabilities		**596 786**	**586 558**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		(261)	913
Retained earnings and reserve funds	(31)	54 344	51 496
Profit for the period		9 433	8 923
Total shareholder‘s equity		**75 766**	**73 582**
Total liabilities and shareholder‘s equity		**672 552**	**660 140**

The notes on pages 121–189 form a part of these financial statements.

Statement of cash flows for the year ended 31 December 2019

	2019 MCZK	2018 MCZK
Profit after tax	**9 433**	**8 923**
Adjustments for non-monetary items:		
Impairment losses of:	1 128	503
Financial assets at amortised costs	1 129	512
Financial assets at fair value through other comprehensive income	(1)	(9)
Revaluation of financial instruments	637	(1 216)
Net provisions for risks and charges:	(303)	550
Loan commitments and financial guarantees given	(371)	498
Other net provisions	68	52
Depreciation and impairment of property, equipment and right of use assets	473	243
Amortisation and impairment of intangible assets	491	258
Net income/(loss) from the sale or repurchase of:	113	113
Financial assets at amortised cost	–	–
Financial assets at fair value through other comprehensive income	113	113
Financial liabilities	–	–
Profit/(loss) from the sale of non-financial assets	(1)	–
Taxes	2 162	1 943
Unrealised foreign currency gains/(losses)	(171)	101
Other non-monetary adjustments	(3 448)	(1 360)
Operating profit before change in operating assets and liabilities	**10 514**	**9 056**
Financial assets at fair value through profit or loss, of which:	(2 848)	413
Held for trading	(2 846)	432
Mandatorily at fair value	(2)	(19)
Financial assets at amortised cost, of which:	(12 002)	(17 363)
Loans and advances to banks	14 092	10 085
Loans and advances to customers	(26 094)	(27 448)
Other assets	125	853
Financial liabilities at fair value through profit or loss, of which:	2 733	(170)
Held for Trading	2 733	(170)
Financial liabilities at amortised cost, of which:	7 918	13 854
Deposits from banks	(32 109)	(204)
Deposits from customers	40 027	14 058
Other liabilities	(55)	(1 798)
Income tax paid	(1 953)	(1 728)
Net cash flows from operating activities	**4 432**	**4 119**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	5 268	16 853
Gains from the sale of property and equipment and intangible assets	1	1
(Acquisition) of property and equipment and intangible assets	(865)	(1 016)
Dividends received	5	1 705
Net cash flows from investment activities	**4 409**	**17 543**
Dividends paid	(6 070)	(3 732)
Financial liabilities at amortised cost – debt securities issued and repaid	(2 612)	(17 096)
(Payment) of Lease liabilities	(367)	n/a
Net cash flows from financial activities	**(9 049)**	**(20 828)**
Cash and cash balances at the beginning of the period	**4 841**	**4 007**
Cash and cash balances at the end of the period	**4 633**	**4 841**
Interest received	17 233	13 442
Interest paid	(3 660)	(662)

The notes on pages 121–189 form a part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

MCZK	Issued capital	Share premium	Reserve from revaluation of: hedging instruments	Reserve from revaluation of: financial assets at fair value through other compr. income	Reserve from revaluation of: property measured at fair value	Reserve from revaluation of: exchange rate gains/(losses) of a foreign branch	Retained earnings and reserve funds: Reserve fund and other capital funds	Retained earnings and reserve funds: Special-purpose reserve fund	Retained earnings and reserve funds: Retained earnings	Profit for the period	Equity
Impact of implementation of IFRS 9				(30)					(80)		(110)
Balance as of 1 January 2018	**8 755**	**3495**	**543**	**1 525**	**n/a**	**(220)**	**3 372**	**11 611**	**31 430**	**8 821**	**69 332**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit								812	8 009	(8 821)	–
Dividend payment									(3 732)		(3 732)
Other									(6)		(6)
Total comprehensive income for the current period											
Net profit for the current period										8 923	8 923
Other comprehensive			(339)	(697)		101					(935)
Balance as of 31 December 2018	**8 755**	**3 495**	**204**	**828**	**n/a**	**(119)**	**3 372**	**12 423**	**35 701**	**8 923**	**73 582**
Balance as of 1 January 2019	**8 755**	**3 495**	**204**	**828**	**n/a**	**(119)**	**3 372**	**12 423**	**35 701**	**8 923**	**73 582**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit								817	8 106	(8 923)	–
Dividend payment									(6 070)		(6 070)
Other									(5)		(5)
Total comprehensive income for the current period											
Net profit for the current period										9 433	9 433
Other comprehensive			(1 000)	(264)	261	(171)					(1 174)
Balance as of 31 December 2019	**8 755**	**3 495**	**(796)**	**564**	**261**	**(290)**	**3 372**	**13 240**	**37 732**	**9 433**	**75 766**

The notes on pages 121–189 form a part of these financial statements.

Notes to the financial statements (separate)

Year ended 31 December 2019

I. Introduction

General Information
UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Bank") was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company.

Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A which is the ultimate parent company of the entire UniCredit group holding 100% of the Bank's shares.

The Bank's registered office:
Želetavská 1525/1, 140 92, Praha 4 – Michle

Following the completion of the cross-border merger, the Bank has been continuing to perform activities previously undertaken by UniCredit Bank Slovakia a.s. on the territory of the Slovak Republic through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank).

The cross-border merger was made with the objective of creating a stronger entity capable of managing business activities both in the Czech and Slovak markets that will bring significant advantages to UniCredit Group since the merger gave rise to an entity that is able to more efficiently and effectively serve clients and achieve greater returns in the context of the anticipated cost savings and dynamic growth of business in both countries. The integration enabled to benefit from synergistic effects in terms of costs and income while achieving a more balanced capital structure and optimised liquidity management. In addition, UniCredit Group had the opportunity to reduce the complexity of its organisational structure and the level of management efforts as a result of establishing one local management team overseeing both markets.

The Bank increased its share capital for the purposes of the merger. A number of minority shareholders of UniCredit Bank Slovakia a.s. exercised their right to sell the shares of the dissolving bank, other minority shareholders utilised the right to exchange the shares for newly issued shares of the Bank. The successor bank took over the capital of the dissolving bank of MCZK 11,611 and allocated it to the special-purpose reserve fund in EUR that can be used only to offset losses.

Scope of Activities
The Bank is a universal bank providing services of retail, commercial and investment banking services in Czech crowns and foreign currencies for domestic and foreign clients, mainly in the Czech Republic and also in other states of the European Union.

The Bank's principal activities include:
- Receiving deposits from the public;
- Providing loans;
- Investing in securities on its own behalf;
- Operating a system of payments and clearing;
- Issuing and administration of payment products;
- Providing guarantees;
- Opening letters of credit;
- Administering cash collection;
- Trading on its own behalf or on behalf of clients:
  - In foreign-exchange currency products;
  - In forward and contract options, including foreign currency and interest rate contracts; and
- With transferable securities;
- Participating in share subscriptions and providing related services;
- Issuing mortgage bonds;
- Conducting financial brokerage;
- Managing securities, including portfolio management, on behalf of clients;
- Providing depository services and administration of securities;
- Providing depository services for investment funds;
- Conducting foreign currency exchange activities;
- Providing banking information;
- Renting safe-deposit boxes; and
- Conducting activities directly connected with the activities stated above.

II. Basis for the preparation of the separate financial statements

1. Statement of compliance

The Separate financial statements of the Bank (hereinafter also "Financial Statements") for 2019 and comparatives for 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union

("EU") in Commission Regulation (EC) no. 1126/2008 as amended including valid interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), further "IFRS".

Purpose of preparation
The purpose of preparing these financial statements in the Czech Republic is to comply with Act on Accounting No. 563/1991 Coll. The Bank prepares its financial statements and annual report under special regulation 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Basis of preparation
These financial statements were authorised for issue by the board of directors and are subject to approval at the General Meeting of Shareholders.

These financial statements were prepared based on the going concern assumption that the Bank will continue to operate in the foreseeable future.

The annual separate and consolidated financial statements for 2018, the Annual Report for 2018, the profit distribution (incl. dividends in the amount of MCZK 6,070), retained earnings and the determination of royalties to the Supervisory Board members for 2018 were approved by the Parent Company's General Meeting held on 19 March 2019.

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption. All presented amounts are in millions of Czech crowns (millions of CZK) unless stated otherwise.

The financial statements were prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative contracts, other financial assets and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, and properties used in business (reclassified from the cost model to the revaluation model as of 31 December 2019), all of which have been measured at fair value. The methods for determining fair value are presented in section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. Recognised assets and liabilities that are hedged against the risk of changes in fair value and would not otherwise be measured at fair value are remeasured at fair value to the extent of the hedged risk.

Regulatory requirements
The Bank is subject to the regulatory requirements of the Czech National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rates and foreign exchange position of the Bank.

2. Foreign Currency and Foreign Currency Translation

The Czech crown is the functional currency of the Bank. Euro is the functional currency of the Slovak branch and the entities based in the Slovak Republic. The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the branch are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch". Figures in brackets represent negative amounts.

Transactions in foreign currencies (ie other than the functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing foreign exchange rate at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement as "Net income/loss from financial assets and liabilities held for trading".

III. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements excluding:
- Implementation of accounting policies based on IFRS 16 "Leases" since 1 January 2019 (for details see point 12. Leases) and
- Accounting policy for valuation of owned real estates and investment property (for details see point 10. Property and Equipment).

Terminology used in the Separate Financial Statements (incl. Notes to the Separate Financial Statements) and the structure of some disclosure tables were refined in comparison to the Separate Financial Statements for the comparative period. The adjustments have no impact on the presented figures.

1. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Bank classifies financial instruments in the following categories:
- Financial assets measured at amortised cost ("AC"),
- Financial assets measured at fair value through other comprehensive income ("FVTOCI"),
- Financial assets mandatorily measured at fair value through profit or loss ("FVTPL"),
- Financial assets held for trading ("FVTPL"),
- Financial liabilities measured at amortised cost ("AC") and
- Financial liabilities measured at fair value through profit or loss ("FVTPL").

The Bank has applied IFRS 9 approach to the classification and measurement of financial assets that takes into account:
- The business model for managing financial assets and
- Characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at amortised cost if both the following conditions are met:
- The asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and
- The contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of principal and interest on the unpaid part of the principal.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur.

A financial asset is measured at fair value through other comprehensive income if both the following conditions are met:
- The asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and
- The contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.

Financial assets at fair value through other comprehensive income can also include investments in equity instrument if they are not held for trading and are designated so on initial recognition.

A financial asset is measured at *fair value though profit or loss* if it is not measured at amortised cost or at fair value through other comprehensive income or if it is designated at FVTPL on initial recognition.

All financial liabilities of the Bank, except for financial liabilities held for trading, financial liabilities designated at FVTPL on initial recognition and hedging derivatives, are measured at amortised cost.

a) Business Model Assessment

Business model ("BM") refers to the way the Bank manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The following is considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) is evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the Bank are compensated (eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity; and
- Whether sales activity and the collection of contractual cash flows are integral or incidental to the business model

The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument but is determined at a higher level of aggregation.

The business model assessment resulted in the following business models of the Bank:
Business model "Held to collect" comprises the banking book and was assigned mainly to the lending portfolio and the portfolio of debt securities that are held with the intention to collect contractual cash flows.

Although the objective of the business model is to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus this business model can be to hold loans and bonds to collect contractual cash flows even where limited sales of financial assets occur or are expected to occur in the future.

Sales are consistent with the held-to-collect business model in the following situations:
- The sales are due to an increase in the credit risk of a financial asset;
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent).

The business model *„Held to collect and sell"* comprises the banking book and was assigned mainly to:
- The portfolio of debt securities whose objective is achieved by both collecting contractual cash flows and selling financial assets; these are used primarily for liquidity, interest and duration management, and
- Equity instruments irrevocably designated at FVTOCI on initial recognition.

The "Other" business model was assigned to financial instruments (debt securities, derivatives and equity instruments) that are not allocated to any of the above business models and the main strategy is:
- Trading:
  - To realise cash flows through sale of the assets or
  - To manage the instruments actively on fair value basis in order to realise fair value changes arising from market factor changes like yield curves, credit spreads etc.
- Managing Risk Weighted Assets, or
- Liquidity and interest rate management up to one year.

b) Analysis of Contractual Cash Flow Characteristics

For the classification of financial assets based on the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows – assessment whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest ("SPPI Test"). This analysis is only performed at initial recognition of the instrument.

For this purpose, interest is defined as a consideration for the time value of money, the credit risk associated with the principal during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

This analysis is performed for loan products either at "contract template" level for standardised products, or at contract by contract level for tailored corporate loan contracts. For securities, the analysis is performed at ISIN level using mainly an external data provider.

Modified Time Value of Money

The time value of money is the element of interest that provides consideration for the passage of time. It does not take into account other risks (credit, liquidity, etc) or costs (administrative, etc) associated with holding a financial asset.

In some cases, the time value of the money element may be modified (imperfect). This is the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case, the Bank must assess the modification to determine whether the contractual cash flows still represent solely payments of principal and interest, ie the modification term does not significantly alter the cash flows from a perfect benchmark instrument. For this assessment, the Bank uses a Benchmark tool developed on UniCredit Group level.

c) Recognition and Measurement of Financial Assets

Financial assets at amortised cost

"Financial assets at amortised cost" are recognised in the Bank's accounting books from the moment of settlement. Foreign exchange gains and losses and impairment losses are recognised in the Bank's profit or loss from the trade date.

Financial assets at amortised cost are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts during the expected life of the financial asset or liability to the gross carrying amount of the financial asset or liability. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using an effective interest rate over the expected life of the loan. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate.

Financial assets at amortised cost represent loans and advances to banks, loans and advances to customers and debt securities.

"Purchased or originated credit-impaired financial assets" (POCI) are financial assets that are credit-impaired on initial recognition. The Bank recognises POCI when fresh money is granted to a credit-impaired borrower or if a restructuring results in the "renewed ability to draw existing unused credit lines/commitments". The Bank identified no POCI assets during 2019, or in 2018.

POCI is measured at amortised cost using credit-adjusted EIR. On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the credit-adjusted EIR. The credit-adjusted EIR is calculated using the expected cash flows inclusive of future lifetime expected credit losses – ie the estimated contractual cash flows are reduced by lifetime expected credit losses. For subsequent measurement, the expected credit losses for POCI assets are measured as lifetime expected credit losses. However, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance, and not the total amount of expected credit losses. Interest income on POCI, is calculated using the credit adjusted EIR.

Gains and losses arising from financial assets carried at amortised cost are recognised in the income statement when the financial asset is derecognised (in the item *"Net income/(loss) from the sale or repurchase of: Financial assets at amortised cost")* or impaired (in the item *"Impairment losses on: Financial assets at amortised cost"),* and through the amortisation process in the item *"Interest income"* using the effective interest rate method.

Financial assets at fair value through other comprehensive income

"Financial assets at fair value through other comprehensive income" are recognised in the Bank's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's other comprehensive income since the trade date; impairment losses are recognised since the trade date.

Financial assets at FVTOCI are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value.

Gains and losses arising from a change in the fair value of debt instrument assets at fair value through other comprehensive income are recognised in other comprehensive income and become the equity item *"Reserve funds from revaluation"*, with the exception of expected credit losses that are reported in the income statement as *"Impairment losses on: Financial assets at fair value through other comprehensive income"*. When financial assets are sold, transferred or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to profit or loss as *"Net income/(loss) from the sale or repurchase of: Financial assets at fair value through other comprehensive income"*. Interest income from fair value through OCI debt securities is recognised in the income statement as "*Interest income*" using the effective interest rate method.

Financial assets at FVTOCI include debt instruments and equity instruments (designated at FVTOCI on initial recognition).

"Equity instruments designated at FVTOCI on initial recognition" – on initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This decision is made on an investment–by–investment basis for each investment and covers strategic interests. Subsequent changes in fair value from revaluation are recognised during the life of the equity instrument in the item *"Reserve funds from revaluation"* and, on its derecognition, the subsequent changes are not recognised in the income statement. After derecognition of the investment, the final cumulative changes in fair value are recognised in retained earnings.

Dividend income from equity instruments is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

Financial assets at fair value through profit and loss

"Financial assets at fair value through profit or loss" are recognised in the Bank's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss since the trade date.

Initial and subsequent measurement of the financial assets at fair value through profit or loss is at fair value.

Financial assets at FVTPL include financial assets:

- *Held for trading* (debt instruments or derivatives)
- *Mandatorily at fair value*
- *Designated at FVTPL* on initial recognition.

"Financial assets at fair value through profit or loss: Held for trading" include instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include investments in debt and equity instruments, certain purchased receivables and derivative contracts that are not designated as hedging instruments.

A gain or loss arising from sale or redemption, or a change in the fair value of a held for trading financial asset, is recognised in the income statement in the item *"Net income/(loss) from trading"*, including gains or losses related to derivative contracts that are linked to assets and/or liabilities designated at fair value. Interest income from financial assets held for trading is recognised in the income statement in the item *"Interest income"*. If the fair value of a financial instrument falls below zero, which may happen in the case of derivative contracts, it is recognised in the item *"Financial liabilities at fair value through profit or loss: Held for trading"*.

All purchases and sales that require delivery within the time frame established by regulation or market convention *("regular way")* are recognised as *spot transactions*. Regular way transactions / spot transactions are recognised at the settlement date, which is the date when a financial instrument is delivered. Transactions that do not meet the regular way settlement criteria are treated as derivatives.

A derivative is a financial instrument or other contract that has all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the "underlying"), provided for a non-financial variable that the variable is not specific to a party to the contract;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- It is settled at a future date (except for regular way transactions).

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The host instrument is not a financial asset pursuant to IFRS 9;
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is either not measured at fair value or it is measured at fair value but changes in fair value are recognised in other comprehensive income.

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

Derivatives are recognised in the Bank's accounting books from the trade date. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss in the item *"Net income/(loss) from trading"* since the trade date.

Derivatives are classified as trading derivatives unless they qualify as hedging instruments in effective hedging. For hedging derivatives policy see section III. Significant Accounting Policies, point 4. Hedging Derivatives.

Financial assets are classified as *"Financial assets at fair value through profit or loss: Mandatorily at fair value"* if they do not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income. The following assets are classified in this portfolio:

- Debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- Debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- Units in investment funds;
- Equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

These assets are accounted as for *"Financial assets at fair value through profit or loss: Held for trading"*, however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss*". Interest income from financial assets mandatorily at fair value is recognised in the income statement as *"Interest income"*.

"Financial assets at fair value through profit or loss: Designated at FVTPL"- the Bank has the option at initial recognition to irrevocably designate a non-derivative financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency, ie an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on a different basis. In 2019 and in 2018 the Bank held no such assets.

These assets are accounted as for *"Financial assets held for trading"* however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*".

Interest income from financial assets designated at FVTPL is recognised in the income statement as *"Interest income"*.

d) Modification and Derecognition of Financial Asset

A financial asset is derecognised when the Bank loses the contractual rights to the cash flow from an asset or the Bank transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or surrendered.

Assets measured at fair value through other comprehensive income and assets at fair value through profit or loss that are sold are generally derecognised and the corresponding receivables from the buyer are recognised at the settlement date.

The Bank also derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified in stage 1 for the purposes of ECL calculation unless it is credit impaired, in which case it is classified as POCI.

When assessing whether the change is a material change in contractual cash flows, the Bank considers the following factors:

- Change in the currency of the loan;
- Change of the debtor;
- Change causing failure to meet the SPPI test; and
- Change for business reasons (eg maturity extension, change in interest rate).

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such case, the Bank recognises gains or losses from modification (modification accounting), representing the difference between:

- The present value of modified expected cash flows (disregarding the credit losses) discounted using the original EIR and
- The current gross carrying amount.

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing a failure to meet the SPPI test as if performed at the modification date) are considered to be changes that do not significantly affect the related cash flows.

e) Write-offs

The Bank writes off a financial asset or a part thereof when it has no reasonable expectations of recovering the respective cash flows (from the receivable itself or the collateral received). When performing a write-off, the gross carrying amount of the asset is reduced together with the related loss provision. Direct write-offs and recoveries on written-off loans are reported in the line *"Impairment losses on: Financial assets at amortised cost"*.

Financial assets written off which are subject to further enforcement are recorded in the off-balance sheet. If the Bank, after writing off a financial asset, collects additional amounts from the client, the additional recovery is recognised in the income statement under the item *"Impairment losses on: Financial assets at amortised cost"*.

f) Recognition, Measurement and Derecognition of Financial Liabilities

"Financial liabilities at amortised cost" comprise financial instruments (other than liabilities held for trading or those designated at fair value) representing the various forms of third-party funding. Financial liabilities at amortised cost include deposits from banks, deposits from customers and debt securities issued.

These financial liabilities are recognised at the settlement date initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method. Such interest is recognised in the item *"Interest expenses"*.

"Debt securities issued" are recognised net of repurchased amounts; the difference between the carrying value of a liability and the amount paid to buy it is recognised in the income statement in the line *"Net income/(loss) from the sale or repurchase of: Financial liabilities"*. Subsequent disposal by the issuer is considered as a new issue which does not produce gains or losses.

The item *"Financial liabilities at fair value through profit or loss"* includes financial liabilities held for trading and financial liabilities designated at FVTPL on initial recognition. Related interest is recognised in the item *"Interest expenses"*.

"Financial liabilities at fair value through profit or loss: Held for trading" include financial instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include short sales (obligations to deliver financial assets borrowed by a short seller (ie an entity that sells financial assets it does not yet own)) and derivatives that are not designated as hedging instruments.

"Financial liabilities at fair value through profit or loss: Held for trading", including derivatives contracts, are measured at fair value on initial recognition, as well as during the life of the transaction. A gain or loss arising from sale or redemption or a change in the fair value of a held for trading financial liability is recognised in the income statement in the item *"Net income/(loss) from trading"*.

"Financial liabilities at fair value through profit or loss: Designated at FVTPL" – financial liabilities, like financial assets, may also be designated, according to IFRS 9, on initial recognition as measured at fair value, provided that:

- This decision provides more relevant information as:
  - It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of assets or liabilities or recognition of the respective profits or losses on a different basis; or
  - The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Bank on this basis; or
- The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Bank can include the entire hybrid contract in this category, with the exception of cases where:
  - The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
  - It is clear from the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
- The financial liability that arises when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

Financial liabilities presented in this category are measured at fair value at initial recognition as well as during the life of the transaction. The changes in fair value are recognised in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss"*, except for those changes in fair value arising from changes in the creditworthiness of these financial liabilities. In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to shareholders' equity. If such accounting treatment results in an inconsistency that arises from the application of different methods of measuring assets and liabilities, and related gains or losses, then the changes in fair value deriving from changes in creditworthiness are also recorded in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss*".

In 2019 and in 2018 the Bank held no such liabilities.

A financial liability is derecognised when it is settled.

g) Reclassification of Financial Instruments

Financial instruments are not reclassified subsequent to their initial recognition aside from reclassification in the reporting period after a change in the respective business model.

Reclassifications are expected to be very infrequent. Such changes must be determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties.

The following external or internal changes may result in a business model change:

- Changes in laws and regulations concerning certain assets that obliges the entity to review its business model;
- Changes in strategy concerning certain asset's class, asset's geography, product type;
- Business combinations that induce the entity to review its business model concerning certain financial assets;
- The Bank begins or ceases to perform an activity that is significant to its operations.

The following are not considered to be changes to a business model:

- A change in intention related to specific financial assets (even in circumstances of significant changes in market conditions);
- A temporary disappearance of a particular market for financial assets; or
- A transfer of financial assets between parts of the entity with different business models.

Any reclassification is applied by the Bank prospectively, so the Bank does not adjust any previously recognised gains, losses (including impairment gains or losses) or interest.

Investments in equity instruments that are designated as at FVTOCI at initial recognition may not be reclassified, as a decision to designate them as at FVTOCI is irrevocable.

h) Day 1 Profit/Loss

If the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in the income statement, except for Level 3 fair value measurement. The Bank typically does not conduct this type of transactions.

2. Impairment of Financial Instruments

The Bank recognises impairment losses on its debt financial instruments, other than those measured at FVTPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supporting information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For reporting and provisioning purposes, the Bank uses a three-stage model in line with IFRS 9 that takes into account changes in credit risk since initial recognition ("staging"):

- Stage 1 includes financial assets with a credit risk which has not increased significantly since initial recognition, as well as assets with low credit risk at the balance sheet date. The 12-month expected credit losses (or shorter depending on the maturity of the instrument) are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 2 includes financial assets with a credit risk which has increased significantly since initial recognition but for which there is no objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 3 includes financial assets for which there is objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category includes non-performing receivables.

Impairment models are adapted to comply with the accounting requirements stated in IFRS 9, and also follow the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

Subject to expected losses calculation are financial assets at amortised cost and the applicable off balance sheet exposures (such as loan commitments and financial guarantee contracts), all credit exposures assets classified at Fair Value through Other Comprehensive Income and Lease receivables.

Furthermore, specific adjustments are developed to the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters used for regulatory reporting purposes (Basel) to compound the Expected Credit Loss (ECL), and a model is developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is the time horizon which the ECL is expected to be calculated on.

On LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are to:

- Remove the conservatism only required for regulatory purposes;
- Introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- Include forward-looking information; and
- Extend the credit risk parameters in a multiyear perspective.

As for PDs, dedicated lifetime PD curves are developed for each main client segment based on cumulated default rates, and are calibrated to reflect a point in time and forward-looking expectation regarding portfolio default rates.

The Expected Credit Loss derived from such adjusted parameters is also compounded taking into consideration macroeconomic forecasts.

A key aspect deriving from the model when compounding the final Expected Credit Loss is the stage allocation model, which allocates credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets). Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant increase in credit risk since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

Stage 2 allocation assessment includes a combination of relative and absolute triggers. The main triggers include:

- The relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set to include all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (eg age, maturity, level of PD at origination). This procedure assesses whether there has been a material deterioration in credit quality since initial recognition;
- Absolute triggers such as backstops required by the regulation (ie 30 days past due); and
- Other internal relevant triggers (eg new classifications to Forborne).

The Bank uses the "client default" definition in line with Regulation No. 575/2013 of the European Parliament and of the Council; specifically, a debtor's default involves situations where:

a. The debtor is in default with at least one repayment of the principal or related interest on any of its payables to the bank for a period greater than 90 days; and/or
b. It is likely that the debtor will be unable to settle its payables on a timely basis and in full without the bank resorting to realising collateral.

Standard cases where the debtor will be unable to settle its payables:

- Changes in contractual cash flows due to granting relief to the debtor (the "forbearance measure");
- The loan has been restructured or deferred for a long period;
- The debtor has committed credit fraud or has violated the financial commitments of the loan;
- The debtor is dead or insolvent;
- It is probable that the debtor will enter into bankruptcy or legal restructuring of its debts, etc.

In this evaluation, expected disposal scenarios are also considered as far as UniCredit Bank Non-Performing Assets Strategy foresees the recovery of defaulted assets via their transfer.

When defining the perimeter of impaired assets, the Definition of Default currently applied by UniCredit Group has been adopted, which incorporates some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so called "debtor approach").

Financial assets at amortised cost

Financial assets at amortised cost predominantly include loans and advances to banks, loans and advances to customers and trade receivables and are reported net, ie reflecting impairment losses.

Individual impairment losses adjust the net book value of individually assessed financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument.

Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on historical losses while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

Financial assets at fair value through other comprehensive income

Impairment of debt financial assets at fair value through other comprehensive income in the amount of the expected credit loss is reported in the income statement under "*Impairment losses on financial assets*". Impairment losses on equity securities classified as financial assets at fair value through other comprehensive income are not reported.

Trade receivables
Trade receivables impairment is calculated using a simplified approach based on days past due.

For additional information on Credit Risk Management please refer to section V. Other Notes, point 35 b).

Loan commitments and financial guarantees
Under IFRS 9, the impairment requirements also apply to loan commitments and financial guarantees off the statement of financial position. The Bank assesses on a forward-looking basis the expected credit losses associated with exposures from loan commitments and financial guarantee contracts.

When estimating life-time Expected Credit Loss for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The Expected Credit Loss is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of scenarios.

For financial guarantees, the Bank estimates Expected Credit Losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of scenarios.

The Expected Credit Losses related to loan commitments and financial guarantee contracts are recognised under the item *"Provisions for risks and charges"* in the statement of financial position and under the item *"Net provisions for risks and charges: Loan commitments and financial guarantees given"* in the income statement.

3. Fair Value Measurement Principles

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and financial liabilities is based on their quoted market price on an active market at the balance sheet date without deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques that maximises market observable inputs and minimizing those unobservable.

Where discounted cash flow techniques are used, estimated future cash flows are based on Bank management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Bank would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties and of the Bank.

Bonds in the Bank's portfolio are valued on a daily basis using available market rates quoted by market participants using Bloomberg services. A group of contributors who provide reliable and regular bond valuations is selected for each of the bonds. The credit spread of the bond is calculated from particular contributions and discount curves.

If there are sufficient current market prices of contributions available, the valuation is calculated as an average value. To prevent possible errors of particular contributions, a comparison of daily changes is made at the same time.

If no market price is available as a source of valuation or the number of actual contributions is not sufficient, the Bank will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Bank continues to apply this method until:
- Market quotations are again available;
- The credit spread of a particular bond is adjusted based on a comparison of credit spreads of similar bonds;
- The Bank receives other information about a change of the spread applied;
- The issuer's credit rating changes (change of internal and/or external rating, evidence from the market that creditworthiness is worsening); and
- The liquidity of the specific securities has deteriorated significantly.

Subsequently, the Bank will carry out the valuation comprising new aspects of the market price, including an assessment of possible impairment losses (see section III. Significant Accounting Policies, point 2. Impairment, namely impairment of financial assets at fair value through other comprehensive income).

Bank management believes that the fair value of the assets and liabilities presented in these financial statements can be measured reliably.

Financial assets and financial liabilities are classified into fair value levels depending on the quality of the input used in the valuation. Individual levels are defined as follows:

- Level 1 input – quoted (unadjusted) prices on active markets for identical assets or liabilities available to the Bank as of the date of valuation;
- Level 2 input – input data other than the quoted prices contained in level 1 that are observable for an asset or liability either directly or indirectly. This category includes the instruments valued at: quoted prices of similar assets or liabilities on active markets; quoted prices of identical or similar assets or liabilities on markets that are not active; valuation techniques for which a significant input is observable on the market directly or indirectly; and
- Level 3 input – unobservable input data for an asset or liability. This category includes instruments under which valuation techniques contain an input not based on observable data and the unobservable input may have a significant impact on the instrument's valuation.

The Bank evaluates the levels at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Fair Value Adjustments

Fair value adjustment is defined as the amount to be added to the market observed mid-price or to the theoretical price generated by a valuation model to obtain a fair value of the position. Therefore FVA are aimed at ensuring that the fair value reflects the exit price of a certain position.

Adjustments used are as follows:
- Credit/debit valuation adjustment (CVA/DVA);
- Model Risk;
- Close-out Costs;
- Other Adjustments.

Credit/Debit valuation adjustment (CVA/DVA)

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

Bank CVA/DVA methodology is based on the following inputs/ assumptions – simulation approach:
- New products that can be valuated are automatically included for CVA,
- Two sided bilateral CVA is used,
- EAD derived by simulation techniques – the whole portfolio of trades as well as risk mitigation techniques such as netting and margining with this counterpart is taken into account,
  - PD – precise computation of counterparty exposure
  - Implied by current market default rates, obtained from Credit Default Swaps, Use single name CDS where available, use sector curve approximations (based on internal rating and sector).

Funding Cost and Benefit Adjustment (FCA/FBA)

Funding Valuation Adjustment (FundVA) is the sum of a Funding Cost Adjustment (FCA) and of a Funding Benefit Adjustment (FBA) that accounts for the expected future funding costs/benefits for derivatives that are not fully collateralised. Most material contributors are in-the-money trades with uncollateralised counterparties.

UniCredit FVA methodology is based on the following inputs:
- Positive and Negative exposure profiles derived from leveraging on a risk-neutral spin-off of the Counterparty Credit Risk internal model;
- PD term structure implied by current market default rates obtained from credit default swaps;
- A funding spread curve that is representative of the average funding spread of peer financial groups.

Model Risk

Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available. In general, model risk is represented by the possibility that a financial instrument's evaluation is sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing. The model risk adjustment refers to the risk that the actual fair value of the instrument differs from the value produced by the model.

Close-out Costs

This measures the implicit costs of closing an (aggregated) trading position. The short position could be closed by a long position and vice versa, or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. Close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid, but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. In addition a close-out adjustment of the NAV is applied when there are penalties relating to a position write-off in an investment fund.

Other Adjustments

Other fair value adjustments not included in the previous categories may be taken into consideration to align the evaluation to the current exit price, according to the level of liquidity of the market and valuation parameters, eg adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

For Fair Value disclosures see section V. Other Notes, point 37. Fair Value of Financial Assets and Financial Liabilities.

4. Hedging Derivatives

Hedging derivatives are carried at fair value. Positive fair value is presented in the item *"Positive fair value of hedging derivatives"*, negative fair value is presented in the item *"Negative fair value of hedging derivatives"*. The method of recognising fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- The hedge is in line with the Bank's risk management strategy;
- The hedge relationship is formally documented at the inception of the hedge;
- It is expected that the hedge relationship will be highly effective throughout its life;
- The effectiveness of the hedge relationship can be objectively measured;
- The hedge relationship is highly effective throughout the accounting period; and
- For hedging future expected transactions, it is highly probable that the transaction will occur.

As regards hedge accounting, the Bank additionally used the option under IFRS 9 to continue applying the existing requirements for hedge accounting pursuant to IAS 39.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in the income statement in *"Net income from hedging against risk of changes in fair value"*. Realised interest income and expenses are reported on a net basis in *"Interest income"* or *"Interest expenses"*.

If a derivative hedges an exposure to the variability of cash flows related to recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in other comprehensive income in equity item *"Reserve funds from revaluation"*. The ineffective part of the hedge is recognised in the income statement.

If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately recognised in the income statement.

"Macro hedging" – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them). Accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates.

The Bank applies macro hedging to some financial liabilities. Net changes, gains or losses, in the fair value of the macro-hedged liabilities attributable to the hedged risk are recognised in the liability item *"Changes in fair value of the portfolio of hedged instruments"* and offset the income statement item *"Net income/(loss) from hedging against the risks of changes in fair value"*.

5. Repo transactions and reverse repo transactions

Securities sold under an agreement to repurchase them at a specified future date are also known as *"repo transactions"* or *"sale and repurchase agreements"*. Securities sold in such transactions are not derecognised from the statement of financial position, as the Bank retains substantially all the risks and rewards of ownership, as the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another counterparty under a repo transaction are measured in accordance with the appropriate accounting policy for such financial asset.

Securities sold under a repo transaction are recorded as assets in the line *"Financial assets at fair value through other comprehensive income"* or in the line *"Financial assets at fair value through profit or loss: Held for trading"*, and received loan, including accrued interest, is included in the line *"Financial liabilities at amortised cost: Deposits from banks"* or in the line *"Financial liabilities at amortised cost: Deposits from customers"*.

Debt securities purchased under agreements to purchase and resell at a specified future date, also known as "*reverse repos*" are not recorded in the Bank´s statement of financial position but are presented in the off-balance sheet. The consideration paid (provided loan), including accrued interest, is recorded in the line *"Financial assets at amortised cost: Loans and advances to banks"* or in the line *"Financial assets at amortised cost: Loans and advances to customers"*.

The difference between the sale and repurchase considerations for both repo and reverse repo transactions are recognised on an accrual basis over the period of the transaction using the EIR and are recognised in the income statement in *"Interest income"* or *"Interest expenses"*.

For sale of a security acquired from a reverse repo, the Bank derecognises the securities acquired from off-balance sheet and records a payable from a *"short sale"*, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading"*, with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

"Sell-buy" and "Buy-Sell" transactions are accounted for in the same way as *"repo transactions" and "reverse repos"*.

6. Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements continue to be recognised in the statement of financial position if the risks and rewards of ownership are retained by the Bank and are measured in accordance with the appropriate accounting policy for such financial assets.

Financial assets borrowed under securities borrowing agreements are not recognised in the Bank's statement of financial position but are presented in off-balance sheet.

For sale of a security acquired on the basis of securities borrowing arrangements, the Bank derecognises the securities acquired from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading"*, with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

Income and expenses arising from the borrowing and lending of securities are recognised on an accrual basis over the period of the transactions in the item *"Fee and commission income"* or *"Fee and commission expenses"*.

7. Offsetting

Financial assets and liabilities may be offset against each other, and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis. In the current and comparative period the Bank does not offset any financial assets and financial liabilities.

8. Cash and cash balances

Cash comprises cash in hand and cash in transit. Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

"Cash and cash balances" are not carried at fair value on the statement of financial position, but are carried at amounts that approximate to fair value, due to their short-term nature and generally negligible credit risk.

Cash, cash balances at central banks and other demand deposits consist of cash balances and advances with the Czech National Bank and National Bank of Slovakia.

The item *"Cash and cash balances"* does not include the compulsory minimum reserve which is presented in the item *"Financial assets at amortised cost: Loans and advances to banks"*.

The compulsory minimum reserve held at the Czech National Bank and at the National Bank of Slovakia is a required deposit with restricted drawing which must be held by all commercial banks licensed in the Czech Republic and in Slovakia respectively.

9. Equity Investments

Equity investments are equity instruments and consequently defined as financial instruments under IAS32. These are presented in the item *"Equity investments"* and are measured at cost.

The item "Equity investments" includes equity investment in an associate RCI Financial Services, s.r.o. where the Bank holds 49.9% of voting rights and does not exercise control over this entity.

If there is evidence that an equity investment may have become impaired, its carrying value is compared with its recoverable value. If the recoverable value is less than the carrying value, the difference is recognised through profit or loss in the item *"Profit/(Loss) from equity investments"*. If the reasons for impairment are removed following a subsequent event occurring after the recognition of impairment, write-backs are made through same profit or loss item.

Equity investments considered strategic investments not covered by the above definitions and not recognised in the item *"Non-current assets held for sale"* are classified as assets at fair value through other comprehensive income or financial assets mandatorily at fair value and accordingly treated.

10. Property and Equipment

Accounting policy applied in 2018 and in 2019

Property and equipment are assets which may be used for a period longer than one year. The Bank has property and equipment to conduct its activities.

Property and equipment are initially recognised at cost including all costs directly attributable to bringing an asset into use.

After being recognised as an asset:
- Buildings and lands used in the business are measured according to cost model;
- Tangible assets used in the business, other than lands and buildings, are measured according to cost model.

In the cost model, assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over the respective estimated useful lives) for individual categories of property and equipment are as follows:

• Buildings	20–50 years
• Technical improvement of buildings – protected as cultural heritage	15 years
• Technical improvement of rented premises	10 years or in accordance with contract
• Air-conditioning equipment	5 years
• Machinery and equipment	4–6 years
• Bank vaults	20 years
• Fixtures and fittings	5–6 years
• Motor vehicles	4 years
• IT equipment	4 years
• Low value tangible assets	2–3 years

Tangible assets (including right of use assets) are assessed for potential impairment or a reduction in useful life. If events or changes in the conditions occur that could result in the carrying amount not being recoverable, the carrying amount is written down to the recoverable amount if the carrying amount is higher than the estimated recoverable value. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

The gains and losses on disposal are determined based on the net book value and are included in the item "*Other operating income and expenses*". The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised.

Property and equipment which the Bank intends to sell within 12 months, is classified as *"Non-current assets held for sale"*. Such property and equipment is reclassified at the lower of its carrying amount or its sales value less disposal costs. Profit or loss from the sale is presented in the item *"Profit/(loss) from the sale of non-financial assets"*.

Change in accounting policy since 31 December 2019

For the purposes of preparing the financial statements at 31 December 2019, the Bank has decided to change subsequent measurement of the following assets:

- Properties used in business (ruled by IAS 16 "Property, plant and equipment") being reclassified from the cost model to the revaluation model for the measurement subsequent to initial recognition.

This decision was driven by the decision of the ultimate parent company UniCredit S.p.A. made by its Board of Directors during a meeting held on 2 December 2019.

The Bank believes that measuring real estate assets at fair values (instead of at cost) provides more reliable and relevant information about Bank's financial position and economic result in line with the provisions of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

The Bank believes that the change in the measurement of properties will provide a more accurate representation of the financial position, as fair values will reflect the increase in the value of the properties, which the Bank expects to occur as a result of the enhancement of the properties with a view to potential disposal of the properties. In 2019, UniCredit Group adopted a new strategy of managing its real estate portfolio which it will actively seek to optimise in the light of changing market circumstances and changes to its operational models. The Bank expects to realise value from a portion of the portfolio over the medium term through targeted disposals.

The fair value model allows the Bank to represent the changes in value of the properties at the moment they arise, in compliance with the objectives of the newly-adopted active management of the real estate portfolio. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in the sale price) and cost which, as stated, may no longer be meaningful if the acquisition of real estate assets did not take place recently.

In addition, the adoption of a fair value model allows a more accurate representation of the financial position of the Bank, as it represents the value of the real estate properties at a single reference date – the date of preparation of the financial statements. This avoids heterogeneity in valuation inherent in the cost model which reflects market conditions at different times, ie the purchase dates.

Voluntary changes in accounting principles (accounting policies) are regulated by IAS 8 which establishes, as a general rule, that these changes must be made retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. Paragraph 17 of IAS 8 states that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost model to the revaluation model must be made prospectively. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle in IAS 8. Therefore no adjustment of the opening balances of the comparative year and of the comparative data have been made

Consequently, for the properties used in business, under IAS 16, the transition from a cost valuation to a valuation at fair value, required the determination of the related fair value at 31 December 2019.

The differences between this value and the previous value determined by applying the "cost" criterion are recognised:

- If negative, in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value"*,
- If positive, in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"*.

The "*Reserve funds from revaluation"* will be linearly transferred to the item "*Retained earnings and reserve funds*" over the residual life of the particular property used in business. In the event of the sale of the asset, the reserve not yet reversed will be reclassified to the item "*Retained earnings and reserve funds*".

The pay out of the revaluation surplus to shareholders is restricted and is eligible only in the event of the disposal of property.

As the change in the measurement method took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made in line with cost model.

From 2020 on, properties used in business, measured according to the IAS 16 revaluation model, will continue to be depreciated using the straight-line method over their useful life from the higher revalued amount.

The Bank has chosen to apply the "restatement approach" when accounting for revaluation. This approach adjusts the gross carrying amount so that it matches the revaluation of the carrying amount of the property used in business and a concurrent adjustment of the cumulated depreciation (ie the restatement approach requires adjustment of the gross carrying amount and the cumulated depreciation by the ratio given by Fair Value/Net Carrying Amount before revaluation).

Fair value was determined through the use of external independent expert valuations.

Impacts deriving from the change in the valuation criterion for tangible assets

In the financial statements as at 31 December 2019, the change in the measurement model of the real estate properties resulted in an overall positive balance sheet effect of MCZK 329 as detailed below:

- For properties used in business, the recognition of a revaluation of MCZK 329 gross of the tax effect. This value, net of deferred tax, in the amount of MCZK 261 was attributed to the item "*Reserve funds from revaluation"* in equity. In addition to this higher value, net losses of MCZK (1) were recognised in the income statement gross of the tax effect in the item "*Net income/(loss) on property and investment property measured at fair value"*.

11. Intangible Assets

Intangible assets are assets which may be used for a period longer than one year. Intangible assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation period (over respective estimated useful lives) for intangible assets is as follows:

- Software and intangible assets — 2–7 years or in accordance with the contract

Intangible assets are assessed for potential impairment or a reduction in useful life. If events or changes in the conditions occur that could result in the carrying amount not being recoverable, the carrying amount is written down to the recoverable amount if the carrying amount is higher than the estimated recoverable value. The recoverable amount is the higher of fair value less costs of disposal and the value in use.

12. Leases

As of 1 January 2019, the Bank has implemented the new standard IFRS 16 "Leases", which revises the current set of international accounting principles and interpretations on leasing accounting.

IFRS 16, effective from 1 January 2019 and endorsed by EU by Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a new definition for leases (ie received leases) and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor (ie provided leases). Therefore, IFRS 16 does not have an impact for leases where the Bank is the lessor.

Provided Finance Lease
A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards of ownership.

Receivables from finance leases are reported as equal to the net investment in the lease upon receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equal to the gross investment in the lease (as finance lease contracts include a clause on purchase at the end of the lease period, there is no unsecured net book value). The difference between the gross and net investment in the lease represents deferred financial income reported as interest income over the lease period with the constant periodic profitability of the net investment in the finance lease. The amounts received from the lessee reduce the net investment.

Bank receivables from finance leases include the cost of assets leased under finance leases in contracts where the asset has been already acquired, but the finance lease contract was not capitalised at the balance sheet date.

Significant contractual conditions for finance leases are as follows:
- The subject of the lease is specified in the text of the lease contract or in the acceptance certificate (part of the lease contract);
- The duration of the lease begins on the day of the acceptance of the subject of the lease by the lessee and ends upon the expiration of the agreed lease term;
- The lessee is authorised to purchase the subject of the lease from the lessor;
- The subject of the lease remains in the exclusive ownership of the lessor throughout the duration of the lease. The ownership is transferred to the lessee/buyer on the day the purchase price as per the purchase agreement is credited to the lessor's account;
- The purchase price and all amounts in the lease contract are net of VAT. The VAT rate is set by law and is indicated separately in invoices;
- The consideration for the lease includes an extraordinary lease payment, contractual flat fee (eg the processing and administration of the lease contract) and the number of lease payments indicated by the contract and calculated from the acquisition cost (in CZK or a foreign currency);
- The subject of the lease must be insured throughout the lease term; and
- The lessor may prematurely terminate the lease contract at any time without a notice period by withdrawal or by a notice with immediate effect if the lessee significantly breaches or fails to meet the obligations and commitments arising from the lease contract. In such a case, the lessee is obliged to make all the remaining lease payments to the lessor in line with the payment calendar. Payments are due upon the premature termination of the lease contract.

The finance lease receivables are presented in the item "*Financial assets at amortised cost: Loans and advances to customers*".

a) Provided Operating Leases
Other leases are classified as operating leases. The leased asset continues to be owned by the lease company after the termination of the lease contract.

Income from operating leases is reported in "*Other operating income and expenses*".

b) Received Operating Leases

Accounting policy applied in 2018
Payments under contracts for received operating leases are included in "*Administrative expenses*" evenly over the period of the lease contract.

In the event of contract cancellation before the end of the lease contract, all penalty payments are accounted for as a period cost at the time of cancelling the lease.

Accounting policy applied in 2019
IFRS 16 requires that a lessee recognises an asset, representing the right of use of the underlying asset, and at the same time, a liability reflecting future payments of the lease contract for all of the leasing types.

At initial recognition, such an asset is measured on the basis of the lease contract cash flows which include, in addition to the present value of lease payments, any initial direct cost attributable to the lease, lease payments paid before the commencement date and any other costs required to dismantle/remove the underlying asset at the end of the contract and is decreased by incentives received. Right of use assets are reported in the item "*Property, equipment and right of use assets*".

After initial recognition, the right-of-use is measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any accumulated impairment losses. The depreciation period is equal to the determined lease term. Accumulated depreciation and any accumulated impairment losses are reported in the item "*Depreciation and impairment of property, equipment and right of use assets*".

In this respect, the Bank performed activities to ensure compliance with IFRS 16, especially in relation to the calculation and initial recognition of the right of use and lease liability, which represent the primary discontinuity compared to the accounting model required under IAS 17 "Leases".

The activities focused on the development of rules, principles and IT systems to be used for assessment of new assets and liabilities and the subsequent calculation of economic effects have been finalised.

To calculate the lease liability and related assets based on the right of use, the Bank discounts future lease payments using an appropriate discount rate. Lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, as the obligation to pay this tax originates at the moment an invoice issued by the lessor and not as of the date of commencement of the lease contract.

To perform these calculations, payments must be discounted using the implicit interest rate based on the lease contract or, if this is not available, the incremental borrowing rate. This is determined based on the costs of financing a liability of similar duration and similar security to what is contained in the lease contract.

Lease liabilities are reported in the item "*Financial liabilities at amortised cost: Deposits from customers"* based on the counterparty. After initial recognition, lease liabilities are increased by the interest expenses calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expenses are reported in the item "*Interest expenses*".

IFRS 16 "Leases" – First time adoption ("FTA")

The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

In line with the standard, the Bank decided not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets. Related expenses are presented on an accrual basis in the item "*Administrative expenses*".

The Bank decided to use a modified retrospective approach and not to recalculate the comparative information for the reporting period before 1 January 2019. For the purposes of initial recognition as of 1 January 2019 it recognised the right to use in the amount corresponding to the lease liability adjusted by prepaid or deferred lease payments.

Opon adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases previously classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.02%.

IFRS 16 FTA impact in relation to Statement of Cash Flows is included in the item "*Other non-monetary changes*".

Reconciliation of lease commitments disclosed as at 31 December 2018 to the Lease liability recognised as at 1 January 2019	
Operating lease commitments disclosed as at 31 December 2018	1 513
Discounted using the Bank's incremental borrowing rate of 1.02%	1 481
(Less): short-term leases recognised on a straight-line basis as expense	(12)
Add: adjustments as a result of a different treatment of extension and termination options	686
Lease liability recognised as at 1 January 2019	**2 155**

Impact of IFRS 16 first time adoption on the statement of financial position (increase/(decrease)) as at 1 January 2019 on balances as at 31 December 2018	
Assets	
Right of use assets in the item "Property, equipment and right of use assets"	2 088
Prepayments in the item "Other assets"	(14)
Liabilities	
Lease liabilities in the item "Financial liabilities at amortised cost: Deposits from customers"	2 155
Accrued payments in the item "Other liabilities"	(81)
Net impact on equity	**–**

The vast majority of right of use assets / lease liabilities is related to the Banks's headquarter and its branches.

A summary of amounts in relation to operating leases received under IFRS 16 as of 31 December 2019 is presented in the following tables:

Statement of Comprehensive Income	Point in the section V. Other Notes	**2019**
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(327)
Interest expenses	1. Net interest income	(21)
Statement of Financial Position	Point in the section V. Other Notes	**31 Dec 2019**
Right of use assets	18. Property, equipment and right of use assets	1 851
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	1 911

13. Provisions for Risks and Charges

Provisions for risks and charges relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions for risks and charges are recognised when:

- There is an obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%); and
- The amount of the obligation can be reliably estimated.

A restructuring provision is recognised when the following criteria are met:

- The Bank has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place as the implementation of the plan has commenced or its main features have been announced.

When creating provisions for off-balance sheet items, the Bank proceeds analogically as for the impairment losses on financial assets at amortised cost or financial assets at fair value through other comprehensive income, in line with IFRS 9 requirements.

The provisions for off-balance sheet items are recorded in the statement of financial position in the item *"Provisions for risks and charges"*.

14. Deferred Bonuses

The Bank accounts for deferred bonuses on an accrual basis. Related liability is recognised in the item *"Other liabilities"* against the income statement item *"Administrative expenses"*.

The Bank Incentive System and the Local Incentive System are applied to the identified positions. Payment of the bonus for the given period is spread out over a multiple-year period.

Based on the Bank Incentive System, the bonus payment is spread over 6 years (senior management) or 4 years (other identified staff). In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to a bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments or shares.

Based on the Local Incentive System, the bonus payment is spread over 4 years. In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments.

15. Contingent Assets and Liabilities

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The Bank does not recognise contingent assets/liabilities in the statement of financial position, but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50%, the Bank recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100%, the Bank recognises an asset and revenue.

16. Interest Income and Interest Expense

Interest income and interest expenses are recognised in the income statement in the period to which they relate, using the effective interest rate method. Interest income is recognised using the effective interest rate on financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting, interest bearing financial assets measured at FVTOCI. Interest expenses are also calculated using the effective interest rate method for all financial liabilities at amortised cost.

Interest from loans and deposits is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial assets at amortised cost or at FVTOCI classified in stage 1 and 2 (ie performing assets) is calculated from the gross carrying amount (ie before allowances). Interest income on financial assets at amortised cost or at FVTOCI classified in stage 3 (ie credit impaired assets) is calculated from the net carrying amount (ie after allowances) using "*unwinding"*.

Interest on financial assets and liabilities at FVTPL is calculated using the effective interest rate method.

In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Net interest income comprises interest income and interest expenses calculated using the effective interest method and other methods. Interest income calculated using the effective interest method is disclosed separately in the income statement to provide symmetrical and comparable information.

17. Fee and Commission Income and Expenses

Fee and commission income and expenses consist of fees and commissions received/paid by the Bank for providing financial services, other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expenses.

Fees and commissions from financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services.

Fees and commission income are accounted for in the income statement as the Bank satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules.

In particular:
- If the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognised in the income statement when the service is provided;
- If the performance obligation is satisfied over-time, the related revenue is recognised in the income statement in order to reflect the progress of satisfaction of such obligation.

Transaction fees coming from securities transactions and payment services are typically booked at the point in time when the service is provided and immediately withdrawn from customer account.

Fees related to management, administration, deposit and custody services, account administration and payment cards are normally recognised over time during the term of the contract. The revenue is measured on straight-line basis and is evenly distributed during the term of the contract as this method best depicts the Bank's commitment to stand ready for fulfilment of customer requests. These services are mostly invoiced on regular basis (typically monthly), selected services are invoiced in advance.

Fees related to loans provided, other than those related to the origination, which form a part of the effective interest income, are either booked at the point in time when the service is provided or recognised over time during the term of the contract based on the type of services provided.

The amount of revenues linked to fee and commission income is determined based on contractual conditions. Variability that would have impact on amount that the Bank expects to receive is not usually foreseen for services provided by the Bank.

If a contract regards different goods/services which are not priced and charged on the stand-alone price level, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client. The stand-alone selling prices for free-of-charge customer options are determined using the adjusted market assessment method. Contract liability given by the customer options is not material.

The Bank has decided, as practical expedient permitted under IFRS 15, not to disclose the amount of transaction price allocated to unsatisfied performance obligations related to fees and commissions from financial services. This is because the Bank does not typically contract respective services for period that would be enforceable longer than 12 months. The only significant contract with deferred revenue for longer period than 12 months (contract with non-refundable up-front fees not related to specific services transferred to customer and thus linearly amortised to the item "*Fee and Commission Income*" during live of the contract – 5 and 15 years respectively) is included in the item *"Other liabilities"* in amount of MCZK 661 as of 31 December 2019 (as of 31 December 2018 MCZK 657).

18. Dividend income

Dividend income is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

19. Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period pursuant to Czech Accounting Standards to arrive at the taxable income base in the Czech Republic, which is further adjusted by tax allowances and relevant credits. The tax payable (item *"Tax liabilities: Income tax")* or receivable (item *"Tax receivables: Income tax")* is calculated using the tax rate valid at the year-end and reported in the expected amount of the settlement with the tax authorities.

The income tax of entities based in Slovakia is calculated in line with the regulations applicable in the Slovak Republic.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement, based on tax rates that have been enacted or substantially enacted. A deferred tax asset (item *"Tax receivables: Deferred tax"*) is only recognised to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised. A deferred tax liability (item *"Tax liabilities: Deferred tax"*) is recognised for all taxable temporary differences.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

These exceptions are subsequently reclassified from OCI to the income statement, together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only offsets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

20. Segment Reporting

IFRS 8 Operating segments states that presentation and reporting of operating segments shall be in accordance with performance criteria monitored by the chief operating decision-maker who is responsible for operational decisions. At the Bank, that decision-maker is the Board of Directors of the Bank.

The Bank's primary segment reporting is broken down by types of customers, which correspond to the Bank's various operations: retail and private banking, corporate and investment banking and other.

The performance of all the segments is monitored monthly by the Board of Directors and other members of the Bank's management. The reporting segments generate income primarily from the provision of loans and other banking products.

Retail and private banking encompasses in particular providing loans, mortgages, bank account maintenance, payment services (including payment cards), term and saving deposits, investment advisory services.

Corporate and investment banking include especially the following products and services: providing banking services to companies and public institutions, including loans, leasing, factoring, bank guarantees, account maintenance, payment services, opening documentary letters of credit, term deposits, derivative and foreign currency operations, and capital market activities inclusive of securities underwriting for customers, investment advisory, and consulting on mergers and acquisitions.

Other reporting segment includes banking services that are not included within the aforementioned segments.

21. Standards and Interpretations Effective in the Current Period

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)" resulting from the annual

- IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements, except for the adoption of IFRS 16 "Leases", whose impact is described in section III. Significant Accounting Policies, point 12. Leases.

22. Standards and Interpretations Published by the IASB, but not yet Effective or not yet Adopted by the European Union

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and are not yet effective:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board, and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation ("BMR"), UniCredit Group launched in October 2018 UniCredit Group wide project in order to manage the IBORs discontinuation.

The implications of IBOR reform on Bank's financial statements are deemed to be insignificant as most of the Bank's contract with variable interest rates are based on interest rate benchmarks that already fulfil the conditions set by BMR, ie based on PRIBOR or EURIBOR.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liabilities and derivatives cannot be excluded.

On this regard, on 15 January 2020 the Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform ("the Amendment") have been endorsed by the European Commission for use in EU. The Amendment solves a potential source of uncertainty on the effects of IBOR reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for the Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, the Bank has adopted the Amendment with reference to 2019 Financials for its existing hedge accounting relationships involving other IBORs. Adopting the Amendment allows the Bank to continue hedge accounting during the period of uncertainty arising from IBOR reform as the Amendment includes a number of reliefs, that apply to all hedging relationships directly affected by IBOR reform. The Amendment permits continuation of hedge accounting even if:

- In the future the hedged benchmark interest rate may no longer be separately identifiable;
- Even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms;
- Even though there is uncertainty about the replacement of the floating interest rates included in its cross-currency interest rate swaps; or
- The retrospective assessment of hedge effectiveness fall outside the 80% - 125% range when the hedging relationship is subject to interest rate benchmark reforms.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The Bank's hedge relationships with interest rate benchmark affected by IBOR reform are those with LIBOR whose notional values represents 2,1% of total notional value of all hedging instruments as of 31 December 2019 and thus insignificant.

Details of the Bank's hedge accounting relationships are disclosed in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives and Note 35 Financial risk management, part (c) Market risk.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations. The Bank participates at the UniCredit Group wide project and analyses the IBOR reform affected contracts.

None of the Bank's current IBOR reform affected contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Bank will consider to implement when appropriate.

New and amended IFRS standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the date of publication of these financial statements (the effective dates stated below are for IFRS as issued by IASB):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the Bank's financial statements in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

IV. Critical accounting judgments, estimates and assumptions

These disclosures supplement the commentary on financial risk management (see section V. Other Notes, point 35. Financial Risk Management).

The presentation of the financial statements in conformity with IFRS requires Bank management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. These estimates, which relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions and other areas, are based on the information available at the balance sheet date.

Business model assessment

The classification of financial assets is driven by the business model. Management applies judgment when determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment of whether cash flows are solely payments of principal and interest

Judgment is required to determine whether a financial asset's cash flows are solely payments of principal and interest and whether they are in line with the SPPI test. Judgment is required to assess whether risks and volatility of contractual cash flows are related to the basic lending arrangement. Features that require judgments include the modification of time value of money, assessment of whether prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments.

Impairment of financial assets

Assets accounted for at amortised cost and at fair value recognised through other comprehensive income (except for the FVTOCI option), lease receivables, trade receivables and loan commitments and financial guarantees (not accounted at FVTPL) are subject to impairment. Impairment is determined in the amount of 12-month (or shorter depending on the instrument's maturity) expected credit loss for assets that have not experienced a significant increase in credit risk since initial recognition, and in the amount of lifetime expected losses for assets which have experienced a significant increase in credit risk since initial recognition or which are impaired. When assessing impairment, the return on financial assets is evaluated separately using the best possible estimate of the present value of future cash flows that are expected to be received. When estimating these cash flows, the Bank management makes judgments about the debtor's financial situation and the net realisable value of any underlying collateral.

The creation of impairment allowances for expected credit losses and identified contingent liabilities involves many uncertainties concerning the outcomes of the risks stated above and requires Bank management to make many subjective assessments when estimating the amount of losses. Measurement of impairment allowances for expected credit losses for financial assets of amortised cost and at fair value through other comprehensive income requires the application of models and significant judgments regarding future economic conditions and credit behaviour. Given current economic conditions, the result of estimates may differ from the impairment provisions recognised as at 31 December 2019 that are reported in items "*Impairment losses on: Financial assets at amortised cost*", "*Impairment losses on: Financial assets at fair value through other comprehensive income*" and "*Net provisions for risks and charges: Loan commitments and financial guarantees given*".

Determining Fair Values

Determining fair value of financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy, section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. For financial instruments that trade infrequently and have low price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Determining lease term – valid since the implementation of IFRS 16 as of 1 January 2019

To determine the duration of a lease, it is necessary to take into account the non-cancellable period set in the contract when the lessee is entitled to use the underlying asset, while taking into account the possibility of an extension if the lessee is reasonably certain to use the possibility of extension.

Especially for contracts that allow the extension of the lease contract after the end of the first period without the need to explicitly express the intention to use this extension, the period is determined with respect to factors such as the length of the first period, existence of plans to change the use of/abandon the asset and any other circumstances with an impact on the reasonable certainty of the extension of the lease contract.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is under its control and affects its ability to exercise or not exercise the option to renew or to terminate.

Hedge Accounting

When designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects a hedge to be highly effective over the life of the hedging instrument.

When accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Provisions for liabilities

The amounts recognised as provisions are based on management's judgment and represent the best estimate of expenses needed to settle a liability of uncertain timing or uncertain amount.

V. Other notes

1. Net interest income

	2019	2018
Interest income		
Financial assets at amortised cost:		
Loans and advances to central banks	5 693	3 446
Loans and advances to banks	610	648
Loans and advances to customers	9 942	8 897
Financial assets at fair value through other comprehensive income	568	648
Financial assets at fair value through profit or loss:		
Held for trading	23	18
Mandatorily at fair value	–	5
Hedging derivatives	302	511
Interest income	**17 138**	**14 173**
Interest expenses		
Financial liabilities at amortised cost:		
Deposits from central banks	(1)	(1)
Deposits from banks	(365)	(249)
Deposits from customers	(2 011)	(363)
Debt securities issued	(279)	(456)
Financial liabilities at fair value through profit or loss:		
Held for trading	(36)	(20)
Lease liabilities	(21)	n/a
Hedging derivatives	(1 172)	–
Interest expenses	**(3 885)**	**(1 089)**
Net interest income	**13 253**	**13 084**

Negative interest expenses from liabilities are reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2019 MCZK 72 (as of 31 December 2018 MCZK 163)
- Loans and advances to banks – as of 31 December 2019 MCZK 462 (as of 31 December 2018 MCZK 436)
- Loans and advances to customers– as of 31 December 2019 MCZK 11 (as of 31 December 2018 MCZK 8)

Negative interest income from assets is reported in interest expenses in the following lines:
- Deposits from the central banks – as of 31 December 2019 MCZK (1) (as of 31 December 2018 MCZK (1))
- Deposits from banks – as of 31 December 2019 MCZK (7) (as of 31 December 2018 MCZK (12))
- Deposits from customers – as of 31 December 2019 MCZK – (as of 31 December 2018 MCZK (1))

2. Net fee and commission income

	2019	2018
Fee and commission income from		
Securities transactions	8	8
Management, administration, deposit and custody services	746	723
Loans	1 274	1 034
Payment services	945	1 034
Account administration	549	593
Payment cards	1 193	1 007
Other	162	183
Fee and commission income	**4 877**	**4 582**
Fee and commission expenses from		
Securities transactions	(11)	(13)
Management, administration, deposit and custody services	(99)	(101)
Loans	(207)	(171)
Payment services	(43)	(43)
Payment cards	(887)	(780)
Other	(30)	(16)
Fee and commission expenses	**(1 277)**	**(1 124)**
Net fee and commission income	**3 600**	**3 458**

3. Dividend income

	2019	2018
Dividend income		
Ownership interests	450	699
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	3	2
Financial assets at fair value through other comprehensive income	2	2
Total	**455**	**703**

4. Net income/(loss) from trading

	2019	2018
Net realised and unrealised gain/(loss) from debt instruments held for trading	(17)	35
Net realised and unrealised gain/(loss) from derivatives held for trading	682	1 647
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 223	83
Net income/loss from trading	**1 888**	**1 765**

5. Net income/(loss) from hedging against risk of changes in fair value

	2019	2018
Hedging instruments	198	698
Hedged instruments	(210)	(696)
Net income/loss from hedging against risk of changes in fair value	**(12)**	**2**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

6. Net income/(loss) from the sale or repurchase

	2019	2018
Financial assets at amortised cost: Loans and advances to customers	136	96
Financial assets at fair value through other comprehensive income	335	142
Financial liabilities: Debt securities issued	–	(2)
Net income/loss from the sale or repurchase	**471**	**236**

7. Net income/(loss) from financial assets/liabilities at fair value through profit or loss

	2019	2018
Shares	139	73
Net income/loss from financial assets and liabilities at fair value through profit or loss	**139**	**73**

8. Impairment losses

	2019	2018
Financial assets at amortised cost, of which:		
Loans and advances to banks	3	(1)
Stage 1	3	(1)
Loans and advances to customers	**(1 132)**	**(511)**
Corporate Customers	(744)	(397)
Stage 1	37	–
Stage 2	30	(99)
Stage 3	(811)	(298)
Retail Customers	(388)	(114)
Stage 1	(75)	29
Stage 2	(197)	(52)
Stage 3	(116)	(91)
Financial assets at fair value through other comprehensive income	**1**	**9**
Stage 1	1	9
Total	**(1 128)**	**(503)**

9. Administrative expenses

	2019	2018
Personnel expenses		
Wages and salaries paid to employees	(2 318)	(2 219)
Social costs	(858)	(813)
Other	(175)	(158)
	(3 351)	**(3 190)**
Other administrative expenses		
Rent and building maintenance	(235)	(569)
Information technologies	(1 302)	(1 208)
Promotion and marketing	(204)	(249)
Consumables used	(44)	(59)
Audit, legal and advisory services	(132)	(184)
Administrative and logistic services	(136)	(283)
Deposits and transactions insurance	(540)	(733)
Other services	(239)	(257)
Other	(250)	(229)
	(3 082)	**(3 771)**
Total		**(6 961)**

A summary of remuneration to key managers is presented in the following table:

	2019	2018
Short-term employee benefits	167	182
Post-employment benefits	20	8
Other long-term employee benefits	32	29
Termination benefits	–	–
Share-based payments	–	–
Total	**219**	**219**

Key managers are persons with authority and direct or indirect responsibilities as regards planning, managing and supervising the Bank's activities, including all (executive and other) managers. Information on equity-based bonuses is included in section V. Other Notes, point 30. Equity-based bonuses.

The Bank's average number of employees was as follows:

	2019	2018
Employees	3 032	2 921
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	33	30

Employees include all the employees of the Bank. Members of the Board of Directors, Members of the Supervisory Board and Other executives directly reporting to the Board of Directors include persons representing the Bank.

The maturity analysis of lease liabilities in relation to leases received pursuant IFRS 16 valid from 1 January 2019 is presented in Liquidity Risk table in section V. Other Notes, point 35. Financial Risk Management.

A summary of operating leases received pursuant IAS 17 valid until 31 December 2018 is presented in the following table:

2018	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	337	1 176	–

10. Other operating income and expenses

	2019	2018
Income from rent	43	32
Other income	36	70
Total other operating income	**79**	**102**
Other taxes	(24)	(12)
Fines and penalties	(13)	(3)
Other	(24)	(26)
Total other operating expenses	**(61)**	**(41)**
Total	**18**	**61**

11. Cash and cash balances

	31 Dec 2019	31 Dec 2018
Cash in hand	4 400	4 600
Other balances with central banks	233	241
Total	**4 633**	**4 841**

For cash flow reporting purposes, cash is defined as cash and cash equivalents.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Debt securities	2 392	2 236
Derivatives	9 306	7 442
Total	**11 698**	**9 678**

From debt securities, no securities are provided as collateral as of 31 December 2019 (as of 31 December 2018: MCZK 6).

(ii) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Debt securities		
Public administration	2 392	1 246
Other	–	990
Total	**2 392**	**2 236**

(b) Mandatorily at fair value

(i) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Shares	487	346
Total	**487**	**346**

(ii) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Shares		
Other financial institutions	487	346
Total	**487**	**346**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Debt securities	23 175	29 182
Shares	6	6
Total	**23 181**	**29 188**

From debt securities, MCZK 2 360 are provided as collateral (as of 31 December 2018: MCZK 7 930).

Debt securities are included in financial assets at fair value through other comprehensive income pursuant to paragraph 4.1.2.a) of IFRS 9 – classified based on the business model and meeting the SPPI test. Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVTOCI option.

(b) Based on the Type of Issuer

	31 Dec 2019	31 Dec 2018
Debt securities		
Government institutions	16 099	21 244
Credit institutions	–	909
Other	7 076	7 029
Shares		
Other	6	6
Total	**23 181**	**29 188**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2019 are classified by credit quality in stage 1 with the total allowance of MCZK 5 (as of 31 December 2018: MCZK 5).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2019	Net book value 2018	Share of the Bank at 31 Dec 2019	Share of the Bank at 31 Dec 2018
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10 October 2001	0.24	0.24	0.24	20%	20%
Total			**0.24**	**0.24**	**0.24**		

14. Financial assets at amortised cost – loans and advances to banks

(a) Analysis of Receivables from Banks, by Type

	31 Dec 2019	31 Dec 2018
Current accounts	–	–
Term deposits	18 907	3 385
Loans	623	1 046
Reverse repurchase commitments (see section V, point 32)	165 823	189 921
Obligatory minimum reserves with central banks	591	5 683
Total	**185 944**	**200 035**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2019 are classified by credit quality at stage 1 with the total allowance of MCZK 2 (as of 31 December 2018: MCZK 4).

Only MCZK 5 of financial assets at amortised cost – loans and advances to banks as of 31 December 2019 are classified by credit quality at stage 2 with the total allowance of MCZK 0 (as of 31 December 2018 no financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2).

(b) Analysis of Receivables from Banks, by Geographical Sector

	31 Dec 2019	31 Dec 2018
Czech Republic	184 002	195 707
Slovakia	30	41
Other EU countries	1 665	4 088
Other	247	199
Total	**185 944**	**200 035**

15. Financial assets at amortised cost – loans and advances to customers

(a) Analysis of Receivables from Customers, by Type

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	31 707	(134)	31 573	5 254	(106)	5 148	2 828	(2 528)	301	39 789	(2 768)	37 021
Mortgage loans	95 428	(199)	95 229	7 065	(115)	6 950	2 632	(2 128)	505	105 125	(2 442)	102 683
Credit cards	11	–	11	1	–	1	2	(1)	1	14	(1)	13
Factoring	2 832	(5)	2 827	1 050	(57)	993	–	–	–	3 882	(62)	3 820
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Other loans	151 370	(258)	151 112	5 309	(80)	5 229	1 385	(1 029)	356	158 064	(1 367)	156 697
Total	**281 348**	**(596)**	**280 752**	**18 679**	**(358)**	**18 321**	**6 847**	**(5 686)**	**1 163**	**306 874**	**(6 640)**	**300 234**
31 Dec 2018												
Current accounts (overdrafts)	36 036	(156)	35 880	4 074	(80)	3 994	3 145	(2 814)	331	43 255	(3 050)	40 205
Mortgage loans	77 408	(159)	77 249	4 628	(130)	4 498	2 798	(2 093)	705	84 834	(2 382)	82 452
Credit cards	549	(2)	547	27	(1)	26	53	(34)	19	629	(37)	592
Factoring	3 681	(4)	3 677	11	–	11	2	(2)	–	3 694	(6)	3 688
Debt securities	177	–	177	–	–	–	–	–	–	177	–	177
Other loans	154 654	(314)	154 340	4 594	(179)	4 414	1 659	(1 386)	274	160 907	(1 879)	159 028
Total	**272 505**	**(635)**	**271 870**	**13 334**	**(390)**	**12 943**	**7 657**	**(6 329)**	**1 329**	**293 496**	**(7 354)**	**286 142**

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	1 105	(8)	1 097	134	(10)	124	372	(305)	67	1 611	(323)	1 288
Mortgage loans	109 688	(130)	109 558	3 147	(148)	2 999	811	(279)	532	113 646	(557)	113 089
Credit cards and consumer loans	8 206	(106)	8 100	1 192	(171)	1 021	380	(253)	127	9 778	(530)	9 248
Other loans	3 747	(8)	3 739	207	(14)	193	62	(52)	10	4 016	(74)	3 942
Total	**122 746**	**(252)**	**122 494**	**4 680**	**(343)**	**4 337**	**1 625**	**(889)**	**736**	**129 051**	**(1 484)**	**127 567**
31 Dec 2018												
Current accounts (overdrafts)	1 024	(7)	1 017	75	(7)	68	423	(336)	87	1 522	(350)	1 172
Mortgage loans	98 779	(61)	98 718	2 081	(67)	2 014	1 023	(296)	727	101 883	(424)	101 459
Credit cards and consumer loans	7 723	(96)	7 627	692	(61)	631	274	(171)	103	8 689	(328)	8 361
Other loans	4 277	(12)	4 265	166	(12)	154	107	(71)	36	4 550	(95)	4 455
Total	**111 803**	**(176)**	**111 627**	**3 014**	**(147)**	**2 867**	**1 827**	**(874)**	**953**	**116 644**	**(1 197)**	**115 447**

From financial assets at amortised cost – Loans and advances to customers MCZK 77 041 are provided as collateral (as of 31 December 2018: MCZK 78 393).

(b) Classification of Gross Receivables from Customers according to Internal Rating

	31 Dec 2019	31 Dec 2018
Performing receivables – stage 1 and 2		
Internal rating 1	13 422	10 524
Internal rating 2	31 917	17 409
Internal rating 3	47 959	52 053
Internal rating 4	151 823	145 037
Internal rating 5	103 078	102 400
Internal rating 6	60 352	55 966
Other internal rating	18 829	16 535
Receivables without internal rating	75	732
Total	**427 455**	**400 656**
Non-performing receivables – stage 3	8 472	9 484
Total	**435 927**	**410 140**

(c) Analysis of Net Receivables from Customers, by Sector

	31 Dec 2019	31 Dec 2018
Financial institutions	41 322	51 334
Non-financial institutions	253 537	230 391
Government sector	5 375	3 837
Individuals and others	127 569	116 027
Total	**427 803**	**401 589**

(d) Analysis of Net Receivables from Customers, by Type of Collateral Provided and Classification

	Maximum exposure to credit risk	Bank and similar guarantee	Mortgage	Corporate guarantee	Other security	Total collateral	Net exposure
31 Dec 2019							
Stage 1	403 248	3 629	101 875	4 553	7 324	117 381	285 867
Stage 2	28 336	59	5 253	154	212	5 678	16 980
Stage 3	3 069	20	1 074	43	35	1 172	725
Total	**427 803**	**3 708**	**108 202**	**4 750**	**7 571**	**124 231**	**303 572**
31 Dec 2018							
Stage 1	383 497	4 496	97 878	3 825	7 083	113 282	270 215
Stage 2	15 811	43	3 964	275	211	4 493	11 318
Stage 3	2 281	10	1 458	42	153	1 663	618
Total	**401 589**	**4 549**	**103 300**	**4 142**	**7 447**	**119 438**	**282 151**

The item "Net exposure" includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 38,653 (as of 31 December 2018: MCZK 36,452). For the project funding of commercial real estate (IPRE), the collateral quality is taken into account when determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor. If the exposure is fully collateralised, no loss allowance is calculated.

(e) Analysis of Net Receivables from Customers, by Geographical Sector

	31 Dec 2019	31 Dec 2018
Czech Republic	275 852	253 720
Slovakia	130 187	125 457
Other EU countries	18 131	17 500
Other	3 633	4 912
Total	**427 803**	**401 589**

(f) Analysis of Net Receivables from Customers, by Industry Sector

	31 Dec 2019	31 Dec 2018
Real estate services	70 990	66 570
Financial services	53 145	51 251
Wholesale	21 129	19 674
Households (individuals)	124 025	112 506
Retail (entrepreneurs)	11 997	10 307
Leasing and rental	3 815	3 797
Automotive industry	11 186	8 014
Power industry	29 797	25 897
Other	101 719	103 573
Total receivables from customers	**427 803**	**401 589**

(g) Analysis of Forborne receivables

The Bank's approach to forbearance reporting is disclosed in section V. Other Notes, point 35. Financial Risk Management.

Analysis of forborne receivables by sectors:

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2019							
Non-financial institutions	13 322	2 127	15 449	(155)	(1 762)	(1 917)	13 532
Individuals and others	62	52	114	–	(20)	(20)	94
Total	**13 384**	**2 179**	**15 563**	**(155)**	**(1 782)**	**(1 937)**	**13 626**

All forborne performing receivables are classified as stage 2 receivables, while all forborne non-performing receivables are classified as stage 3 receivables.

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2018							
Non-financial institutions	6 934	1 652	8 586	(121)	(1 293)	(1 414)	7 172
Individuals and others	108	59	167	(1)	(18)	(19)	148
Total	**7 042**	**1 711**	**8 753**	**(122)**	**(1 311)**	**(1 433)**	**7 320**

Net balance of forborne receivables represented 3.19% of the total net receivables from customers as of 31 December 2019 (2018: 1.82%).

The table below provides an analysis of forborne receivables balance based on past due days:

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2019			
Performing receivables			
Before due	12 575	(133)	12 442
Past due	809	(22)	787
Total forborne performing receivables	**13 384**	**(155)**	**13 229**
Non-performing receivables			
Up to 90 days past due	2 066	(1 745)	321
91 to 180 days past due	31	–	31
181 days to 1 year past due	17	(17)	–
Over 1 year past due	65	(20)	45
Total forborne non-performing receivables	**2 179**	**(1 782)**	**397**
Total	**15 563**	**(1 937)**	**13 626**

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2018			
Performing receivables			
Before due	6 551	(97)	6 454
Past due	491	(25)	466
Total forborne performing receivables	**7 042**	**(122)**	**6 920**
Non-performing receivables			
Up to 90 days past due	860	(533)	327
91 to 180 days past due	1	–	1
181 days to 1 year past due	374	(322)	52
Over 1 year past due	476	(456)	20
Total forborne non-performing receivables	**1 711**	**(1 311)**	**400**
Total	**8 753**	**(1 433)**	**7 320**

The table below shows movements in gross balance of forborne receivables:

Balance as of 1 January 2018	8 315
Transfer to forborne receivables balance	4 883
Additions	211
Write-offs	–
Settled	(710)
Transfer from forborne receivables balance	(3 938)
Other	(8)
Total gross balance of forborne receivables as of 31 December 2018	**8 753**
Balance as of 1 January 2019	8 753
Transfer to forborne receivables balance	10 263
Additions	156
Write-offs	–
Settled	(1 124)
Transfer from forborne receivables balance	(2 483)
Other	(2)
Total gross balance of forborne receivables as of 31 December 2019	**15 563**

The table below shows movements in the impairment of forborne receivables:

Balance as of 1 January 2018	(1 152)
Transfer to forborne receivables balance	(431)
Charge during the current year	(314)
Release during the current year	79
Receivables written off – use	–
Transfer from forborne receivables balance	386
Other decreases	(1)
Total impairment of forborne receivables as of 31 December 2018	**(1 433)**
Balance as of 1 January 2019	(1 433)
Transfer to forborne receivables balance	(1 061)
Charge during the current year	(139)
Release during the current year	160
Receivables written off – use	–
Transfer from forborne receivables balance	536
Other decreases	–
Total impairment of forborne receivables as of 31 December 2019	**(1 937)**

(h) Impairment of Receivables from Customers

Movement in Impairment of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2019	(633)	(389)	(6 296)	(7 318)
Charge during the current year	(501)	(384)	(2 221)	(3 106)
Release during the current year	538	414	1 410	2 362
Net effect on profit or loss	37	30	(811)	(744)
Receivables written off – use	–	1	1 422	1 423
FX differences	1	1	–	2
Total impairment of receivables from customers as of 31 December 2019	**(595)**	**(357)**	**(5 685)**	**(6 637)**
Impact of IFRS 9				(22)
Balance as of 1 January 2018	(632)	(288)	(6 828)	(7 748)
Charge during the current year	(261)	(287)	(2 337)	(2 885)
Release during the current year	261	188	2 039	2 488
Net effect on profit or loss	–	(99)	(298)	(397)
Receivables written off – use	–	–	835	835
FX differences	(1)	(2)	(5)	(8)
Total impairment of receivables from customers as of 31 December 2018	**(633)**	**(389)**	**(6 296)**	**(7 318)**

Retail Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2019	(178)	(148)	(907)	(1 233)
Charge during the current year	(257)	(322)	(275)	(854)
Release during the current year	182	125	159	466
Net effect on profit or loss	(75)	(197)	(116)	(388)
Receivables written off – use	–	1	133	134
FX differences	–	–	–	–
Total impairment of receivables from customers as of 31 December 2019	**(253)**	**(344)**	**(890)**	**(1 487)**
Impact of IFRS 9				(3)
Balance as of 1 January 2018	(206)	(95)	(846)	(1 147)
Charge during the current year	(84)	(121)	(292)	(497)
Release during the current year	113	69	201	383
Net effect on profit or loss	29	(52)	(91)	(114)
Receivables written off – use	–	–	31	31
FX differences	(1)	(1)	(1)	(3)
Total impairment of receivables from customers as of 31 December 2018	**(178)**	**(148)**	**(907)**	**(1 233)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2019				
Transfer of the gross amount of receivables from Stage 1	(15 676)	13 392	2 284	–
Transfer of the gross amount of receivables from Stage 2	3 637	(4 104)	467	–
Transfer of the gross amount of receivables from Stage 3	126	80	(206)	–
2018				
Transfer of the gross amount of receivables from Stage 1	(569)	381	188	–
Transfer of the gross amount of receivables from Stage 2	411	(453)	42	–
Transfer of the gross amount of receivables from Stage 3	5	59	(64)	–
Retail Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2019				
Transfer of the gross amount of receivables from Stage 1	(4 150)	3 784	366	–
Transfer of the gross amount of receivables from Stage 2	1 558	(1 726)	168	–
Transfer of the gross amount of receivables from Stage 3	263	97	(360)	–
2018				
Transfer of the gross amount of receivables from Stage 1	(31)	26	5	–
Transfer of the gross amount of receivables from Stage 2	147	(160)	13	–
Transfer of the gross amount of receivables from Stage 3	18	21	(39)	–

i) Receivables Written-Off and Being Subject to Enforcement

The amount of written-off receivables due from customers still subject to enforcement as of 31 December 2019 was MCZK 3 126 (as of 31 December 2018: MCZK 3 118).

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2019	31 Dec 2018
Fair value hedging	1 370	837
Cash flow hedging	5 829	4 799
Total	**7 199**	**5 636**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

17. Equity investments

	Registered office	Date of acquisition	Acquisition price	Net book value 2019	Net book value 2018	Share of the Bank at 31 Dec 2019	Share of the Bank at 31 Dec 2018
UniCredit Leasing CZ, a.s.	Prague	14 Feb 2014	3 211	3 781	3 781	100%	100%
UniCredit Factoring Czech Republic and Slovakia, a.s.	Prague	20 Jan 2015	198	198	198	100%	100%
Total			**3 409**	**3 979**	**3 979**		

Equity investments are reported at cost in line with IAS 27, par. 10a.

18. Property, equipment and right of use assets

	31 Dec 2019	31 Dec 2018
Property and equipment for operations		
Buildings and land	849	718
Leasehold improvements of rent buildings	164	160
Fixtures and fittings	16	21
IT equipment	27	61
Other	48	28
Right of use assets		
Buildings and land	1 811	n/a
Other	40	n/a
Total	**2 955**	**828**

(a) Movements in Property and Equipment Held for Operations

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 January 2018	1 573	926	176	553	220	3 488
Accumulated depreciation and impairment at 1 January 2018	(976)	(693)	(150)	(467)	(175)	(2 461)
Net Book Value at 1 January 2018	**597**	**233**	**26**	**86**	**45**	**987**
Additions	21	31	1	24	3	80
Depreciation charges	(63)	(104)	(7)	(49)	(20)	(243)
Other and FX rate gains or losses	3	–	1	–	–	4
Net Book Value at 31 December 2018	**558**	**160**	**21**	**61**	**28**	**828**
Cost at 31 December 2018	1 602	957	162	531	215	3 467
Accumulated depreciation and impairment at 31 December 2018	(1 044)	(797)	(141)	(470)	(187)	(2 639)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 January 2019	1 602	957	162	531	215	3 467
Accumulated depreciation and impairment at 1 January 2019	(1 044)	(797)	(141)	(470)	(187)	(2 639)
Net Book Value at 1 January 2019	**558**	**160**	**21**	**61**	**28**	**828**
Revaluation to Fair value – change of accounting policy	1 081	n/a	n/a	n/a	n/a	1 081
Accumulated depreciation adjustment (based on revalued amount) – change of accounting policy	(753)	n/a	n/a	n/a	n/a	(753)
Additions	18	41	2	24	25	110
Depreciation charges	(19)	(36)	(4)	(61)	(5)	(125)
Transfer to the item “Non-current assets held for sale”	(31)	0	0	0	0	(31)
Other and FX rate gains or losses	(5)	(1)	(3)	3	0	(6)
Net Book Value at 31 December 2019	**849**	**164**	**16**	**27**	**48**	**1 104**
Fair Value (Buildings and land) / Cost at 31 December 2019	2 587	991	154	529	236	4 497
Accumulated depreciation and impairment at 31 December 2019	(1 738)	(827)	(138)	(502)	(188)	(3 393)

(b) Movements in Right of Use Assets

	Buildings and land	Other	Total
Net Book Value at 1 January 2019	**2 045**	**43**	**2 088**
Additions	105	18	123
Disposals	(11)	–	(11)
Depreciation	(327)	(21)	(348)
Other and FX rate gains or losses	(1)	–	(1)
Net Book Value at 31 December 2019	**1 811**	**40**	**1 851**
Cost at 31 December 2019	2 138	61	2 199
Accumulated depreciation and impairment at 31 December 2019	(327)	(21)	(348)

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2018	2 570	2 570
Accumulated amortisation and impairment at 1 January 2018	(827)	(827)
Net Book Value at 1 January 2018	**1 743**	**1 743**
Additions	438	438
Amortisation charges	(258)	(258)
Other	27	27
Net Book Value at 31 December 2018	**1 950**	**1 950**
Cost at 31 December 2018	3 071	3 071
Accumulated amortisation and impairment at 31 December 2018	(1 121)	(1 121)

	Software	Total
Cost at 1 January 2019	3 071	3 071
Accumulated amortisation and impairment at 1 January 2019	(1 121)	(1 121)
Net Book Value at 1 January 2019	**1 950**	**1 950**
Additions	561	561
Amortisation charges	(491)	(491)
Other	77	77
Net Book Value at 31 December 2019	**2 097**	**2 097**
Cost at 31 December 2019	3 698	3 698
Accumulated amortisation and impairment at 31 December 2019	(1 601)	(1 601)

20. Other assets

	31 Dec 2019	31 Dec 2018
Deferred expenses and accrued income	284	305
Trade receivables	180	213
Receivables from securities	6	9
Clearing and settlement accounts	788	851
Dividend prepayment	450	–
Other	2	7
Total	**1 710**	**1 385**
Impairment losses on other assets	(18)	(18)
Net other assets	**1 692**	**1 367**

Dividend prepayment represents a dividend receivable from the subsidiary UniCredit Leasing CZ, a.s., which is 100% owned by the Company.

21.Financial liabilities held for trading

Based on the Type of Financial Instrument

	31 Dec 2019	31 Dec 2018
Liabilities from short sales	3 010	2 606
Derivatives	8 527	6 108
Total	**11 537**	**8 714**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2019	31 Dec 2018
Deposits from central banks	6 631	17 945
Current accounts	5 527	3 972
Loans	1 778	2 000
Term deposits	106 657	110 152
Sale and repurchase agreements (see section V, point 32)	11 433	30 003
Other	5	–
Total	**132 031**	**164 072**

The Bank participates in the European Central Bank TLTRO II (Targeted Long Term Refinancing Operation) programme. The Bank borrowed MEUR 263.9 in March 2017 with a maturity of 4 years, until March 2021. The funding obtained is used to refinance corporate loans in Slovakia. The instrument is reported in the line "Deposits from central banks". TLTRO II has the characteristics of a long-term repo transaction and as such it is secured by collateral accepted by the Eurosystem.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2019	31 Dec 2018
Current accounts	354 091	350 342
Term deposits	55 643	21 230
Sale and repurchase agreements (see section V, point 32)	–	–
Lease Liabilities	1 911	n/a
Other	3 372	3 332
Total	**415 017**	**374 904**

Lease liability	**2019**
As at 1 January	2 155
Additions	112
Accretion of interest	21
Lease payments	(367)
Other and FX rate gains or losses	(10)
Total at 31 December	**1 911**

The Bank had total cash outflows for leases of MCZK 379 in 2019 (incl. those leases that are not in-scope of IFRS 16).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2019	31 Dec 2018
Mortgage bonds	16 812	18 677
Structured bonds	3 329	3 918
Other issued debt securities	17	173
Total	**20 158**	**22 768**

Structured bonds (included in the line "Structured bonds" and partly in the line "Mortgage bonds") include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 4,068 (at 31 December 2018: MCZK 6,451). The positive fair value of these derivatives of MCZK 4 is reported under "Financial assets held for trading" (at 31 December 2018: MCZK 34); the negative fair value of these derivatives of MCZK 182 is recognised under "Financial liabilities held for trading" (at 31 December 2018: MCZK 234).

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2019	31 Dec 2018
Fair value hedging	360	525
Cash flow hedging	7 264	5 132
Total	**7 624**	**5 657**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

26. Other liabilities

	31 Dec 2019	31 Dec 2018
Deferred income and accrued expenses	1 228	1 292
Trade payables	640	939
Payables to employees	609	679
Unsettled security transactions	20	11
Clearing and settlement accounts	5 221	5 129
Other	166	122
Total	**7 884**	**8 172**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2019	31 Dec 2018
Provisions for off-balance sheet credit exposures	719	1 095
a. Stage 1	113	141
b. Stage 2	98	42
c. Stage 3	508	912
Legal disputes	30	55
Provision for restructuring	60	8
Other	60	119
Total	**869**	**1 277**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	141	42	912	1 095
Charge during the year	90	125	244	459
Release during the year	(117)	(68)	(645)	(830)
Other – FX rate gains or losses	(1)	(1)	(3)	(5)
Total provisions for off-balance sheet credit items at 31 December 2019	**113**	**98**	**508**	**719**
Impact of IFRS 9				106
Balance at 1 January 2018	193	100	303	596
Charge during the year	168	44	622	834
Release during the year	(220)	(102)	(13)	(335)
Other – FX rate gains or losses	1	–	–	1
Total provisions for off-balance sheet credit items at 31 December 2018	**141**	**42**	**912**	**1 095**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2019	55	8	119	182
Charge during the year	22	57	–	79
Usage during the year	(32)	(4)	(59)	(95)
Release of redundant provisions and other	(15)	(1)	–	(16)
Total other provisions at 31 December 2019	**30**	**60**	**60**	**150**
Balance at 1 January 2018	67	100	174	341
Charge during the year	8	–	57	65
Usage during the year	(21)	(85)	(105)	(211)
Release of redundant provisions and other	(1)	(7)	(7)	(13)
Total other provisions at 31 December 2018	**55**	**8**	**119**	**182**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2019	31 Dec 2018
Current tax payable	(2 178)	(1 903)
Prior year tax	24	33
Deferred tax	(8)	(73)
Total income tax	**(2 162)**	**(1 943)**

The income tax of the Bank differs from the theoretical tax which would arise if the tax rate effective in the Czech Republic were applied as follows:

	31 Dec 2019	31 Dec 2018
Profit/loss for the year before tax	11 595	10 866
Tax calculated using the tax rate of 19%	(2 203)	(2 065)
Impact of prior years on the current tax payable	24	33
Non-taxable income	128	153
Tax non-deductible expenses	(72)	(70)
Impact of prior years on the deferred tax	(9)	(4)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(29)	(22)
Unrecognised temporary differences in deferred tax	–	–
Recognition of previously unrecognised deferred tax	–	30
Impact of a change in the Slovak tax rate	–	–
Other	(1)	2
Total income tax	**(2 162)**	**(1 943)**

The effective tax rate of the Bank is 18.6% (2018: 17.9%).

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1,609 (2018: MCZK 1,449), made an additional payment of MCZK 377 (at 31 December 2018: the Bank made an additional payment of MCZK 357) and reports an income tax liability of MCZK 418 to the tax authority in the Czech Republic (at 31 December 2018: a liability of MCZK 386) and a liability of MCZK 152 from the tax authority in the Slovak Republic (at 31 December 2018: a receivable of MCZK 17).

(c) Deferred Tax Asset/Liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method under the application of the appropriate tax rate.

When calculating net tax assets and liabilities, the Bank offsets deferred tax assets against deferred tax liabilities arising from income tax paid to the same tax institution in the same tax category.

Bank Management believes that the Bank will be able to fully recover deferred tax assets reported as of 31 December 2019 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

	31 Dec 2019		31 Dec 2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	137	–	161	–
Impairment of loans and off-balance sheet items	689	–	680	–
Differences arising from the net book values of tangible assets	59	–	58	–
Differences arising from the net book values of intangible assets	–	(93)	–	(52)
Reserve from revaluation of hedging instruments	188	–	–	(49)
Reserve from revaluation of financial assets at fair value through other comprehensive income	–	(134)	–	(147)
Reserve from revaluation of property measured at fair value	–	(68)	n/a	n/a
Other	75	–	35	–
Deferred tax liability/asset	1 148	(295)	934	(248)
Net deferred tax asset	**853**		**686**	

29. Issued capital and share premium

The recorded, issued and fully paid capital of the Bank amounted to MCZK 8,755 as of 31 December 2018 and 2019.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2019				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2018				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2019 Number of shares	31 Dec 2019 MCZK	31 Dec 2018 Number of shares	31 Dec 2018 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Bank's governance and the entitlement to a share on profit.

Both at 31 December 2019 and 31 December 2018, the Bank held no treasury shares.

30. Equity-based bonuses

The Bank has not implemented any employee motivation or stabilisation programme for the purchase of treasury shares or remuneration in the form of treasury share options.

31. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

	31 Dec 2019	31 Dec 2018
Reserve funds	3 372	3 372
Special-purpose reserve fund	13 240	12 423
Retained earnings	37 732	35 701
Total	**54 344**	**51 496**

As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank. In 2019, this fund was increased by MEUR 32 (profit of the Slovak branch for 2018).

32. Borrowings and lending of securities, repurchase and reverse repurchase transactions

(a) Reverse Repurchase Transactions

	31 Dec 2019	31 Dec 2018
Loans and advances to banks	165 823	189 922
Fair value of securities received	162 878	186 686
Loans and advances to customers	–	–
Fair value of securities received	–	–

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2019 and as of 31 December 2018.

(b) Repurchase Transactions

	31 Dec 2019	31 Dec 2018
Deposits from banks	11 433	30 003
Fair value of securities provided	11 193	33 443
Deposits from customers	–	–
Fair value of securities provided	–	–

33. Contingent liabilities, contingent assets and financial derivatives

In the ordinary course of business, the Bank conducts various financial transactions that are not reported in the Bank's statement of financial position and that are designated as off-balance sheet financial instruments.

Unless stated otherwise, the information below represents the nominal values of off-balance sheet transactions.

(a) Contingent Liabilities

Legal Disputes
As of 31 December 2019, the Bank assessed the legal disputes in which it acted as a defendant. The Bank recorded provisions for these legal disputes (see section V, point 27). In addition to these disputes, legal actions arising from ordinary business activities were taken against the Bank. The management does not anticipate the result of these legal disputes to have a material impact on the Bank's financial position.

Taxation
Czech and Slovak tax legislation has significantly changed in recent years. Many complicated legislation areas remained unresolved, and it may not be possible to determine the interpretation of taxation authorities in specific cases in advance. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations are adopted in practice or in the event that official interpretations are available.

Contingent Liabilities arising from Guarantees, Loan Commitments and Other Contingent Liabilities
Contingent liabilities predominantly include undrawn amounts of loans. Loan commitments issued by the Bank include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include undrawn loans that may be revoked by the Bank at any time without stating the reason. On the contrary, irrevocable commitments represent the Bank's liability to provide a credit or issue a guarantee, the performance of which, even though bound on meeting the contractual terms by the client, is to a certain extent independent of the Bank's will.

Contingent liabilities arising from financial guarantees include irrevocable commitments made by the Bank to repay debts in lieu of the debtor owed to the guarantee beneficiary in case the debtor defaults on their obligation to pay subject to terms and conditions of the individual contracts. As such, commitments bear similar risk to loans, the Bank creates the relevant provisions using a similar algorithm as for provisions (see section V. Other Notes, point 35. Financial Risk Management).

Documentary letters of credit represent a written irrevocable commitment of the Bank issued based on a client's request (orderer), to provide a third party or to its order (recipient, beneficiary), with certain performance, under the condition the terms of the letter of credit are met by a specified deadline. For these financial instruments, the Bank creates provisions using a similar algorithm as applied for credits (see section V. Other Notes, point 35. Financial Risk Management).

The Bank recorded provisions for off-balance sheet items to cover expected credit losses and arising from the impairment losses on the off-balance sheet items due to credit risk. As of 31 December 2019, the aggregate provisions amounted to MCZK 719 (as of 31 December 2018: MCZK 1,095), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2019			
Letters of credit and financial guarantees	45 297	(464)	44 833
– Stage 1	42 130	(64)	42 066
– Stage 2	2 686	(26)	2 660
– Stage 3	481	(374)	107
Other contingent liabilities (undrawn credit facilities)	125 656	(255)	125 401
– Stage 1	117 997	(49)	117 948
– Stage 2	7 316	(72)	7 244
– Stage 3	343	(134)	209
Total	**170 953**	**(719)**	**170 234**
31 Dec 2018			
Letters of credit and financial guarantees	41 210	(881)	40 329
– Stage 1	39 087	(93)	38 994
– Stage 2	1 183	(19)	1 164
– Stage 3	940	(769)	171
Other contingent liabilities (undrawn credit facilities)	114 131	(214)	113 917
– Stage 1	110 372	(48)	110 324
– Stage 2	3 244	(23)	3 221
– Stage 3	515	(143)	372
Total	**155 341**	**(1 095)**	**154 246**

(b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 385.9 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 226.2 (MUSD 10) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

	Nominal value	Positive fair value	Negative fair value
31 Dec 2019			
Trading instruments – interbank market (OTC)			
Options	76 298	705	701
Interest rate swap contracts	538 519	4 883	4 304
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	143 887	2 289	1 777
Foreign exchange forwards and swaps	40 320	145	500
Other instruments	2 310	1 249	1 245
Total	**801 334**	**9 271**	**8 527**
Trading instruments – stock exchange			
Futures	1 880	35	–
Total trading instruments	**803 214**	**9 306**	**8 527**
Hedging instruments			
Interest rate swap contracts	631 855	6 720	6 761
Cross currency swap contracts	112 354	479	863
Total hedging instruments	**744 209**	**7 199**	**7 624**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2018			
Trading instruments – interbank market (OTC)			
Options	87 741	769	78
Interest rate swap contracts	391 801	3 692	3 039
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	230 178	2 281	1 917
Foreign exchange forwards and swaps	49 515	532	240
Other instruments	1 562	138	131
Total	**760 797**	**7 412**	**6 108**
Trading instruments – stock exchange			
Futures	1 646	30	–
Total trading instruments	**762 443**	**7 442**	**6 108**
Hedging instruments			
Interest rate swap contracts	585 163	5 492	4 997
Cross currency swap contracts	164 358	144	660
Total hedging instruments	**749 521**	**5 636**	**5 657**

(ii) Residual Maturity of Financial Derivatives Concluded on the Interbank Market

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2019				
Trading instruments				
Interest rate instruments	68 763	308 187	189 506	566 456
Equity instruments	3 560	4 871	–	8 431
Currency instruments	162 796	63 221	–	226 017
Other	2 226	84	–	2 310
Total	**237 345**	**376 363**	**189 506**	**803 214**
Hedging instruments				
Interest rate instruments	100 547	269 524	261 784	631 855
Currency instruments	77 425	11 864	23 065	112 354
Total	**177 972**	**281 388**	**284 849**	**744 209**
31 Dec 2018				
Trading instruments				
Interest rate instruments	107 122	233 981	86 522	427 625
Equity instruments	5 694	7 520	–	13 214
Currency instruments	245 990	73 503	549	320 042
Other	1 549	13	–	1 562
Total	**360 355**	**315 017**	**87 071**	**762 443**
Hedging instruments				
Interest rate instruments	163 500	256 394	165 269	585 163
Currency instruments	140 486	20 771	3 101	164 358
Total	**303 986**	**277 165**	**168 370**	**749 521**

34. Segment reporting

The Bank presents the segment information based on performance criteria as disclosed in section III. Significant Accounting Policies, point 20. Segment reporting.

(a) Segment Information by Client Category

	Retail and private banking	Corporate and investment banking	Other	Total
31 Dec 2019				
Net interest and dividend income	3 660	7 790	2 258	**13 708**
Other net income	1 725	3 724	654	**6 103**
Depreciation/impairment of property and equipment and intangible assets	(451)	(268)	(245)	**(964)**
Impairment loss	(883)	(321)	76	**(1 128)**
Segment expenses	(3 196)	(3 344)	416	**(6 124)**
Profit before tax	855	7 581	3 159	**11 595**
Income tax			(2 162)	(2 162)
Result of segment	**855**	**7 581**	**997**	**9 433**
Segment assets	139 097	519 185	14 270	**672 552**
Segment liabilities	183 921	398 111	14 754	**596 786**

	Retail and private banking	Corporate and investment banking	Other	Total
31 Dec 2018				
Net interest and dividend income	3 837	8 084	1 866	**13 787**
Other net income	1 452	3 994	149	**5 595**
Depreciation/impairment of property and equipment and intangible assets	(217)	(117)	(167)	**(501)**
Impairment loss	(100)	(413)	10	**(503)**
Segment expenses	(3 659)	(3 873)	20	**(7 512)**
Profit before tax	1 313	7 675	1 878	**10 866**
Income tax			(1 943)	(1 943)
Result of segment	**1 313**	**7 675**	**(65)**	**8 923**
Segment assets	124 023	523 001	13 116	**660 140**
Segment liabilities	171 559	399 552	15 447	**586 558**

The income tax for all segments is presented in the segment “Other”.

The Bank does not have a customer or a group of customers that would comprise more than 10 percent of the Bank’s income.

(b) Information on Geographical Areas

	Czech Republic	Slovakia	Total
31 Dec 2019			
Net interest and dividend income	11 249	2 459	**13 708**
Other net income	4 835	1 268	**6 103**
Depreciation/impairment of property and equipment and intangible assets	(756)	(208)	**(964)**
Impairment loss	(400)	(728)	**(1 128)**
Segment expenses	(4 468)	(1 656)	**(6 124)**
Profit before tax	10 460	1 135	**11 595**
Income tax	(1 811)	(351)	(2 162)
Result of segment	**8 649**	**784**	**9 433**
Segment assets	543 839	128 713	**672 552**
Segment liabilities	501 713	95 073	**596 786**

	Czech Republic	Slovakia	Total
31 Dec 2018			
Net interest and dividend income	11 181	2 606	**13 787**
Other net income	4 071	1 524	**5 595**
Depreciation/impairment of property and equipment and intangible assets	(347)	(154)	**(501)**
Impairment loss	20	(523)	**(503)**
Segment expenses	(5 321)	(2 191)	**(7 512)**
Profit before tax	9 604	1 262	**10 866**
Income tax	(1 723)	(220)	(1 943)
Result of segment	**7 881**	**1 042**	8 923
Segment assets	532 456	127 684	**660 140**
Segment liabilities	478 548	108 010	**586 558**

35. Financial risk management

(a) Introduction

The Bank is exposed to the following types of risk:

- Credit risk;
- Market risk; and
- Operational risk.

The Board of Directors is responsible for the overall risk management strategy which it approves and assesses on a regular basis. The Board of Directors has established the Assets and Liabilities Committee (ALCO), the Credit Committee and the Committee for Operational Risk Management. These committees are in charge of monitoring and managing individual risks with regard to individual specific fields. The committees report to the Board of Directors on a regular basis.

(b) Credit Risk

The Bank is exposed to credit risk as a result of its trading, lending, hedging investment and brokerage activities.

Credit risk is managed at the level of individual customers (transactions) and at the portfolio level.

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. These departments are organisationally independent of the business divisions and report directly to a member of the Board of Directors in charge of the Risk management division (Chief Risk Officer).

Under its credit risk management policy, the Bank defines the general principles, methods and tools applied when identifying, measuring and managing credit risk. The Bank's credit risk management policy is set by the Strategic Credit Risk Management department. This policy is reviewed on a regular basis at least once a year.

In its internal guidelines, the Bank defines the underwriting approval competencies, including the definition of responsibilities and competencies of the Credit Committee.

The table below presents the maximum credit risk exposure related to balance sheet assets. Maximum credit risk exposure excludes impact of received collateral:

	2019	2018
Cash and cash balances	4 633	4 841
Financial assets at fair value through profit or loss, *of which:*	12 185	10 024
Held for trading	11 698	9 678
Mandatorily at fair value	487	346
Financial assets at fair value through other comprehensive income	23 181	29 188
Financial assets at amortised cost, *of which:*	613 747	601 624
Loans and advances to banks	185 944	200 035
Loans and advances to customers	427 803	401 589
Positive fair value of hedging derivatives	7 199	5 636
Other assets	1 692	1 367
Total	**662 637**	**642 656**

The table below presents the maximum credit risk exposure related to off-balance sheet items. Maximum credit risk exposure excludes impact received collateral:

	2019	2018
Letters of credit and financial guarantees	44 833	40 329
Other contingent liabilities (undrawn credit facilities)	125 401	113 917
Total	**170 234**	**154 246**

(i) Credit Risk Management at the Level of Individual Customers

Corporate customers

Credit risk at the level of individual customers is managed by analysing customers' financial health and determining maximum credit risk exposure (credit limit). Analysis is focused on the customers' competitive position in the relevant market, a rating of their financial statements, prediction of future liquidity, etc. The result of this analysis is, inter alia, a rating that reflects the probability of client default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is undertaken prior to the granting of a loan. Subsequently the rating is reviewed and creditworthiness is reassessed at least annually.

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc). When classifying customers, the Bank assesses (in addition to the number of days past due with regard to overdue receivables, if any) financial indicators related to the client (such as the structure of and proportion between the statement of financial position, the income statement, and the cash flow statement), management quality, ownership structure, individual customers' market position, reporting quality, production equipment, account-use history, etc. Customers in default are assigned internal ratings of 8–, 9 or 10.

Retail customers

For receivables from individuals, the ability of the client to fulfil their obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring). The Bank sets and regularly updates the probability of client default, using the behavioural scoring method. A client's final rating combines both application and behavioural components.

Credit registries

The Bank uses information provided by credit registries as an additional source of information for assessing a client's financial standing for both Corporate and Retail Client

Collateral

In accordance with its credit risk management strategy, prior to granting the loans, the Bank may require that the customers post collateral for the loans. The amount and type of collateral depends on the client's financial health and the type of the loan. The Bank considers the following to be acceptable types of collateral: cash, investment grade securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of mortgage over real estate property. When determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing the collateral for personal collateral (eg guarantees) and the nominal value of the collateral for non-personal collaterals such as pledge of property. The collateral is valued based on expert appraisals made by a special department of the Bank or external valuations. The realisable value of collateral is determined based on this appraised value by applying an adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management at the Portfolio Level

The Bank regularly analyses and monitors trends in individual credit sub-portfolios.

The Bank monitors its overall credit risk exposure, ie it takes into account all on-balance and off-balance sheet exposures and quantifies the expected losses from its credit exposure on regular basis. The expected loss is determined based on internal estimates of risk parameters, ie the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.

The Bank assesses the concentration risk of the loan portfolio on a regular basis and establishes concentration limits as appropriate in relation to specific industries, countries, or economically-connected groups of debtors.

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a regular basis, in accordance with IFRS 9 Financial instruments; in particular, it divides its receivables into non-performing receivables = receivables in default (stage 3) and performing receivables = receivables without default (stages 1 and 2).

Stage 2 receivables are receivables which have experienced significant increase in credit risk between two subsequent balance sheet dates. All receivables are regularly monitored for default and significant increase in credit risk.

Impairment Losses on Non-Performing Receivables

Impairment losses related to individual non-performing receivables (ie stage 3 under IFRS 9 Financial Instruments) are recognised if carrying amount of individual receivables is less than recoverable amount and the Bank does not write off such receivables (fully or partially). The Bank assesses recoverable of the amount of all receivables in respect of which the debtors are in default: (i) individually if the amount of the receivable exceeds an equivalent of MEUR 1, (ii) collectively using recovery rate derived from the relevant model which reflects historic recovery experience.

The Bank writes off receivables if no income is anticipated on it or on the collateral received with regard to the given receivable.

The impairment loss is (i) for individually assessed receivables equal to the difference between the carrying amount of the receivable and the discounted value of estimated future cash flows; (ii) for collectively assessed receivables equal to the lifetime expected credit loss determined on portfolio basis.

Impairment Losses on Performing Receivables

For performing receivables that have experienced no significant increase in credit risk since origination (ie stage 1), the Bank determines the impairment loss as the expected credit loss until maturity of the receivable, but no more than the next 12 months (1-year expected loss). For Performing receivables that have experienced a significant increase in credit risk since origination, but are still performing receivables (ie stage 2), the Bank determines the impairment loss as the expected loss until the final maturity of the receivable (lifetime expected credit loss).

Provisions for Off-Balance Sheet Items

The Bank recognises such provisions using the same methods as are used in determining impairment losses on receivable portfolios while taking into account conversion factors related to the specific type of the off-balance exposure.

(iv) Forbearance

The Bank classifies loan receivables as forborne if the originally agreed payment conditions were changed since the loan provision due to customers' financial difficulties (changes predominantly include payment deferral, temporary payment reduction, postponement of the ultimate due date, etc). These items are recognised in the statement of financial position either as non-performing loan receivables or performing loan receivables.

Loan receivables with a change in the originally-agreed payment conditions are generally classified as non-performing loan receivables. Following a robust assessment, the Bank may categorise individual receivables as performing receivables, despite a change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious and the Bank does not anticipate incurring a loss from the future collection of such loan receivables.

Performing receivables also include receivables originally classified as non-performing receivables upon the change of payment conditions and which were subsequently transferred into the category of Performing loan receivables because the debtor complied with newly-agreed conditions in line with the Bank's internal rules. This group accounts for the majority of loan receivables reported as forborne – performing receivables.

Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout Department and are subject to standard restructuring and workout procedures and monitoring. The exception is receivables that are not assessed as non-performing receivables upon a change of the payment conditions. These loans are only managed by Credit Restructuring & Workout Department after a thorough assessment of the need to use the know-how of this specialised unit. When releasing receivables from the management of this unit, the statues of individual cases and the need to use the know-how of the Credit Restructuring & Workout staff is also carefully reviewed.

The period for which the client is designated as forborne is referred to as the probation period and lasts a minimum of two years from the client default /forbearance if the forbearance was without client default. In addition, this period can only be terminated if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days. For amortizing loans, the debt must be reduced by at least 10% during probation period.

Due to the size of the forborne portfolio and the above procedures and practices, we have not identified any serious threats for the Bank resulting from this portfolio. This is supported by the fact that a portion of receivables with changed payment conditions in order to overcome the debtor's deteriorated financial position is reclassified once more as non-performing (recognised in the Bank's statement of financial position as non-performing forborne receivable – see above).

(v) Recovery of Receivables

The Bank has established the Credit Workout & Restructuring Department which manages the receivables whose recoverability is at risk (both Non-performing and Performing). The purpose of this unit involves achieving one or a number of the following goals in respect of risk-bearing credit receivables:

a) "Revitalisation" of the credit arrangement, restructuring and subsequent reclassification into standard receivables;
b) Full repayment of the credit;
c) Minimisation of the loss from the credit (realisation of collateral, sale of the receivable with a discount, etc); and/or
d) Prevention of additional losses from the loan (comparison of future expenses versus income).

(c) Market Risk

(i) Trading

The Bank holds trading positions in various financial instruments, including financial derivatives. The majority of the Bank's business activities are driven by the requirements of the Bank's customers. Depending on the predicted demand of its customers, the Bank holds a supply of financial instruments and maintains access to the financial markets through quoting of the bid and offer prices and by trading with other market makers. These positions are also held for the purpose of short term profit taking on the expected future development of financial markets and the instruments are classified in line with IFRS 9 Financial instruments as held for trading. The Bank's business strategy is thus affected by short term profit taking and market-making and its goal is to maximise net income from trading.

The Bank manages risks associated with its trading activities at the level of individual types of risk and types of financial instruments. The basic tools used for market risk management are limits on the volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits, and value at risk (VaR) limits. The description quantitative methods applied in risk management are included in the following section "Market risk management".

The majority of derivatives are negotiated on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(ii) Market Risk Management

Below are described selected types of risk to which the Bank is exposed through its trading activities as well as managing the positions resulting from these activities and managing these risks. There is also market risk exposure in the Bank's banking book which corresponds to portfolios of financial instruments not held for trading. Market Risk is measured for the Trading and Banking book separately and also collectively. The procedures applied by the Bank to measure and manage these risks are described in detail in the following paragraphs.

The Bank is exposed to market risk arising from its open positions in interest rate, equity and foreign currency instrument transactions that are sensitive to changes in the situation on the financial market.

The Bank's risk management focuses on managing the total net exposure to interest rate risk resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risk by measuring the sensitivity of particular assets and liabilities which mature/reprice in specific time interval. This sensitivity is expressed by the change in the values of assets and liabilities if interest rates increase by one basis point (BPV). For hedge accounting purposes, the Bank identifies specific assets/liabilities causing this mismatch so that the accounting criteria for the application of hedge accounting are met.

Value at Risk

Value at Risk represents the main method for managing market risks arising from the Bank's open positions. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. Value at Risk is measured based on a 1-day holding period and a confidence level of 99%. The Bank's Value at Risk model calculations have the following limitations:

– The one-day holding period assumes that all positions can be closed during a single day. This assumption does not necessarily apply to markets with lower liquidity.
– The 99% confidence level does not reflect all possible losses that can occur at this confidence level.

- VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened on an "intra-day" basis.
- Using historical data as a basis for determining possible future developments does not necessarily cover all possible future scenarios, especially crisis scenarios.

The Bank uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with the negative movements in the prices of market factors (spread risk, option risk, etc). The aggregate structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO). At least once a year, the structure and amount of limits are revised in accordance with the Bank's needs and developments on the financial markets. The results of the VaR calculation are published daily for selected users (Board of Directors, selected employees of the Financial Markets Department, the Market Risk Department, the Assets & Liabilities Management Unit, and the MARS department of the parent bank/sub-holding).

The VaR calculation divides the calculated risk into interest rate and credit portions. The credit portion of VaR is calculated based on the volatility of the credit spread between securities and the risk free interest rate. For this purpose, the yield curves of particular issuers, industries, or groups of issuers with identical rating are downloaded into the system for market risk management. Specific securities are mapped to these yield curves and the volatility of the credit spread is calculated. The Bank regularly reassesses the mapping of debt securities with the relevant yield curves and, if necessary, the debt securities are re-mapped to curves that reliably reflect the credit risk of the specific debt securities

The outputs of the VAR calculation model are back-tested and compared with the results of the changes to interest rates on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to correspond with the current development on the financial markets.

The table below shows the Values at Risk:

	At 31 Dec 2019	Average for 2019	At 31 Dec 2018	Average for 2018
Aggregate VaR	238.7	188.9	207.4	245.3
VaR of currency instruments	2.3	5.4	4.7	4.2
VaR of equity instruments	–	–	–	–

Interest Rate Risk

The Bank is exposed to interest rate risk because of mismatch in interest-bearing assets and liabilities maturities, re-pricing periods and notionals in defined time buckets (gap or mismatch risk). In the event of a change in interest rates, the Bank is also exposed to interest rate risk as a result of the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest rates on deposits (basis risk and yield curve risk). Interest risk management is focused on optimising the Bank's net interest income in accordance with the strategies approved by the Board of Directors.

The Bank's overall interest rate position as of 31 December 2019 is characterised by sensitivity to a decrease in rates – this is reflected in the negative aggregate basis point value (BPV) – if the interest rates in individual currencies increased in parallel, there would be a decrease in market revaluation. The Bank's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

Interest rate derivatives are generally used to manage the mismatch between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the internal Liquidity Management Policy and the internal Funds Transfer Pricing Policy and by the Strategy of Interest Rate Risk Management in the Banking Book approved by the Board of Directors. Part of the Bank's income is generated by the intentional mismatch between the assets and liabilities that are interest rate-sensitive.

The Bank applies a "Basis Point Value (BPV)" approach for measuring interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by one basis point (0.01%), ie it represents the sensitivity of instruments to interest rate risks.

The Bank has set up interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the "BPV limit").

Stress Testing of Interest Rate Risk

The Bank carries out weekly stress testing of interest rate sensitivity by simulating impact on Net interest income under of historical scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Bank's results. The Bank uses the euro as the base currency for stress testing. All values are translated to CZK using the Czech National Bank's exchange rate as of the respective date.

	Basic stress test		MM stress test
	–200bp	+200bp	+250bp
*)			
Value at 31 Dec 2019	7 030	(4 704)	(1 976)
Average for the period	8 003	(4 237)	(1 948)
Maximum value	11 843	(2 417)	(174)
Minimum value	4 265	(5 999)	(3 763)
Value at 31 Dec 2018	10 583	(5 276)	(2 308)
Average for the year	7 067	(4 664)	(1 324)
Maximum value	14 537	(1 516)	1 054
Minimum value	1 173	(6 735)	(2 530)

On 7 December 2015, stress scenarios for negative market interest rates were introduced.

As a large portion of the market interest rate curve shows negative rates and a further decrease cannot be excluded, the Bank applies a stress scenario to reflect a possible Net interest income effect of a further decrease in the market interest rates. This approach is applied to the entire portfolio of assets and liabilities, including products for which a decrease of the market interest rates (as an element of client rates) into negative values is restricted in contracts (as well as in the general business terms and conditions). Using this approach, the Bank also reflects the possible risk of profit/loss for products where the market interest rates cannot achieve negative values according to contracts.

Hedge Accounting

As part of its market risk management strategy, the Bank hedges against interest rate risk. The Bank's hedge strategy uses both fair value hedges and cash flow hedges.

Fair value hedges are used for reducing the price interest rate risk of issued bonds, purchased securities, loans or deposits. Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise Net interest income; in other words to manage reinvestment risk.

Fair Value Hedging

Hedged instruments include financial assets and liabilities recognised at amortised cost and debt financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the hedge relationship, the Bank performs a prospective fair value hedge effectiveness test on the basis of future changes in fair values of hedged and hedging instruments and of expected interest rates movements (the "prospective test"). On the basis of actual interest rate developments, a test of effectiveness is carried out monthly. The Bank undertakes the monthly effectiveness testing to be able to detect possible non-effectiveness of the hedge relationships.

For particular hedged items and hedging transactions (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedge relationship until the maturity of the hedged instrument.
The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of the discount factors for specific currencies. The fair value of a transaction is the sum of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further netted for realised cash flows by adding them back or subtracting. The hedge effectiveness is measured using the comparison of the cumulative change in the fair value of the hedged and hedging instrument.
The hedge is considered effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

In the table below, the Bank sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

31 Dec 2019	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	18 590	(6 706)	(112)	(28)
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(35 280)	–	(1 097)

31 Dec 2018	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	15 626	(40 513)	46	(47)
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(30 690)	–	(608)

The corresponding Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:
“A” represents hedging of”

- Loans presented in the line *“Financial assets at amortised cost, of which: Loans and advances to customers”*,
- Purchased bonds presented in the line *“Financial assets at fair value through other comprehensive income”*,
- Money-markets trades presented in the line *“Financial liabilities at amortised cost, of which: Deposits from banks”* and
- Issued bonds presented in the line *“Financial liabilities at amortised cost, of which: Debt securities issued”*.

“B” represents hedging of currents accounts presented in the line *“Financial liabilities at amortised cost, of which: Deposits from customers”*.

The table below sets out the outcome of the Bank’s hedging strategy, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

31 Dec 2019	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	282	(292)	(10)
Portfolio fair value hedges			
Interest rate risk	(489)	489	–

31 Dec 2018	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(88)	88	–
Portfolio fair value hedges			
Interest rate risk	(608)	610	2

Cash Flow Hedging
The Bank uses the cash flow hedging to eliminate interest rate risk on an portfolio basis. Hedged items are future forecasted transactions in the form of interest income and expenses which is sensitive to changes in market interest rates. Future forecasted transactions arise from concluded contracts and future forecasting transactions established on the basis of portfolio replication models. The hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

The effectiveness of a cash flow hedge is determined in accordance with the UniCredit Group standards, based on an approved methodology. First, the nominal values (divided into assets and liabilities) of external trades by currency are identified, for which the interest cash flow (established on the basis of the re-financing – the "funding" rate) may be considered variable (hedged cash flows). Secondly, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (ie net cash in/outflows).

The Bank monitors whether the absolute value of future variable interest cash flows from hedged deals for specific time periods exceeds the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedging derivatives.

The time periods are defined as follows: up to 2 years by months, subsequently by individual years, 10-15 years, and more than 15 years. The hedge is judged effective if the aggregate volume of variable interest cash flows from hedged deals is greater than the net variable interest cash flows from hedged deals (designated with an opposite – positive/negative sign) in each of the time periods, measured separately for each monitored currency.

The table below sets out the Bank's financial assets and financial liabilities designated as hedged items in continuing cash flow hedge relationships and the outcome of the Bank's hedging strategy:

31 Dec 2019	**Cash flow hedge reserve**		**Changes in fair value of hedging instruments used for measuring hedge ineffectiveness**		
			in total	**Effective portion**	**Hedge ineffectiveness**
	Continuing hedges	Discontinued hedges		recognised in OCI	recognised in the income statement in net trading income
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(1 196)	212	(1 238)	(1 238)	–

31 Dec 2019	**Cash flow hedge reserve**		**Changes in fair value of hedging instruments used for measuring hedge ineffectiveness**		
			in total	**Effective portion**	**Hedge ineffectiveness**
	Continuing hedges	Discontinued hedges		recognised in OCI	recognised in the income statement in net trading income
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(123)	376	(418)	(418)	–

The corresponding Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:
"A" comprises hedging of:
- Loans presented in the line *"Financial assets at amortised cost, of which: Loans and advances to customers"* and line *"Financial assets at amortised cost, of which: Loans and advances to banks"*,
- Purchased float bonds presented in the line *"Financial assets at fair value through other comprehensive income"*,

– Deposits presented in the line *"Financial liabilities at amortised cost, of which: Deposits from customers"* and line *"Financial liabilities at amortised cost, of which: Deposits from banks"* and
– Issued bonds presented in the line *"Financial liabilities at amortised cost, of which: Debt securities issued"*.

The maturity profile of hedging instruments is included in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives.

Currency Risk
Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, comprise the Bank's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the income statement.

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies.

The following table shows the structure of assets and liabilities by currency:

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2019						
Cash and cash balances	2 167	2 233	115	22	96	4 633
Financial assets at fair value through profit or loss, *of which:*	11 070	628	487	–	–	12 185
Held for trading	11 070	628	–	–	–	11 698
Mandatorily at fair value	–	–	487	–	–	487
Financial assets at fair value through other comprehensive income	11 527	11 654	–	–	–	23 181
Financial assets at amortised cost	390 197	220 129	2 026	21	1 374	613 747
of which:						
Loans and advances to banks	184 288	1 326	200	13	117	185 944
Loans and advances to customers	205 909	218 803	1 826	8	1 257	427 803
Positive fair value of hedging derivatives	7 199	–	–	–	–	7 199
Equity investments	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 024	931	–	–	–	2 955
Intangible assets	1 753	344	–	–	–	2 097
Tax receivables	238	615	–	–	–	853
Non-current assets held for sale	0	31	–	–	–	31
Other assets	917	695	74	–	6	1 692
Total assets	431 071	237 260	2 702	43	1 476	672 552
Financial liabilities at fair value through profit or loss, *of which:*	11 537	–	–	–	–	11 537
Held for trading	11 537	–	–	–	–	11 537
Financial liabilities at amortised cost *of which:*	283 317	264 202	15 828	637	3 222	567 206
Deposits from banks	3 830	125 831	2 367	0	3	132 031
Deposits from customers	270 194	127 506	13 461	637	3 219	415 017
Debt securities issued	9 293	10 865	–	–	–	20 158
Negative fair value of hedging derivatives	7 624	–	–	–	–	7 624
Changes in fair value of the portfolio of hedged instruments	672	424	–	–	–	1 096
Tax liabilities	418	152	–	–	–	570
Other liabilities	4 208	3 383	209	5	79	7 884
Provisions for risks and charges	379	397	62	9	22	869
Equity	60 001	15 682	170	1	(88)	75 766
Total liabilities and equity	368 156	284 240	16 269	652	3 235	672 552
Gap	62 915	(46 980)	(13 567)	(609)	(1 759)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2018						
Cash and cash balances	2 381	2 162	111	26	161	4 841
Financial assets at fair value through profit or loss, *of which:*	8 201	1 477	346	–	–	10 024
Held for trading	8 201	1 477	–	–	–	9 678
Mandatorily at fair value	–	–	346	–	–	346
Financial assets at fair value through other comprehensive income	11 555	17 498	135	–	–	29 188
Financial assets at amortised cost	392 898	204 504	2 059	16	2 147	601 624
of which:						
Loans and advances to banks	196 093	3 483	315	5	139	200 035
Loans and advances to customers	196 805	201 021	1 744	11	2 008	401 589
Positive fair value of hedging derivatives	5 636	–	–	–	–	5 636
Equity investments	3 979	–	–	–	–	3 979
Property and equipment	284	544	–	–	–	828
Intangible assets	1 688	262	–	–	–	1 950
Tax receivables	109	594	–	–	–	703
Non-current assets held for sale	–	–	–	–	–	–
Other assets	651	624	84	2	6	1 367
Total assets	427 382	227 665	2 735	44	2 314	660 140
Financial liabilities at fair value through profit or loss, *of which:*	8 714	–	–	–	–	8 714
Held for trading	8 714	–	–	–	–	8 714
Financial liabilities at amortised cost	255 884	290 040	12 221	589	3 010	561 744
of which:						
Deposits from banks	15 818	148 223	29	–	2	164 072
Deposits from customers	228 759	130 356	12 192	589	3 008	374 904
Debt securities issued	11 307	11 461	–	–	–	22 768
Negative fair value of hedging derivatives	5 657	–	–	–	–	5 657
Changes in fair value of the portfolio of hedged instruments	500	108	–	–	–	608
Tax liabilities	386	–	–	–	–	386
Other liabilities	4 145	3 470	370	5	182	8 172
Provisions for risks and charges	503	673	81	–	20	1 277
Equity	59 230	14 544	(124)	–	(68)	73 582
Total liabilities and equity	335 019	308 835	12 548	594	3 144	660 140
Gap	92 363	(81 170)	(9 813)	(550)	(830)	–

Equity Risk

Equity risk is the risk of movement in the prices of equity instruments held in the Bank's portfolio and of financial derivatives derived from these instruments. The main source of this risk is trading in equity instruments, although equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed using trading limits. The methods used to manage these risks are described above.

Liquidity Risk

Liquidity risk arises due to the way the Bank's finances its activities and manages its positions. It includes the risk the Bank would be unable to finance its assets using instruments with appropriate maturity and the risk that the Bank would be unable to dispose of its assets for an appropriate price within the necessary time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Bank flexible and limits its dependency on a single funding source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Board of Directors. As part of its liquidity risk management strategy, the Bank holds a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Bank by analysing of differences between the residual maturity of assets and liabilities across time buckets. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Bank daily monitors and in detail the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows with an outlook of several weeks. If limits are breached, the Bank takes action to reduce the liquidity risk. In the long-term (structural) perspective, the Bank monitors the difference between the maturity of assets and liabilities for periods longer than one year. The Bank sets limits and appropriate action is taken if they are breached (eg by acquiring long-term sources of refinancing).

The Bank has a contingency plan in the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation.

Stress tests of short-term liquidity are performed by the Bank on a weekly basis. The stress tests verify the Bank's ability to overcome extreme situations, such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Bank. The stress scenarios' results are presented to the ALCO.

The following table shows undiscounted cash flows of assets and liabilities, issued guarantees and provided loan facilities:

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2019							
Cash and cash balances	4 633	4 633	4 633	–	–	–	–
Financial assets at fair value through profit or loss,							
of which:	12 185	12 735	938	1 949	5 071	4 773	4
Held for trading	11 698	12 248	938	1 949	5 071	4 286	4
Mandatorily at fair value	487	487	–	–	–	487	–
Financial assets at fair value through other comprehensive income	23 181	25 471	139	2 290	19 870	3 172	–
Financial assets at amortised cost	613 747	650 927	232 084	61 486	178 826	173 817	4 714
of which:							
Loans and advances to banks	185 944	190 551	184 616	1 861	3 238	823	13
Loans and advances to customers	427 803	460 376	47 468	59 625	175 588	172 994	4 701
Positive fair value of hedging derivatives	7 199	7 199	94	457	2 296	4 352	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 955	2 955	–	–	–	–	2 955
Intangible assets	2 097	2 097	–	–	–	–	2 097
Tax receivables	853	853	(66)	–	919	–	–
Non-current assets held for sale	31	31	–	31	–	–	–
Other assets	1 692	1 692	957	735	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	11 537	11 537	4 153	1 525	3 604	2 252	3
Held for trading	11 537	11 537	4 153	1 525	3 604	2 252	3
Financial liabilities at amortised cost	567 206	569 228	515 115	32 098	14 977	6 874	164
of which:							
Deposits from banks	132 031	132 046	118 103	5 070	7 325	1 387	161
Deposits from customers, *of which:*	415 017	415 455	395 112	16 965	2 902	473	3
Lease liabilities	*1 911*	*2 007*	*93*	*298*	*1 147*	*469*	*–*
Other than lease liabilities	*413 106*	*413 448*	*395 019*	*16 667*	*1 755*	*4*	*3*
Debt securities issued	20 158	21 823	82	10 361	5 897	5 483	–
Negative fair value of hedging derivatives	7 624	7 624	155	854	2 346	4 269	–
Changes in fair value of the portfolio of hedged instruments	1 096	1 096	1 096	–	–	–	–
Tax liabilities	570	570	570	–	–	–	–
Other liabilities	7 884	7 884	6 111	1 772	–	1	–
Provisions for risks and charges	869	869	–	–	–	–	869
Equity	75 766	75 766	–	–	–	–	75 766
Undrawn loan facilities	125 656	125 656	6 169	27 829	25 169	66 489	–
Bank guarantees	45 297	45 297	4 801	10 596	24 755	5 142	3

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2018							
Cash and cash balances	4 841	4 841	4 841	–	–	–	–
Financial assets at fair value through profit or loss,	10 024	10 343	1 416	1 493	5 045	2 389	–
of which:							
Held for trading	9 678	9 997	1 416	1 493	5 045	2 043	–
Mandatorily at fair value	346	346	–	–	–	346	–
Financial assets at fair value through other comprehensive income	29 188	33 046	134	2 496	24 888	5 528	–
Financial assets at amortised cost	601 624	625 493	245 884	56 963	157 791	157 973	6 882
of which:							
Loans and advances to banks	200 035	200 102	199 458	462	–	–	182
Loans and advances to customers	401 589	425 391	46 426	56 501	157 791	157 973	6 700
Positive fair value of hedging derivatives	5 636	5 636	75	212	2 822	2 527	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property and equipment	828	828	–	–	–	–	828
Intangible assets	1 950	1 950	–	–	–	–	1 950
Tax receivables	703	703	17	–	686	–	–
Non-current assets held for sale	–	–	–	–	–	–	–
Other assets	1 367	1 367	1 061	306	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	8 714	8 714	2 979	966	3 773	996	–
Held for trading	8 714	8 714	2 979	966	3 773	996	–
Financial liabilities at amortised cost	561 744	563 936	454 971	66 220	34 899	7 846	–
of which:							
Deposits from banks	164 072	164 079	85 471	58 473	18 574	1 561	–
Deposits from customers	374 904	375 012	368 885	5 217	739	171	–
Debt securities issued	22 768	24 845	615	2 530	15 586	6 114	–
Negative fair value of hedging derivatives	5 657	5 657	128	477	2 427	2 625	–
Changes in fair value of the portfolio of hedged instruments	608	608	608	–	–	–	–
Tax liabilities	386	386	–	386	–	–	–
Other liabilities	8 172	8 172	6 252	1 920	–	–	–
Provisions for risks and charges	1 277	1 277	–	–	–	–	1 277
Equity	73 582	73 582	–	–	–	–	73 582
Undrawn loan facilities	114 131	114 131	6 159	30 245	22 359	55 368	–
Bank guarantees	41 210	41 210	4 952	10 392	20 850	5 016	–

(d) Operational Risk

Operational risk is the risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes legal risk, however, it does not include strategic or reputation risk. Legal risk includes, inter alia, the risk of fines, sanctions or punitive damages resulting from supervision measures and private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties to prevent conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to a member of the Board of Directors in charge of risk management. The Operational Risk Department is authorised to secure unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company.

Operational risk management and monitoring is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and assesses the control and management system's functionality.

The Bank has continued developing and setting up its comprehensive system for the identification, monitoring and management of operational risk. In line with the 2019 Operational Risk Management Strategy, the Bank defined its priorities with respect to mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Bank. The operational risk appetite is the operational risk level acceptable to the Bank and is measured using ELOR (Expected Loss on Revenue), which is the proportion of anticipated losses arising from operational risk (estimate based on historical data) to income (budgeted income on a quarterly basis). Setting the ELOR limit and its monitoring was performed in line with the Bank's policies.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management pursuant to Basel III. The data acquired through the system is taken into account when calculating the capital requirement and when managing operational risk. It serves as the basis for designing processes that reduce the number of particular events and mitigate the consequences (eg when preparing process mitigation measures or the Bank's strategic insurance plan). The data is also used for reviewing the reliability of proposed measures for operational risk mitigation. The data is collected on a continuous basis in cooperation with individual departments of the Bank (all significant events are reported and resolved immediately). Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Board of Directors, the Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or immediately if necessary. The data is regularly reconciled with the accounting records and other sources in order to ensure data completeness and accuracy.

In 2019, the Bank analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances overall awareness of operational risk within the Bank and trains the Bank's staff via training sessions and e-learning courses.

Based on the consent obtained from the regulatory body, the Bank calculates the capital requirement for operational risk under the advanced measurement approach (AMA). Under this approach, the UniCredit Group model based on internal and external data, the results of scenario analyses and risk indicator data is used.

(e) Capital Management

Management of the Bank monitors the development of the Bank's capital adequacy and its capital position. The regulator of the banking market, the Czech National Bank, established rules for the calculation of capital requirements and monitors their development. Since 1 January 2014, the Bank has met the requirements of Basel III (Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms) that was implemented by the Czech National Bank through Decree No. 163/2004 Coll. on the performance of the activity of banks, credit unions and investment firms. The Basel III rules were established in response to the financial crisis and introduce requirements for increased capital quality, requirement for an increased coverage of risks, the minimum standard for liquidity management, rules for the leverage ratio and improve risk management and corporate governance.

The Bank's regulatory capital consists of the following:

- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting; minus intangible assets and gaps in the coverage of anticipated losses through adjustments for credit risk using the internal rating based approach;
- Tier 1 (T1) capital creating CET1; and
- Tier 2 (T2) capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

The Bank complies with the defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

Statement of capital for the Banks's capital adequacy calculation on a stand-alone basis as reported to the regulator in accordance with applicable rules as of 31 December 2019 and as of 31 December 2018:

	2019	**2018**
Tier 1 capital	68 521	64 400
Total capital	68 526	66 003
Exposure to credit risk	314 085	299 811
Exposure to market risk	4 605	5 051
Exposure to operational risk	23 396	21 011
Total risk exposure	**342 086**	**325 873**
Capital adequacy ratio for the year (Tier 1 ratio)	**19,92 %**	**19,76 %**
Capital adequacy ratio for the year (Total capital ratio)	**19,93 %**	**20,25 %**

36. Related party transactions

Entities are deemed to be related parties in the event that one entity is able to control the activities of another, or is able to exercise significant influence over the other entity's financial
or operational policies. As part of its ordinary business, the Bank enters into transactions with related parties. These transactions principally comprise loans, deposits and other types of transactions and are concluded under arm's length conditions and at arm's length prices in order to prevent any detriment to any party.

Related parties principally include the Bank's parent company, Bank's fellow subsidiaries and other companies controlled by UniCredit Group or where UniCredit Group exercises significant influence the, the Bank's subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

UniCredit Group has prepared an equity programme for the employees of UniCredit Group under which the employees may purchase shares of UniCredit Group parent at a discounted price. The Discounted employee shares may not be sold during the vesting period. Vested shares are forfeited if the respective employee's employment by the UniCredit Group ends. The provided discount is allocated to individual UniCredit Group companies involved in the programme and these companies recognise and defer the discount over the vesting period.

(a) Transactions with the parent company

	31 Dec 2019	31 Dec 2018
Assets		
Loans and advances to banks	928	2 474
Financial assets held for trading	1 836	598
Financial assets at fair value through other comprehensive income	–	774
Positive fair value of hedging derivatives	925	996
Total	**3 689**	**4 842**
Liabilities		
Deposits from banks	118 092	123 403
Financial liabilities held for trading	1 656	312
Negative fair value of hedging derivatives	1 417	859
Total	**121 165**	**124 574**
Off-balance sheet items		
Issued guarantees	1 490	963
Irrevocable credit facilities	311	132
Total	**1 801**	**1 095**

	2019	2018
Interest income	296	442
Interest expenses	(100)	(54)
Fee and commission income	1	–
Fee and commission expenses	(1)	(4)
Net profit/loss from financial assets and liabilities held for trading	200	308
Net profit/loss from hedging of the risk of change in fair values	(3)	1
Administrative expenses	(12)	(8)
Total	**381**	**685**

(b) Transactions with subsidiaries

	31 Dec 2019	31 Dec 2018
Assets		
Loans and advances to customers	44 743	43 200
of which:		
UniCredit Leasing CZ, a.s.	29 858	28 750
UniCredit Leasing Slovakia, a.s.	11 401	11 107
UniCredit Fleet Management, s.r.o. (CZ)	74	–
UniCredit Factoring Czech Republic and Slovakia, a.s.	2 408	2 319
HVB Leasing Czech Republic s.r.o.	649	637
Total	**44 743**	**43 200**
Liabilities		
Deposits from customers	439	437
of which:		
UniCredit Leasing Slovakia, a.s.	360	400
UniCredit pojišťovací makléřská spol. s r.o.	13	19
Total	**439**	**437**
Off-balance sheet items		
Issued guarantees	14	74
of which:		
UniCredit Factoring Czech Republic and Slovakia, a.s.	14	74
Irrevocable credit facilities	1 053	541
of which:		
UniCredit Leasing CZ, a.s.	117	151
UniCredit Fleet Management, s.r.o. (CZ)	1	–
UniCredit Factoring Czech Republic and Slovakia, a.s.	170	35
UniCredit Leasing Slovakia, a.s.	575	174
Total	**1 067**	**615**

	2019	2018
Interest income	439	318
of which:		
UniCredit Leasing CZ, a.s.	362	221
UniCredit Leasing Slovakia, a.s.	49	53
Interest expenses	(9)	(10)
of which:		
UniCredit Leasing CZ, a.s.	–	–
UniCredit Leasing Slovakia, a.s.	(9)	(10)
Fee and commission income	48	39
of which:		
UniCredit Leasing CZ, a.s.	30	18
UniCredit Leasing Slovakia, a.s.	15	18
General administrative expenses	(3)	(25)
of which:		
UniCredit Fleet Management, s.r.o. (CZ)	(6)	(21)
UniCredit Fleet Management, s.r.o. (SK)	(2)	(9)
Total	**475**	**322**

(c) Transactions with key management members

	31 Dec 2019	31 Dec 2018
Assets		
Loans and advances to customers	114	98
of which:		
Board of Directors	17	8
Other management members	97	90
Total	**114**	**98**
Liabilities		
Deposits from customers	169	223
of which:		
Board of Directors	85	113
Other management members	84	109
Total	**169**	**223**
Off-balance sheet items		
Irrevocable credit facilities	3	4
of which:		
Board of Directors	1	1
Other management members	2	3
Total	**3**	**4**

(d) Transactions with other related parties

	31 Dec 2019	31 Dec 2018
Assets		
Financial assets held for trading	1 654	1 020
of which:		
UniCredit Bank AG	1 654	1 020
Loans and advances to banks	165	977
of which:		
UniCredit Bank AG	1	823
UniCredit Bank Austria AG	78	81
Yapi ve Kredi Bankasi AS	54	31
UniCredit Bank Hungary Zrt.	16	6
AO UniCredit Bank	1	20
Loans and advances to customers	801	724
of which:		
UCTAM Czech Republic s.r.o.	398	404
UCTAM SVK, s.r.o	403	320
Positive fair value of hedging derivatives	4 139	1 915
of which:		
UniCredit Bank AG	4 139	1 915
Total	**6 759**	**4 636**

	31 Dec 2019	31 Dec 2018
Liabilities		
Deposits from banks	1 338	17 603
of which:		
UniCredit Bank Austria AG	511	16 910
UniCredit Bank AG	750	649
UniCredit Bank Hungary Zrt.	55	5
Deposits from customers	248	399
of which:		
UniCredit Services S.C.p.A.	110	80
Financial liabilities held for trading	2 495	2 373
of which:		
UniCredit Bank AG	2 495	2 373
Negative fair value of hedging derivatives	3 310	1 450
of which:		
UniCredit Bank AG	3 310	1 450
Total	**7 391**	**21 825**

	31 Dec 2019	31 Dec 2018
Off-balance sheet items		
Issued guarantees	2 348	1 240
of which:		
UniCredit Bank AG	1 853	623
UniCredit Bank Austria AG	325	311
UniCredit Bank Hungary Zrt.	12	19
AO UniCredit Bank	53	102
Irrevocable credit facilities	534	287
of which:		
UniCredit Bank AG	433	119
Total	**2 882**	**1 527**

	2019	2018
Interest income	109	715
of which:		
UniCredit Bank AG	2	442
UniCredit Bank Austria AG	90	239
Interest expenses	(353)	(86)
of which:		
UniCredit Bank AG	(268)	(4)
UniCredit Bank Austria AG	(83)	(80)
Fee and commission income	128	96
of which:		
UniCredit Bank AG	111	75
UniCredit Bank Hungary Zrt.	2	1
UniCredit Bank Austria AG	12	14
Fee and commission expenses	(8)	(15)
of which:		
UniCredit Bank Austria AG	(4)	(5)
Net profit/loss from financial assets and liabilities held for trading	(303)	(2 452)
of which:		
UniCredit Bank AG	(303)	(2 400)
UniCredit Bank Austria AG	–	(52)
Net profit/loss from hedging against risk of changes in fair value	50	28
of which:		
UniCredit Bank AG	50	29
Administrative expenses	(900)	(1 005)
of which:		
UniCredit Services S.C.p.A.	(900)	(1 015)
Total	**(1 277)**	**(2 719)**

37. Fair value of financial assets and financial liabilities

Based on the Quality of the Input Data Used for Valuation at Fair Value

Financial assets at fair value through profit or loss

Held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Debt securities	2 392	–	–	2 392
Derivatives	35	9 159	112	9 306
Total	**2 427**	**9 159**	**112**	**11 698**
31 Dec 2018				
Debt securities	1 246	–	990	2 236
Derivatives	30	6 071	1 341	7 442
Total	**1 276**	**6 071**	**2 331**	**9 678**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Shares	–	–	487	487
Total	**–**	**–**	**487**	**487**
31 Dec 2018				
Shares	–	–	346	346
Total	**–**	**–**	**346**	**346**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Debt securities	19 829	3 281	65	23 175
Shares	–	–	6	6
Total	**19 829**	**3 281**	**71**	**23 181**
31 Dec 2018				
Debt securities	24 889	4 229	64	29 182
Shares	–	–	6	6
Total	**24 889**	**4 229**	**70**	**29 188**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Fair value hedging	–	1 370	–	1 370
Cash flow hedging	–	5 829	–	5 829
Total	**–**	**7 199**	**–**	**7 199**
31 Dec 2018				
Fair value hedging	–	837	–	837
Cash flow hedging	–	4 799	–	4 799
Total	**–**	**5 636**	**–**	**5 636**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Liabilities from short sales	3 010	–	–	3 010
Derivatives	–	8 442	85	8 527
Total	**3 010**	**8 442**	**85**	**11 537**
31 Dec 2018				
Liabilities from short sales	2 606	–	–	2 606
Derivatives	–	4 804	1 304	6 108
Total	**2 606**	**4 804**	**1 304**	**8 714**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2019				
Fair value hedging	–	360	–	360
Cash flow hedging	–	7 264	–	7 264
Total	**–**	**7 624**	**–**	**7 624**
31 Dec 2018				
Fair value hedging	–	525	–	525
Cash flow hedging	–	5 132	–	5 132
Total	**–**	**5 657**	**–**	**5 657**

The following table shows the carrying amounts and fair values of financial assets and liabilities that are not reported at fair values in the Bank's statement of financial position (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual clients are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2019					
Financial assets					
Loans and advances to banks	185 944	185 941	–	168 194	17 747
Loans and advances to customers	427 803	425 043	–	167 902	257 141
Financial liabilities					
Deposits from banks	132 031	132 087	–	125 423	6 664
Deposits from customers	415 017	414 988	–	1 758	413 230
Debt securities issued	20 158	20 374	–	20 374	–

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2018					
Financial assets					
Loans and advances to banks	200 035	200 036	–	19	200 017
Loans and advances to customers	401 589	391 387	174	166 316	224 897
Financial liabilities					
Deposits from banks	164 072	163 263	–	77 337	85 926
Deposits from customers	374 904	374 716	–	11 470	363 246
Debt securities issued	22 768	23 121	–	23 121	–

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.

Financial assets at fair value based on Levels 1 and 2:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Total
	Held for trading	Other than held for trading mandatorily at fair value			
31 Dec 2018					
Transfer from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	13	–	–	–	13

For the year ended 31 December 2019, no financial assets reported at fair value were transferred between Levels 1 and 2.

For the years ended 31 December 2019 and 31 December 2018, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

The following tables show transfers of financial assets reported at fair value from and to Level 3.

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Total
	Held for trading	Other than held for trading mandatorily at fair value			
Impact of IFRS 9	–	254	(254)	–	–
Opening balance at 1 Jan 2018	**–**	**254**	**6**	**–**	**260**
Revaluation gains and losses					
In the income statement	–	73	–	–	73
In other comprehensive income	–	–	–	–	–
Purchases	2 290	–	–	–	2 290
Sales/maturity	–	–	–	–	–
Transfers from/to other levels	77	–	65	–	142
Other	(36)	19	(1)	–	(18)
Closing balance at 31 Dec 2018	**2 331**	**346**	**70**	**–**	**2 747**
Total revaluation gains and losses included in the income statement for the period:					73
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end					73

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2019	**2 331**	**346**	**70**	**–**	**n/a**	**2 747**
Revaluation gains and losses						
In the income statement	–	139	–	–	–	139
In other comprehensive income	–	–	–	–	–	–
Purchases	43	–	–	–	–	43
Sales/maturity	(2 178)	–	–	–	–	(2 178)
Transfers from/to other levels	(122)	–	–	–	–	(122)
Other	38	2	1	–	849	890
Closing balance at 31 Dec 2019	**112**	**487**	**71**	**–**	**849**	**1 519**
Total revaluation gains and losses included in the income statement for the period:						139
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						139

The following table contains the transfers of financial liabilities at fair value to and from level 3.

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2018	**–**	**–**	**–**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	1 291	–	1 291
Sales/maturity	–	–	–
Transfers from/to other levels	14	–	14
Other	(1)	–	(1)
Closing balance at 31 Dec 2018	**1 304**	**–**	**1 304**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2019	**1 304**	**–**	**1 304**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	30	–	30
Sales/maturity	(1 173)	–	(1 173)
Transfers from/to other levels	(75)	–	(75)
Other	(1)	–	(1)
Closing balance at 31 Dec 2019	**85**	**–**	**85**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

38. Offseting of financial assets and financial liabilities

The Bank does not offset financial assets and financial liabilities.

The below table shows assets which are subject to netting agreements according to Credit risk management arrangements included in the Derivative Framework agreements such as ISDA or similar. The assets are subject to netting on settlement (performance netting) and on position closeout.

	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Relating amounts available for offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2019						
Derivatives	14 361	–	14 361	12 079	–	2 282
31 Dec 2018						
Derivatives	10 569	–	10 569	8 479	–	2 090

Financial liabilities that are subject to offset, recoverable framework contracts for offset and similar arrangements:

	Gross reported financial liabilities	Gross reported financial assets	Net reported financial liabilities	Relating amounts available for offset		Net amount
				Financial instruments	Provided cash collateral	
31 Dec 2019						
Derivatives	13 348	–	13 348	12 079	–	1 269
31 Dec 2018						
Derivatives	10 480	–	10 480	8 479	–	2 001

39. Subsequent events

The Bank's management is not aware of any post balance sheet events that would require adjustment to the Bank's financial statements.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 4 February 2020.

The financial statements were signed on behalf of the Board of Directors by:

Mgr. Jakub Dusílek, MBA
Chairman of the Board of Directors

Ljubiša Tešić
Member of the Board of Directors

Individual in charge of the accounting records

Ing. Jiří Houška

Individual in charge of the financial statements

Mgr. Michaela Mrštíková

Disciplined risk management. & controls

We run the business with disciplined origination, enhanced business accountability and in-depth monitoring by control functions. Our reinforced governance and steering ensure targeted actions wherever necessary.
A Group culture driven by the principle: “Do the right thing!” means that each employee is part of the first line of defense.

Auditor’s report on the annual report

Deloitte Audit s.r.o.
Churchill I
Italská 2581/67
120 00 Prague 2 – Vinohrady
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.:49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bank Czech Republic and Slovakia, a.s.

Having its registered office at: Želetavská 1525/1, 140 92, Prague 4 – Michle

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "Consolidated Financial Statements").

The separate financial statements comprise the separate statement of financial position as at 31 December 2019, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information (the "Separate Financial Statements").

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of receivables from clients	
(Please refer to Note 15 to the Consolidated and Separate Financial Statements for the details) At 31 December 2019, gross receivables from clients (hereinafter "receivables") were CZK 450 446 million and CZK 435 927 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 9 686 million and CZK 8 124 for the Group and the Company respectively were recorded. The directors exercise significant judgment when determining both when and how much to record as impairment. The assessment of loan loss provisions for loans to clients requires Bank management to exercise a significant level of judgment, especially with regards to identifying impaired receivables and quantifying loan impairment. To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters from internal and external sources.	We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant loan portfolios. We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes.
In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank. The assessment of classification to impairment stages includes the combination of relative and absolute factors: • Relative comparison between the probability of default at the initial recognition of the receivable and at each reporting date, • Absolute factors such as limits set by related regulations (ie 30 days past due), • Other factors with internal relevance for the Bank (eg new classifications as forbearance receivables). Where no repayment difficulties have been identified for a particular receivable, the Bank creates a provision using the statistical model for a homogeneous group of loans (Stage 1 and Stage 2). The expected loan loss provision is calculated using available historical data and anticipated future development determined using macroeconomic indicators. The statistical model used is based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management. When determining the provision level for impaired loans (Stage 3): 1) With respect to receivables with exposure of over EUR 1.0 million, Bank management considers the following factors: a) The Bank's estimated rate of success of recovering debt;	For receivables regarding which the Bank has not identified any difficulties likely to prevent the full repayment of receivables (Stage 1 and Stage 2), the testing focused on controls related to timely identification of potential difficulties with receivable repayment and correct classification of receivables to corresponding impairment stages. Our credit risk experts assessed the amounts of provisions for Stage 1 and Stage 2 and reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default. For provisions for loan losses at Stage 3, the testing included controls related to creation and period review of watch-lists, regular client creditworthiness review processes, approval of experts' collateral valuation and management review and approval of the impairment evaluation results. On a sample of exposures, we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows. For loan receivables with exposure of over EUR 1.0 million we also verified correctness of discounted cash flows calculations applied in deriving the recoverable amount of the loan. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias.

b) Amount and timing of expected future cash flows;
c) Collateral value.

2) With respect to receivables with exposure of less than EUR 1.0 million the provision is calculated using models based on expected recovery.

The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 1 933 million and CZK 1 549 million for the Group and for the Company respectively. The loan loss provision for impaired loans at Stage 3 represents CZK 7 753 million and CZK 6 575 for the Group and for the Company respectively, out of the total recognised amount of CZK 9 686 million and CZK 8 124 million for the Group and for the Company respectively as at 31 December 2019.

Interest Income and Fee and Commission Income Recognition

(Please refer to Note 1 and Note 2 to the Consolidated and Separate Financial Statements for the details)

For the year ended 31 December 2019 the interest income represents CZK 18 597 million and CZK 17 138 million for the Group and for the Company respectively, and fee and commission income represents CZK 5 387 million and CZK 4 877 million for the Group and for the Company respectively, the main source being loans to customers and payment cards. These transactions are the main contributors to the operating income of the Bank affecting the Bank's profitability.

While interest income is accrued over the expected life of the financial instrument, the recognition of fee income depends on the nature of the fees as follows:

- Fees that are directly attributable to the financial instrument are recognised over the expected life of such an instrument and are presented as interest income.
- Fees for services provided are recognised when service is provided and are presented as fee and commission income.
- Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income.

Revenue recognition specifics, high volume of individually small transactions dependent on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.

We have tested the design and operating effectiveness of the key internal controls and focused on:

- Inputs on interest/fee related to customer loans and deposits, including authorisation of the changes in the interest rates and fees and authorisation of non-standard interest rates/fees;
- Recording of fee and interest income and management oversight; and
- IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.

We also performed the following procedures with regard to interest and fee income recognition:

1) We evaluated the accounting treatment applied by the Bank to determine whether the methodology complies with the requirement of the relevant accounting standard.

   We have focused our testing on verification of the
   correct classification of:
   - Fees that are identified as directly attributable to the financial instrument;
   - Fees that are not identified as directly attributable to the financial instrument.
   -

2) We evaluated the correctness of mathematical formula used for recognising the relevant income over the expected loan life.

We have analysed correctness of the recorded amount of interest income and fee and commission income using substantive analytical tests. These tests included determination of expected volumes of income based on the observed historical development over past years and the actual development of the market, which was compared to the related amount recorded by the Bank.

Other Information in the Annual Report

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

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

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

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

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

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate 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 ISAs 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 Consolidated and Separate Financial Statements.

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

- Identify and assess the risks of material misstatement of the Consolidated and Separate 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and 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 Consolidated and Separate 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 Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Company to express an opinion on the Consolidated and Separate Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate 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 Report on Relations between the Controlling and Controlled Entities (the "Report on Relations")

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2019 which is included in this annual report on pages 220 to 227. This Report on Relations is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the Report on Relations based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2019 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on Other Legal and Regulatory Requirements

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

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 19 March 2019 and our total uninterrupted engagement including previous renewals has lasted for 7 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Non-financial information report

As stated in Section 23 on page 219 of the annual report/notes to the financial statements, the Company does not prepare non-financial information since the relevant information is to be presented in the consolidated annual report or separate report of the consolidating entity. As a result, we do not report on the preparation of non-financial information.

In Prague on 25 March 2020

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Deloitte

Statutory auditor:

Diana Rádl Rogerová
registration no. 2045

D. Rádl Rogerová

Capital and balance sheet management.

We will continue to take decisive actions to increase our flexibility, with a proactive approach to capital allocation, both top down and bottom up. In Team 23, one key commitment is to maintain a CET1 MDA buffer between 200 to 250 basis points.

Supplementary information

published pursuant to Section 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended

1. Basic data

Business name:	UniCredit Bank Czech Republic and Slovakia, a.s.
Registered office:	Želetavská 1525/1, 140 92 Prague 4, Czech Republic
Company ID No.:	64948242
Companies register:	recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, file 3608
Tax ID No.:	CZ64948242
Date of incorporation:	1 January 1996, for an indefinite period
Legal form:	joint-stock company
Internet address:	www.unicreditbank.cz
E-mail:	info@unicreditgroup.cz
Phone:	+420955911 111
Fax:	+420 221 112 132
LEI:	KR6LSKV3BTSJRD41IF75

UniCredit Bank Czech Republic and Slovakia, as (hereinafter referred to as „UniCredit Bank“ or „Issuer“) is a joint-stock company incorporated according to Czech law.

UniCredit Bank fulfils all of its obligations in a due and timely manner. No changes have occurred in the past that could be of material significance in evaluating the issuer's solvency.

In carrying out its activities in the Czech market, UniCredit Bank is governed by Czech legal regulations, in particular the Banking Act, the Civil Code, the Act on Business Corporations and regulations governing operations in the banking and capital markets.
In the Slovak market, where UniCredit Bank has operated since 1 December 2013 through its organisational unit, the Bank is also governed by applicable Slovak legal regulations.

2. Persons responsible for the audit of the financial statements

Person in charge:	Diana Rádl Rogerová
License No.:	2045
Domicile/Place of business:	Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady
Auditor:	Deloitte Audit s. r. o.
License No.:	079
Registered office:	Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady

3. Information about UniCredit Bank as an issuer of registered securities

3.1 History and development of the issuer

UniCredit Bank Czech Republic and Slovakia, a.s., launched its activities in the Czech market on 5 November 2007. Its name was changed after it merged with the Slovak UniCredit Bank Slovakia, a.s., as at 1 December 2013. UniCredit Bank Czech Republic, a.s., itself was established through the merger of HVB Bank Czech Republic, a.s., and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, PC 113 80, Company ID No.: 000 01 368, recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, File No. 1350, were assumed by the successor company, HVB Bank Czech Republic, a.s., as a result of the merger.

HVB Bank Czech Republic, a.s., was established by the merger of HypoVereinsbank CZ, a.s., and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s., were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the Companies Register maintained by the Municipal Court in Prague, Section B, File 3608.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Companies Register maintained by the Municipal Court in Prague in Section B, File No. 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorisation to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatisation of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16% share in the issued capital of Živnostenská banka, a.s., from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A., which is the ultimate parent company of the entire Group (hereinafter the "Group") holding 100% of the Bank's shares. UniCredit Bank Czech Republic and Slovakia, a.s., is a strong and rapidly developing bank offering a wide range of quality products to both corporate and private clients in the Czech Republic and Slovakia. It is one of the strongest banks in both markets in the area of project, structured and syndicated corporate finance.

The bank has also built an extraordinarily strong position in acquisition financing and ranks first in commercial real estate financing. Among other services, UniCredit Bank's clients can utilise services to obtain project financing from the EU structural funds offered through UniCredit Bank's European Competence Centre. In the area of services for private clients, UniCredit Bank plays a significant role in the market of private banking or securities and, in the retail segment, it is a significant player in the field of consumer loans, mortgages, and credit cards. It is doing very well in serving clients in freelance professions (doctors, judges, attorneys-at-law, notaries, etc.). The Bank's Competence Centre for Freelance Professions is devoted to these clients.

UniCredit Bank Czech Republic and Slovakia, a.s., operates in all regional cities in both countries and currently has 122 branches and 420 ATMs. The merged Bank holds 9% of the market share with its balance sheet sum totalling more than CZK 672 billion (non-consolidated data) and is the fourth largest bank in the Czech Republic and the largest in Slovakia. The Bank is a universal bank, providing the services of small, commercial and investment banking in Czech crowns as well as in foreign currencies to local and foreign clients mainly in the Czech Republic, in Slovakia and, further, in other EU countries.

3.2 Issued share capital

The Bank's share capital amounts to CZK 8,754,617,898 divided as follows:

a) 100 registered shares, each with a nominal value of CZK 16,320,000;
b) 200 registered shares, each with a nominal value of CZK 13,375,000;
c) 436,500 registered shares, each with a nominal value of CZK 10,000;
d) 10 registered shares, each with a nominal value of CZK 7,771,600;
e) 106,563 book-entry registered shares with a nominal value of CZK 46.

All the aforementioned shares are registered to the shareholder's account maintained by Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.).

UniCredit Bank's share capital has been fully paid up. In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank's shares entitle the shareholder to participate in the company's management and to share in its profit as well as in its liquidation balance upon dissolution of the company. UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares. UniCredit Bank does not hold any of its own participating securities nor does any entity in which UniCredit Bank has a direct or indirect ownership interest exceeding 50% of that entity's share capital or voting rights hold any such securities.

The Bank's shares are freely transferable and no consent of any Bank's body is required for the transfer or pledge thereof to be effective. The sole shareholder of UniCredit Bank is UniCredit S.p.A., having its registered office at Piazza Gae Aulenti 3, Tower A – 20154 Milan, Republic of Italy, Reg. No.: 00348170101.

In accordance with UniCredit Bank's Articles of Association, the sole shareholder may only influence the Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. UniCredit Bank is not party to a controlling contract or a contract for transfer of profit. The nature of the control by the controlling entity, which is UniCredit S.p.A., results from the directly owned portion of the issuer's shares.

To prevent misuse of the control and controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the Report on Relations between the controlled entity and other entities controlled by the same controlling entity (Report on Relations between the related entities). No agreements that could lead to a change of control over the issuer are known.

3.3 Additional information

In accordance with the Bank's Articles of Association, the members of the Board of Directors are elected and dismissed by the Supervisory Board. UniCredit Bank has no special rules for changing the Articles of Association.

Currently there exist no authorisations or special powers of the Board of Directors in terms of Section 118, par. 5h) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended. UniCredit Bank has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.

There are no programmes in UniCredit Bank that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions. UniCredit Bank has concluded no significant contracts that will take effect, change or expire in case of a change in the control of the issuer as a result of a takeover bid.

4. Summary of business activities

4.1 Scope of business activities:

The company's business activities include banking transactions and provision of financial services fully in accordance with Banking Act No. 21/1992 Coll., as amended, and Act No. 219/1995 Coll., the Foreign Exchange Act, as amended, i. e.

a) receiving deposits from the public;
b) granting loans;
c) investing in securities on its own account;
d) finance lease;
e) operating a system of payments and clearing;
f) issuing and administering payment products;
g) granting guarantees;
h) opening letters of credit;
i) administering cash collection;
j) providing investment services:
- main investment service pursuant to Section 8, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), receipt of and conveying instructions related to investment instruments on a customer's account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, par. 1a) and 1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2c) of the Securities Act, trading in investment instruments on a trader's own account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, main investment service pursuant to Section 8, par. 2d) of the Securities Act, management of individual portfolios at its own discretion within the terms of a contractual covenant with a client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a) – 1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1c) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3c) of the Securities Act, provision of credits or loans to a customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, par. 1a)–1d) and 1g) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies,
- supplementary investment service pursuant to Section 8, par. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, par. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3f) of the Securities Act, consulting services related to investment in investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, and
- supplementary investment service pursuant to Section 8, par. 3g) of the Securities Act, executing of foreign currency operations related to the provision of investment services,

k) issuing mortgage bonds;
l) financial brokerage;
m) depository services;
n) foreign currency exchange services (purchase of foreign currencies);
o) providing banking information;
p) trading foreign currencies and gold on its own account or on behalf of clients;
q) renting safe-deposit boxes; and
r) other activities directly related to the activities specified above.

4.2 Key activities Corporate & Investment Banking

Corporate and investment banking

- Corporate and investment banking;
- Credit transactions;
- Financing commercial real estate;
- Project financing and structured financing;
- Trade and export financing;
- Documentary transactions;
- Treasury & custody services;
- Asset management;
- EU funds (consulting and payment);
- Maintaining accounts and deposits;
- Payment systems;
- Electronic banking;
- Direct banking;
- SWIFT services;
- Cash pooling;
- Payment cards;
- Card acquiring;
- European Commodity Clearing;
- Comprehensive management of client assets, including portfolio management;
- Comprehensive factoring services – domestic factoring, export factoring, invoice discounting, reverse factoring, credit cover, sales ledger management;
- Global Investment Strategy – strategic advisory for capital market investments;
- Open architecture of investment products.

Launching new products or activities
In 2019, we expanded our portfolio of products and launched a new service for corporate banking clients focused on working capital financing. Within the scope of specialised advisory for our clients, we analyse select financial indicators and, at the same time, our experts evaluate and design the financing structure precisely according to our clients' needs and business model.

From a business perspective, a new agreement with the EIF was signed in 2019, increasing the overall limit to support the financing of the needs of SMEs in the Czech Republic and Slovakia up to EUR 205 million.

As part of the operational setup of the division, 2019 was marked by continued simplification, automation and digitisation of internal processes. A number of changes were made, both within the approval of credit transactions, credit reviews and credit monitoring, as well as in the area of automated client documentation preparation or the transition to digital document transmission and storage. In the area of sales support, which is crucial for managing a business relationship, a new CRM solution and an advanced market data analysis system based on Big Data principles were launched in the Czech Republic and Slovakia. Our ongoing objective and priority are improving the quality and availability of services for our clients and thereby enhancing the positive customer experience on both markets, in all segments, which is our DNA.

Retail banking
- Accounts for individual clients, the U konto account, Dětské konto account, U konto Premium account, U konto TANDEM account, U konto pro mladé account, and accounts for small enterprises;
- Mortgage loans and consumer credit, including the PRESTO Loan, and overdrafts for individual clients;
- Operating, investment and mortgage loans for corporate clients;
- Payment cards, including insurance (debit, credit and partner cards);
- Deposit, savings and investment products (the Bank's own or in cooperation with Amundi);
- Insurance products (property insurance, life insurance, car insurance, travel insurance, CPI);
- Internet and mobile banking;
- Cash and money changing operations and supplementary services.

Launching new products and activities
As regards mortgage loans for individuals, we focused on the further improvement of our product offer, such as free-of-charge escrow accounts for mortgages, mortgages without providing information on the particular property with the obligation to specify it according to the Bank's requirements within a certain time-limit. Further acceleration and streamlining of the credit process were our priority as well.

Accounts
As regards accounts for individuals, we focused on the development of the U-šetřete loyalty programme, which is connected to an account's payment card. Within the development, we engaged new partners and increased the number of registered users.

Investments and deposits
We continued to focus on actively managed and flexible investment solutions in cooperation with Amundi. This applies to both one-off and regular investments.

Insurance
In 2019, the cooperation with our strategic partners Allianz and Generali developed dynamically, entailing the expansion and optimisation of our product offer of life and non-life insurance and insurance of the ability to pay.

Payment cards
In 2019, we introduced Apple Pay and Google Pay mobile payments for VISA and Mastercard payment cards.

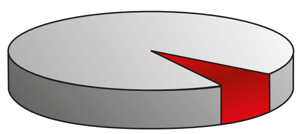
Small enterprises and entrepreneurs
In 2019, we focused on further streamlining internal processes for extending loans to entrepreneurs.

Branch network
The UniCredit Bank branch network has 122 branches and a total of 178 branches including its franchise distribution network. The maximum satisfaction of our clients remains our main priority, therefore, last year we continued in the reconstruction and modernisation of many of our branches and also installed 15 new ATMs.

4.3 Competitive position of the issuer
All charts below provide non-consolidated data.

(i) Profit after tax

Profit after tax (MCZK)	2019
Banking sector CZ	90,896
UCB CZ & SK	9,433

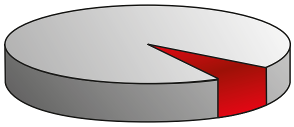


Non-consolidated data

Other banks	89.62 %
UCB CZ & SK	**10.38 %**

(ii) Total net assets

Total assets (MCZK)	as at 31 Dec 2019
Banking sector CZ	7,544,709
UCB CZ & SK	672,552



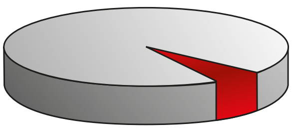
Other banks
UCB CZ & SK

Other banks	91.09 %
UCB CZ & SK	**8.91 %**

Non-consolidated data

(iii) Gross receivables from clients in CZ*

Receivables from clients (MCZK)	as at 31 Dec 2019
Banking sector CZ	3,160,894
UCB CZ & SK	279,379



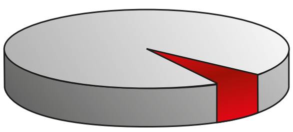
Ostatní banky
UCB CZ & SK

Ostatní banky	91.16 %
UCB CZ & SK	**8.84 %**

Non-consolidated data, residents

(iv) Gross receivables from clients in SK***

Receivables from clients (MCZK)		as at 31 Dec 2019
Banking sector SK	61 138 mil. EUR**	1,553,522
UCB CZ & SK		119,204



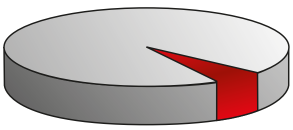
Other banks
UCB CZ & SK

Other banks	92.33 %
UCB CZ & SK	**7.67 %**

Non-consolidated data, residents

(v) Liabilities to clients in CZ*

Liabilities to clients CZ (MCZK)	as at 31 Dec 2019
Banking sector CZ	4,500,012
UCB CZ & SK	311,183



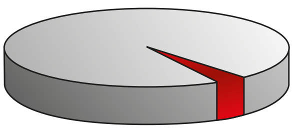
Other banks
UCB CZ & SK

Other banks	93.08 %
UCB CZ & SK	**6.92 %**

Non-consolidated data, residents

(vi) Liabilities to clients in SK***

Liabilities to clients SK (MCZK)		as at 31 Dec 2019
Banking sector SK	MEUR 59,688**	1,516,672
UCB CZ & SK		75,494



Other banks
UCB CZ & SK

Other banks	95.02 %
UCB CZ & SK	**4.98 %**

Non-consolidated data, residents

* Pursuant to the CNB method, receivables from clients and liabilities to clients are only included for the Czech part of the bank.
** Converted using the exchange rate 25,41 CZK/EUR as at 31 December 2019.
*** Data for SK branch

5. Organisational structure

The Bank is part of the UniCredit Banking Group (hereinafter referred to as the "Group"). As a member of the Group, the Bank must comply, with the exception of certain relevant legal regulations, with directives issued by UniCredit S.p.A , as the parent company (hereinafter the "Parent Company"). The Parent Company shall monitor the proper implementation and observation of the directives (hereinafter the "Holding Guidelines") issued by the Parent Company (hereinafter the "Holding Company") in the Bank.
The Holding Guidelines are rules that define the management, organisational structure and managerial responsibilities within key processes in the Group that are issued in exercising its powers to supervise and co-ordinate the Group in accordance with the instructions issued by the Italian surveillance authority, with the aim to maintain the Group's stability.

History of the Group

While the banking group's history dates as far back as 1473, the year in which Rolo Banca was created, the contemporary history of UniCredit Group begins with the merger of nine leading Italian banks, the subsequent integration with the German HVB Group and, most recently, with the Italian Capitalia. In 1999, acquisition of Bank Pekao of Poland meant the beginning of the Group's expansion (at that time under the name UniCredito Italiano) into Central and Eastern Europe (CEE).

Growth continued over the next few years with purchase of the Pioneer Investments group, the subsequent formation of Pioneer Global Asset Management, and then further strategic acquisitions gradually carried out in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic, and Turkey. In 2005, UniCredit merged with the German group HVB, which had itself been formed in 1998 by the joining of two Bavarian banks: Bayerische Vereinsbank and Bayerische Hypotheken- und Wechsel-Bank. The result was a single, major European bank.

Integration with the HVB Group – reinforced by its own merger in 2000 with Bank Austria Creditanstalt, which was strongly represented in many areas of post-communist "new" Europe – creates a basis for UniCredit Group to continue strengthening its European focus. By merging in 2007 with Capitalia, the third-largest Italian banking group, UniCredit Group further consolidated and strengthened its position in one of its most important markets, Italy. Capitalia had been established in 2002 from the integration of two previously independent entities, the Bancaroma Group (itself the result of a merger between some of the oldest Roman banks: Banco di Santo Spirito, Cassa di Risparmio di Roma and Banco di Roma) and the Bipop-Carire Group.

UniCredit is now a simple and successful pan-European commercial bank with a fully plugged in Corporate & Investment Bank, delivering

its unique Western, Central and Eastern European network to its extensive 26-million-strong client franchise*. UniCredit offers local expertise as well as international reach. We support our clients globally, providing them with unparalleled access to our leading banks in 14 core markets* as well as to another 18 countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia, and Turkey*.
* Status as at 31 December 2019 prior to the deconsolidation of the Turkish Yapi Kredi.

6. Information on trends

Since the date of presenting the last financial statements, no substantial negative changes have occurred to the issuer's outlook.

7. Competence of UniCredit Bank's bodies, composition of the Board of Directors, Supervisory Board, and Audit Committee, and description of their decision-making procedures

7.1 General Meeting

The General Meeting of Shareholders is the Bank's supreme body. It decides on all affairs of the Bank falling under its competence by law or under these Articles of Association.

The following activities fall under the General Meeting's exclusive competence:

a) deciding on changes in the Articles of Association unless the change results from an increase in share capital by the Board of Directors under Sec. 511 et seq. of the Act on Business Corporations or in consequence of other legal facts,
b) deciding on an increase or decrease in the share capital, or on authorising the Board of Directors thereto under Sec. 511 et seq. of the Act on Business Corporations, or on the possibility to set off financial claims from the Bank against a claim for payment of an issue price,
c) deciding about the share capital decrease and bond issuing under Sec. 286 et seq. of the Act on Business Corporations,
d) electing and dismissing members of the Supervisory Board, members of the audit committee, and other bodies established by the Articles of Association,
e) approving the annual, extraordinary or consolidated financial statements and, in cases defined by law, also interim financial statements; deciding on distributing profits or other equity funds, or on settlement of losses and determining the amount of profit sharing for members of the Board of Directors and Supervisory Board,
f) deciding on remuneration of members of the Supervisory Board and the audit committee,
g) deciding on applying for the listing of the Bank's participating securities for trading on the European regulated market or withdrawal of the securities from trading on the European regulated market,
h) deciding on winding up the Bank with liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration and approving the draft distribution of liquidation balance,
i) approving a transfer or discontinuation of an operation of a plant or any such part thereof which would result in a substantial change in the bank's scope of business or activities,
j) approving agreements on silent partnerships, amendments thereto and termination thereof,
k) appointing auditors of the Bank based on the recommendation of the Audit Committee,
l) deciding on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation, and
m) deciding on other issues that the Act on Business Corporations, other legal regulations or the Articles of Association define as falling under the competence of the General Meeting.

7.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of UniCredit Bank and as at 31 December 2019 it had seven members. Members of the Board of Directors exercise their functions in person. Members of the Board of Directors are elected by the Supervisory Board for a period of three years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office.

Only persons meeting the relevant legal requirements may be appointed as members of the Board of Directors. The Board of Directors makes decisions in the form of resolutions, usually adopted at its meetings. The Board of Directors shall have a quorum if an absolute majority of all its members is present. The approval of an absolute majority of the Board members present is required for a resolution to be valid. In the event of a parity of votes, the presiding member of the meeting shall have the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The competence of the Board of Directors includes especially the following:

a) to organise the Bank's day-to-day activities and direct its business activities,
b) to convene the General Meeting and implement its decisions,
c) to submit to the General Meeting

– at least once a year a report on business activities, the state of the Bank's property; the report forms a part of the Bank's annual report,
– regular, extraordinary, consolidated or interim financial statements along with a proposal for the distribution of profits or settlement of loss, and to process these documents,

d) to publish the key data from the financial statements (such as total assets, total liabilities, equity, profit before tax, profit after tax) and the report of the bank's business activities and the state of the bank's property in a way applicable to convening a General Meeting, no later than 30 days before the date of the annual General Meeting, including information as to where the financial statements are available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the bank's website the financial statements are available in accordance with Sec 436, par. 1, second sentence of the Act on Business Corporations,
e) to decide on the establishment and cancellation of the bank's branches,
f) to appoint and dismiss the Bank's managers,
g) to exercise the rights of an employer,
h) to issue, if it deems fit, rules of procedure for the Board of Directors, which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to prior approval by the Supervisory Board,
i) to grant and withdraw authorisations to act on behalf of the Bank and the powers of attorney to the Bank's representatives,
j) in accordance with generally binding legal regulations, to establish mandatory funds of the Bank in cooperation with the Supervisory Board and define how such funds are to be created and used,
k) to sign the contract on the statutory audit with the auditor appointed by the General Meeting,
l) to establish committees of the Bank and define their tasks,
m) to appoint and dismiss the Bank's proxies with the prior approval of the Supervisory Board, and
n) to discharge other responsibilities stipulated by law or by the Articles of Association.

Mgr. JAKUB DUSÍLEK, MBA
Chairman of the Board of Directors, responsible for the Bank's overall results and for managing the Chief Operating Officer and the Chief Risk Officer. He also reports to the Bank's Board of Directors for the management of finance, human resources and legal issues.
Work address: Želetavská 1521/1, Prague 4
Domicile: Měsíční 1366/10, Uhříněves, 104 00 Prague 10
Born: 17 December 1974

PAOLO IANNONE
Vice-Chairman of the Board of Directors and CEO, responsible for managing and supervising the Bank's business activities and coordinating the activities of the Bank's other departments, so that they contribute to achieving the Bank's business results to as great an extent as possible, whether directly or indirectly
Work address: Želetavská 1521/1, Prague 4
Domicile: Prague 4 – Michle, Baarova 1540/48
Born: 15 December 1960

Ing. ALEŠ BARABAS
Member of the Board of Directors and Chief Risk Officer, responsible for preparing the Bank's credit policy, maintaining the quality of the loan portfolio, managing all activities in the area of credit risks and adhering to the limits set by banking regulations, as well as for managing activities in the area of market and operational risks.
Work address: Želetavská 1521/1, Prague 4
Domicile: U Dubu 1371, Prague 4
Born: 28 March 1959

Ing. SLAVOMÍR BEŇA
Member of the Board of Directors and Director of the Corporate and Investment Banking Division, responsible for managing and supervising the Bank's business activities in the relevant business segment.
Work address: Želetavská 1521/1, Prague 4
Domicile: Mliekárenská 3, 82109 Bratislava, Slovak Republic
Born: 22 April 1976

Mgr. TOMÁŠ DRÁBEK
Member of the Board of Directors and Director of the Retail and Private Banking Division
Work address: Želetavská 1521/1, Prague 4
Domicile: Bílkova 863/17, Staré Město, 110 00 Prague 1
Born: 14 January 1978

LJUBIŠA TEŠIĆ
Member of the Board of Directors and Chief Financial Officer
Work address: Želetavská 1521/1, Prague 4
Domicile: U dětského hřiště 743/13, Jinonice, 158 00 Prague 5
Born: 6 August 1976

Ing. MIROSLAV ŠTROKENDL
Member of the Board of Directors and Head of Branch Slovakia
Work address: Šancová 1/A, 813 33 Bratislava
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic
Born: 12 November 1958

Changes in the Board of Directors in 2019
As at 1 April 2019, the term of office of Ing. Jiří Kunert expired and Mgr. Jakub Dusílek, MBA, was appointed as at 2 April 2019.

Planned changes to the Board of Directors in 2020
The mandate of Paolo Iannone expires on 31 March 2020.
Marco Iannaccone was appointed Vice Chairman of the Board of Directors and will assume this role on 1 April 2020.
The mandate of Ing. Aleš Barabas expires on March 31, 2020.

Alen Dobrić was appointed a member of the Board of Directors and will take over this role on April 1, 2020.
The mandate of Ljubiša Tešić expires on 31 March 2020.
Massimo Francese has been appointed a member of the Board of Directors and will assume this role on 1 April 2020.

7.3 Supervisory Board of UniCredit Bank

The Supervisory Board has nine members, of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Act on Business Corporations with reference to the Act on Transformations of Commercial Companies and Cooperatives. Members of the Supervisory Board exercise their functions in person. Members of the Supervisory Board are elected for the period of three years and may be re-elected. The Supervisory Board shall have a quorum if an absolute majority of all its members is present or otherwise participating (for example, via teleconference). The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to be valid. In the event of a parity of votes, the Chairman shall cast the deciding vote. If the majority of Supervisory Board members so agrees, the Supervisory Board may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all members of the Supervisory Board to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The Supervisory Board established the Remuneration Committee, which consists of three members of the Supervisory Board (Jiří Kunert, Heinz Meidlinger and Miloš Bádal). The competence of the Remuneration Committee includes preparation of draft resolutions on remuneration, including those adopted by the Bank's Supervisory Board and having an impact on the obligor's risks and risk management. When preparing those resolutions, the Remuneration Committee takes into consideration the long-term interests of the Bank's shareholders, investors and other stakeholders and the public interest. The Remuneration Committee has under its direct supervision the remuneration of managers responsible for risk management, internal audit and compliance functions.

The Supervisory Board further established the Appointment Committee, which consists of three members of the Supervisory Board (Jiří Kunert, Heinz Meidlinger and Andrea Diamanti). The competence of the Appointment Committee includes the selection of candidates for vacancies in the Bank's Board of Directors and submitting them for approval to the Supervisory Board. In discharge of this task, the Appointment Committee assesses, inter alia, proper proportion in competence, skills and diversity in composition of the bank's body as a whole. The Appointment Committee develops draft job descriptions including skills required for the position and estimated time schedule for meeting the goals related to exercise of the office. Additionally, the Appointment Committee recommends the target gender proportion in the Board of Directors and the principles as to how the share of the less represented gender in the Board of Directors can be increased to match the target goal;

a) regularly, at least on an annual basis, evaluates the structure, size, composition and activities of the Board of Directors and submits recommendations to the Supervisory Board regarding amendments, if any,
b) regularly, at least on an annual basis, evaluates the integrity, professional competence and skill of each member of the Board of Directors and the Board of Directors as a whole and submits the evaluation reports to the Supervisory Board,
c) regularly reviews policies of the Board of Directors as to the selection and appointment of a candidate to top management and submits recommendations to the Supervisory Board.

The Supervisory Board further established the Risk Management Committee, which consists of three members of the Supervisory Board (Wolfgang Schilk, Heinz Meidlinger and Andrea Diamanti).
The competence of the Risk Management Committee includes, in particular, the following activities:

a) regularly, at least on an annual basis, evaluates the integrity, professional competence and skill of each member of the Board of Directors and the Board of Directors as a whole and submits the evaluation reports to the Supervisory Board,
b) examines whether the valuation of assets, liabilities and off-balance sheet items reflected in the offer to clients fully complies with the Bank's business model and its risk management strategy. If the existing risks are not properly reflected in prices in accordance with the existing business model, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

The Supervisory Board:

a) reviews the specific directions of the Bank's activities and business policy and supervises its implementation,
b) is authorised to verify any steps taken in the Bank's affairs,
c) reviews regular, extraordinary and consolidated financial statements, and, as the case may be, the interim financial statements, as well as the proposal for distribution of profits or settlement of loss and presents its opinion to the General Meeting,
d) is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities,
e) monitors whether accounting records are properly maintained in accordance with reality and whether the Bank's business activities comply with legal regulations and the Articles of Association,
f) convenes the General Meeting if the Bank's interests so require and proposes the necessary measures to be taken by the General Meeting,
g) appoints one of its members to represent the Bank in proceedings held before courts and other authorities against a member of the Board of Directors,
h) issues, if it is deemed appropriate, rules of procedure for the

Supervisory Board, which may not contradict the Articles of Association,

i) approves the rules of procedure (if any) for the Board of Directors,
j) elects and dismisses members of the Board of Directors. New members of the Board of Directors are elected from among candidates who may be nominated by any member of the Supervisory Board. Removal of members of the Board of Directors from their office is also decided by the Supervisory Board upon motion of any member of the Supervisory Board,
k) nominates candidates for Chairman and Vice-Chairman of the Board of Directors,
l) stipulates general terms and conditions for the Bank's activities and terms and conditions for maintaining its credit risk exposure in accordance with decrees of the Czech National Bank and legal norms published in the Collection of Laws of the Czech Republic,
m) approves the establishment and dissolution of the Bank's subsidiaries and their transfer to other entities,
n) approves management agreements concluded between the Bank and members of its Board of Directors and any payments to be made by the Bank to the members of its Board of Directors pursuant to Section 61, par. 1 of the Act on Business Corporations,
o) decides on remuneration of members of the Board of Directors and stipulates rules for remunerating the Director of the Internal Audit Department,
p) establishes committees of the Supervisory Board and defines their responsibilities,
q) oversees the effectiveness and efficiency of the Bank's management and control system,
r) gives prior approval to the appointment and dismissal of the Bank's proxies,
s) can ask the Chairman of the Audit Committee to convene a meeting of the Audit Committee, and
t) discharges further responsibilities stipulated by law, the Articles of Association and the Group's rules.

ING. JIŘÍ KUNERT
Chairman of the Supervisory Board
Domicile: Čerchovská 1981/6, Vinohrady, 120 00 Prague 2
Born: 31 January 1953

HEINZ MEIDLINGER
Vice-Chairman of the Supervisory Board
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Republic of Austria
Born: 6 September 1955

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Italy
Born: 24 March 1967

EVA MIKULKOVÁ
Domicile: Kladno, Kročehlavy, Dlouhá 512
Born: 29 January 1957

Ing. JANA SZÁSZOVÁ
Domicile: Bratislava, Hany Meličkovej 2989/18, 84105, Slovakia
Born: 17 January 1963

Mgr. MILOŠ BÁDAL
Domicile: Prague 5 – Motol, Podhorská 88/19
Born: 11 April 1970

WOLFGANG SCHILK
Domicile: 2603 Felixdorf, Steinfeldgasse 36, Republic of Austria
Born: 16 March 1967

ANDREA DIAMANTI
Domicile: 1090 Vienna, Wasagasse 6/20, Republic of Austria
Born: 1 June 1973

ANDREA VINTANI
Domicile: 21013 Gallarate (Va), Via Col di Lana 8, Republic of Italy
Born: 5 May 1979

Changes in the Supervisory Board in 2019
As at 1 July, Simone Marcucci resigned from office and Ing. Jiří Kunert was elected instead as at this date. As at 20 July, Ivan Vlaho resigned from office and Andrea Vintani was elected instead as at 31 October.

7.4 Audit Committee

The Audit Committee is an independent committee with the task of overseeing, monitoring and advising in matters of concern regarding accounting and financial reporting, internal control, auditing and risk management, external auditing, and monitoring compliance with laws, the Bank's regulations and the Code of Conduct.
The Audit Committee consists of three members appointed and dismissed by the General Meeting for a term of three years from among the Supervisory Board members or third persons. The Chairman and a majority of the members of the Audit Committee must be independent from the Bank and competent.

The Audit Committee can order inspections and specifically focused audit investigation of the Bank's functions, other Bank units and their subsidiaries. Additionally, the Audit Committee can be asked to assess interbank transactions and intragroup transactions and other transactions involving direct or indirect conflict of interests. Upon conduct of its business, the Audit Committee can ask the Group Audit function for consulting. In such case, the Group Audit staff will be obliged to comply with all non-disclosure provisions.
Meetings of the Audit Committee shall have a quorum if attended in person or via teleconference by a majority of its members. Decisions of the Audit Committee are passed by a simple majority of votes of the attending members of the Audit Committee, unless the decisions are taken "per rollam", which must be approved by all Audit Committee members.

The Audit Committee appoints and dismisses a chairman from among its members. The Chairman coordinates and plans activities of the Audit Committee, convenes meetings and chairs meetings.

MARCO RADICE
Chairman of the Audit Committee
Domicile: Via S. Simpliciano, 5 - 20121 Milan, Republic of Italy
Born: 28 August 1957

HEINZ MEIDLINGER
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Republic of Austria
Born: 6 September 1955

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Republic of Italy
Born: 24 March 1967

Changes in the Audit Committee in 2019
There were no changes in the Audit Committee in 2019.

7.5 Conflicts of interest at the level of management and supervisory bodies:

The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest. The main activities carried out by the members of managing and control bodies of the issuer outside the issuer are not significant for the issuer.

7.6 Information on company management and administration codes

The Bank adopted no company management and administration code.

8. Legal and arbitration proceedings

As at 31 December 2019, the Bank reviewed the pending legal disputes against the Bank and created provisions for the litigation. In addition to those disputes, the Bank was also subject to other claims resulting from the Bank's regular business activities. The Bank is not, and during the past 12 months was not, involved in any judicial, administrative or arbitration proceedings which, in the Bank's opinion, could have, or in the past 12 months had, a material impact on the Bank's financial situation or profitability.

9. Material change in the issuer's financial situation

Since the publishing date of the audited financial statements for the year ended 31 December 2019, no significant change has occurred in the financial situation of the issuer.

10. Received Loans from multilateral development banks and international organizations

Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	4 286 Thous. EUR
Interest rate:	3M EURIBOR + 0,33 %
Loan origination date:	28. 7. 2014
Maturity date:	28. 7. 2021
Collateral:	Bonds
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	8 571 Thous. EUR
Interest rate:	3M EURIBOR + 0,03 %
Loan origination date:	16. 11. 2015
Maturity date:	16. 11. 2022
Collateral:	Bonds
Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	5 000 Thous. EUR
Interest rate:	6M EURIBOR + 0,40 %
Loan origination date:	30. 10. 2017
Maturity date:	23. 2. 2023
Collateral:	No collateral

Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	3 750 Thous. EUR
Interest rate:	3M EURIBOR + 0,06%
Loan origination date:	30. 6. 2017
Maturity date:	28. 6. 2024
Collateral:	Bill of Exchange
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	2 707 Thous. EUR
Interest rate:	3M EURIBOR + 0,25%
Loan origination date:	31. 5. 2019
Maturity date:	28. 6. 2024
Collateral:	Bill of Exchange
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	18 148 Thous. EUR
Interest rate:	0,80%
Loan origination date:	31. 08. 2015
Maturity date:	31. 03. 2028
Collateral:	Pledge of Recievables
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	478 Thous. EUR
Interest rate:	0,80%
Loan origination date:	31. 08. 2015
Maturity date:	31. 03. 2028
Collateral:	Bill of Exchange
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	21 802 Thous. EUR
Interest rate:	0,90%
Loan origination date:	30. 12. 2015
Maturity date:	29. 09. 2028
Collateral:	Pledge of Recievables
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	574 Thous. EUR
Interest rate:	0,90%
Loan origination date:	31. 03. 2016
Maturity date:	29.09. 2028
Collateral:	Bill of Exchange
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	1 635 Thous. EUR
Interest rate:	-0,153%
Loan origination date:	04. 04. 2017
Maturity date:	30. 06. 2021
Collateral:	Pledge of Recievables

Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	1 290 Thous. EUR
Interest rate:	0,686%
Loan origination date:	31. 10. 2018
Maturity date:	29. 06. 2029
Collateral:	Pledge of Recievables
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	34 Thous. EUR
Interest rate:	0,686%
Loan origination date:	31. 10. 2018
Maturity date:	29. 06. 2029
Collateral:	Bill of Exchange
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	10 443 Thous. EUR
Interest rate:	0,426%
Loan origination date:	10. 04. 2017
Maturity date:	29. 06. 2029
Collateral:	Pledge of Recievables
Creditor:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan Amount:	275 Thous. EUR
Interest rate:	0,426%
Loan origination date:	10. 04. 2017
Maturity date:	29. 06. 2029
Collateral:	Bill of Exchange
Creditor:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	387 750,0 Thous. CZK
Interest rate:	2,47%
Loan origination date:	2.11.2018
Maturity date:	2.11.2023
Collateral:	Letter of Comfort
Creditor:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	450 000,0 Thous. CZK
Interest rate:	2,25%
Loan origination date:	29.3.2019
Maturity date:	29.3.2022
Collateral:	Letter of Comfort
Creditor:	**Raiffeisenbank a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	600 000,0 Thous. CZK
Interest rate:	2,24%
Loan origination date:	2.12.2019
Maturity date:	2.1.2020
Collateral:	Letter of Comfort

Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	45 000,0 Thous. EUR
Interest rate:	0,000%
Loan origination date:	14.6.2019
Maturity date:	14.6.2024
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	27 680,0 Thous. CZK
Interest rate:	0,188%
Loan origination date:	26.02.15
Maturity date:	26.02.20
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	1 000,0 Thous. EUR
Interest rate:	0,177%
Loan origination date:	26.02.15
Maturity date:	26.02.20
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan Amount:	37 500,0 Thous. EUR
Interest rate:	0,110%
Loan origination date:	10.09.18
Maturity date:	10.09.23
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	1 000,0 Thous. EUR
Interest rate:	0,170%
Loan origination date:	26.02.15
Maturity date:	26.02.20
Collateral:	Bonds
Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	45 000,0 Thous. EUR
Interest rate:	0,000%
Loan origination date:	06.06.19
Maturity date:	14.06.24
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	1 500,0 Thous. EUR
Interest rate:	0,326%
Loan origination date:	29.06.15
Maturity date:	30.06.20
Collateral:	Bonds

Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	18 750,0 Thous. EUR
Interest rate:	0,123%
Loan origination date:	26.09.18
Maturity date:	02.10.23
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	18 750,0 Thous. EUR
Interest rate:	0,036%
Loan origination date:	20.11.18
Maturity date:	30.11.22
Collateral:	Bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan Amount:	6 060,3 Thous. EUR
Interest rate:	3M EURIBOR + 0,559 %
Loan origination date:	30.09.11
Maturity date:	29.09.23
Collateral:	Bonds
Total loans as at 31 December 2019	**7 908 219 Thous. CZK**

11. Material contracts

UniCredit Bank has not concluded any such contracts which could give rise to an obligation or a claim of any member of the Group that would be material to the Bank's ability to settle its liabilities to securities holders based on the issued securities.

12. Third party information and experts' opinions and declarations of any interests

The annual report does not include any representations or report of an entity acting as an expert. Additionally, it does not include any information from a third party, unless expressly stated otherwise.

13. Total amount of outstanding bond issues

Total amount of outstanding bond issues, including EUR and USD bonds converted using the CNB exchange rate valid as at 31 December 2019: CZK 20,158,216,105.

13.1 Information on the number of shares issued by the issuer which are under the ownership of the issuer's managers, including persons close to these persons

The number of shares issued by the issuer under the ownership of managers or persons close to these persons is zero. There are no options or comparable investment instruments, the values of which relate to shares or similar securities representing an ownership interest in the issuer.

14. Principles of remunerating the issuer's managers

Remuneration policy

The remuneration policy for managers is established in accordance with "UniCredit Group's Remuneration Policy" and with Decree No. 163/2014 Coll. and consists of the basic salaries policy, the "Group Incentive System", and the benefits system. The key pillars of the remuneration policy are: clear and transparent governance, compliance with regulatory requirements & ethical rules, continuous monitoring of market trends & practices, sustainable pay for sustainable performance and motivation & retention of all employees with particular focus on promising staff members and those who are critical for fulfilling the company mission.

Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Remuneration Committee") approves the remuneration for each calendar year for members of the Board of Directors on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources

Department of UniCredit Group. In 2019, the Remuneration Committee consisted of Simone Marcucci, who was replaced by Jiří Kunert based on the Remuneration Committee's decision of 30 July 2019, and other members included Heinz Meidlinger and Miloš Bádal. Starting May 2014, in line with the new civil code, members of the Board of Directors perform work according to the Agreement on the Discharge of Office of Members of the Board of Directors and receive remuneration that is set as a fixed amount paid monthly, an annual variable bonus, and they are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for executing their offices; remuneration to the Bank's foreign executive managers (members of the Board of Directors) is provided by the parent company. These remuneration costs are accounted for by the parent company and included in the remuneration summary.

Contractual salaries of the Bank's executive managers
Contractual salaries are defined on the basis of the value of a position within the classification system of top management positions in UniCredit Group ("Global Job Model"), the key abilities of the executive manager and a market comparison with other entities on the financial and banking markets in the Czech Republic, within UniCredit Group, and in Central and Eastern Europe.

Changes in the contractual salaries of the Bank's members of the Board of Directors, Head of Compliance, and Head of Internal Audit are approved by the Remuneration Committee each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group.

Variable annual bonuses for the Bank's executive managers
The target variable bonus for the Bank's members of the Board of Directors is approved by the Remuneration Committee on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group. The target variable bonus of each executive manager is determined individually and comprises 50–100% of his or her annual contractual salary. A portion of the remuneration is in the form of shares and non-monetary instruments.

UniCredit Group's "2019 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee of UniCredit Bank Czech Republic, a.s., as a binding regulation for the variable bonuses of executive managers.

The variable bonus amount thereof and method of payment are established in accordance with the System using the following components:

1. **"Bonus Pool";**
2. **"Entry Conditions";**
3. **"Group and Local Risk Adjustments";**
4. **"Performance Screen";**
5. **"Bonus Cap";**
6. **"Compliance Assessment", "Continuous Employment Condition", "Claw Back" and "Personal Hedging".**

Ad 1.
The bonus pool is based on Country risk-adjusted results. The bonus pool is defined in the budget phase for each Country as a percentage of the respective funding KPI, considering: historical data analysis, expected profitability, business strategy and market context/external benchmarking.

Ad 2.
Specific indicators are set as "Entry Conditions", measuring annual profitability, solidity and liquidity results. The "Entry Conditions" are the mechanism that verifies the possible application of the malus condition (Zero Factor) based on the level of achievement of the indicators. In order to align with regulatory requirements, in case the "Entry Conditions" are not met, a Zero Factor will apply to the Executives/Identified Staff population.

If the Entry Conditions are met, the Zero Factor is not activated, and further adjustments are performed pursuant to the Performance & Risk Factor Adjustments.

Ad 3.
Application of the "Group and Local Risk Adjustments" parameters affirms, reduces or entirely terminates an executive manager's bonus payment.

In accordance with applicable regulatory requirements, final evaluation of sustainable performance parameters and risk-reward alignment is reviewed by the Remuneration Committee and defined under the responsibility and governance of the Board of Directors.

In 2019, Entry Conditions were defined using the following parameters:

Group	CEE Division	Local
Net Operating Profit (NOP)	Net Operating Profit (NOP)	Net Operating Profit (NOP)
Net Profit (NP)	Net Profit (NP)	
Capital adequacy indicator (Common Equity Tier 1 Ratio Transitional)		
Short-term liquidity indicator (Liquidity Coverage Ratio)		
Net Stable Funding Ratio (NSFR)		

Zero Factor is applied in the years of the deferred bonus. Zero Factor confirms or entirely cancels payment of deferred portions of the bonus. The Remuneration Committee approves the level of fulfilment of the Zero Factor conditions each year and the release or cancellation of deferred bonus payment based on a proposal from UniCredit Group's Board of Directors.

Ad 4.
The "Performance Screen" is a table of the executive managers' performance objectives set each year by the Remuneration Committee. The performance objectives are closely related to the Bank's strategic plan. The Remuneration Committee approves the level of their fulfilment based on the proposal of the executive managers' direct superiors for each calendar year and each executive manager separately.

The "Performance Screen" should contain at least 4 performance goals (it is recommended to use no more than 6), of which at least half are sustainable. The executive managers may have other goals assigned in addition to performance goals. Such additional targets may range from individual tasks, projects, activities or any other goals or behaviours.

"Performance Screen" parameters approved by the Remuneration Committee for executive managers for 2019 included, for example:
- ROAC/EVA,
- Expected Loss,
- OPEX,
- Revenue Sharing,
- Net new clients.

Other goals were quantitative and qualitative and differed for each individual executive manager depending on the priorities of the segment for which the particular executive manager is responsible.

Ad 5.
The Capital Requirements Directive (CRD IV) approved by the European Parliament introduced a cap on bonuses with an effective date of 1 January 2014. The bonus cap has been set at a one-time yearly fixed compensation, with the possibility to increase it to two-times the yearly fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. For the company Control Functions, a more conservative approach applies, providing for the bonus cap set at 80% of the yearly fixed compensation.

Ad 6.
Any payment of the variable component of remuneration for an executive manager is subject to the "Compliance Assessment", which confirms, reduces or entirely cancels the payment to which an employee is entitled in each year of deferred remuneration. An executive manager's direct superior shall assess whether during the evaluated period the executive manager acted in accordance with the principles of UniCredit Group's Integrity Charter and Articles of Association; whether he or she committed serious errors, including errors which could have a tangible impact on banking risk or the balance sheet; as well as whether or not he or she breached legal norms, UniCredit Group's rules or UniCredit Bank's internal regulations, regardless of whether a disciplinary hearing is taking place or other disciplinary sanctions have already been imposed. This evaluation is carried out by the executive manager's direct superior and approved by the Remuneration Committee.

As with the evaluation of individual performance objectives, this assessment may reduce or entirely cancel (depending on the gravity of the violation) the potential variable remuneration.

In order to strengthen the compliance culture within the Group, a bonus entitlement "gateway" is introduced where an employee's rate of completing mandatory compliance-related trainings is 90% or less as at 30 September 2019. The list of trainings covered by this provision is determined by Compliance based on local and Group requirements and employees are informed of the same. The "gateway" envisages automatic deletion of the annual bonus payment (payment beforehand as well as future payment) to which an employee would otherwise have been entitled in the relevant assessment year and it automatically has no impact on deferred payments of previous years.

In order to further strengthen the prevention of the risk of money laundering and terrorist financing, the Group has also introduced a necessary condition for the entitlement to the 2019 bonus related to periodic data recovery in KYC (Know Your Client) questionnaires. According to this condition, the employees responsible for completing these questionnaires must have completed a total of 99% of the questionnaires in the client portfolio under their direct management as at 30 September 2019 in order to be entitled to the bonus.

The "Continuous Employment Condition" stipulates that an employee is entitled to payment of the variable remuneration component or its deferred part only if he or she is an employee of the Bank or another company within UniCredit Group at the time of payment.

Any remuneration that a worker can get in any year pursuant to the System are subject to the Clawback application in compliance with legislation in force, including payment of remunerations effected on a basis later proved to be incorrect.

Executive managers are required to undertake not to use personal hedging strategies on remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Involvement in any form of hedging transaction shall be considered a breach of Compliance policies and therefore any right to receive variable remuneration pursuant to the System shall expire.

Bonus Plan
According to the "2019 Group Incentive System" rules, payment of the bonus for the given period (2019) is spread out over a multiple-year period:

Executive Vice-Presidents and Senior Positions with variable remuneration over EUR 430,000

- The first part (2020) is payable one half in cash and one half in non-monetary instruments, comprising 40% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2022) is payable one half in cash and one half in non-monetary instruments, comprising 24% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2023) is payable in non-monetary instruments, comprising 12% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2024) is payable in non-monetary instruments, comprising 12% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fifth part (2025) is payable in cash and comprises 12% of the bonus established for the given period.
- In 2020-2025, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Executive Vice-Presidents and Senior Positions with variable remuneration below EUR 430,000

- The first part (2020) is payable one half in cash and one half in non-monetary instruments, comprising 50% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2022) is payable one half in cash and one half in non-monetary instruments, comprising 20% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2023) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2024) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fifth part (2025) is payable in cash and comprises 10% of the bonus established for the given period.
- In 2020-2025, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Senior Vice-Presidents & Other Identified Staff with variable remuneration over EUR 430,000

- The first part (2020) is payable one half in cash and one half in non-monetary instruments, comprising 40% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2021) is payable as 5% of the bonus established for the given period in cash and 15% of the bonus established for the given period in non-monetary instruments; non-monetary instruments are subject to a one-year retention period.
- The third part (2022) is payable as 5% of the bonus established for the given period in cash and 15% of the bonus established for the given period in non-monetary instruments; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2023) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2020-2023, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Senior Vice-Presidents & Other Identified Staff with variable remuneration below EUR 430,000

- The first part (2020) is payable one half in cash and one half in non-monetary instruments, comprising 60% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2021) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2022) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2023) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2020-2023, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

The Remuneration Committee approves the fulfilment of the payment conditions in each year and the release of the deferred bonus payment on the bases of a proposal from UniCredit Group's Board of Directors.

Benefits of the Bank's executive managers
Benefits are defined in accordance with the priorities of UniCredit Group's human resources strategy and the classification of the manager's position into a pre-defined employee benefits category.

- The following benefits are provided to executive managers by virtue of their Agreement on the discharge of office of members of the Board of Directors with the Bank: contribution to supplementary pension insurance, contribution to capital life insurance.
- By virtue of their managerial position, executive managers are provided a company car for business as well as private purposes.
- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers receive benefits connected with their long-term stay abroad.

The aforementioned benefits are provided in the form of non-monetary fulfilment, and their aggregate amount is included in the remuneration summary.

Supervisory Board
The Supervisory Board consists of nine persons, of which three are employed by the issuer and receive a salary for activities performed for the issuer on the basis of an employment contract in accordance with the Labour Code. Members of the Supervisory Board, if they are at the same time employed by any company of UniCredit Group (including the issuer), are not entitled to remuneration for executing their offices. Fixed contractual remuneration may only be agreed on with those members of the Supervisory Board who do not at the same time hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire period of office of the Supervisory Board member, and is approved based on the Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code, by two foreign members of the Supervisory Board with whom the shareholder agreed fixed contractual remuneration based on the aforementioned regulations, and who were joined by one local member of the Supervisory Board, Mr Jiří Kunert, who was elected as a successor to Simone Marcucci at the head of the Supervisory Board as at 30 July 2019. The remaining members of the Supervisory Board are not remunerated by the issuer.

The remuneration policy in the case of Supervisory Board members who are employed with UniCredit Bank Czech Republic and Slovakia, a.s., is approved by the Bank's Board of Directors at the proposal of the Bank's Human Resources Department, and the benefits are provided in accordance with the valid Collective Agreements concluded between the Bank and its trade unions in particular countries.

The principles of remuneration to members of the Supervisory Board employed within the Bank and the components of their remuneration which are paid to them by virtue of their employment contracts including variable remuneration are defined by the Bank's internal regulation. The variable annual bonus payment is determined for employees as a percentage of the target variable annual bonus (0–150%) on the basis of fulfilling quantitative and qualitative performance indicators which are defined in the "Goal Card", which is part of the system of variable remuneration of the Bank's employees based on an evaluation of individual and team targets. The performance parameters in the "Goal Card" for Supervisory Board members who are employed with the issuer are dependent on the jobs they perform by virtue of their employment contracts in accordance with the Labour Code and in no way relate to the execution of the office of Supervisory Board member. The amounts of the final annual variable bonuses paid to members of the Supervisory Board who are employed with the issuer are proposed and approved by their direct superiors according to the issuer's organizational structure.

Audit Committee
The Audit Committee consists of three persons, none of whom are employed by the issuer. Fixed contractual remuneration may be agreed for executing the office of Audit Committee member. The remuneration is valid for the entire period of office of the Audit Committee member, and is approved based on the Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s. In 2019, the aforementioned fixed contractual remuneration was agreed with three members of the Audit Committee, and the total amount thereof is stated in the remuneration summary.

15. Diversity Policy

Focusing on diversity and inclusive culture is an essential part of the Bank's and Group's strategy. We promote equal opportunities and diversity in its many ways - from gender, age, nationality to sexual orientation or disability.

Initiatives to foster a culture of diversity and inclusion concern:

- recruitment and talent acquisition
- professional development and career growth
- remuneration
- work-life balance
- and, last but not least, education.

In 2019, we focused primarily on strengthening gender diversity. Although 40% of managerial positions are represented by women, our goal is to continue to strengthen the presence of women in middle and top management.

Managerial positions are filled mostly by internal sources, therefore, we put emphasis on equal opportunities and a gender-balanced succession planning. Women identified as successors to managerial positions are supported beyond the standard educational opportunities in the form of the inspiring interactive seminar “Women in leadership”. The main topics include, for example, confidence-building, effective communication, and building of one’s own authentic leadership style. Women with the potential and ambition for top positions are supported by external mentoring.

Our goal is to build strong, effective and collaborative teams of women and men at all levels of management.
In October, the Czech Republic participated in the Group-wide Diversity and Inclusion Week and contributed significantly to raising awareness of various forms of diversity and how to work properly with diversity. All employees had the opportunity to attend lectures led by experts on various aspects of diversity.

To promote work-life balance, the Bank provides flexible working conditions, whether through work from home or flexible working hours. We organise regular sports and relaxation activities directly in the workplace, and we continually innovate them to promote the well-being of our colleagues, responding in this way to the needs of the new generations entering the labour market in order to be a more attractive employer. We believe that well-being activities translate into stronger engagement and productivity for our employees.

16. Information on all monetary and in-kind income accepted by executive managers and members of the Supervisory Board and the Audit Committee from the issuer

Amounts in CZK					
Members of the Board of Directors					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
58,511,595	**17,191,982**	**16,108,599**		**3,847,353**	**95,659,529**
Members of the Supervisory Board					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
4,248,931		**0**		**0**	**4,248,931**
Members of the Audit Committee					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
895,898		**0**		**0**	**895,898**
Other executive managers					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
108,491,125		**3,507,830**		**1,556,147**	**113,555,103**

Note: The mentioned data contain amounts actually paid during 2019, as compared to the financial statements, which contain information on costs concerning 2019.

17. Information on remuneration to auditors recognised in the reporting period

(CZK thousand)	Bank	Consolidated companies	Total consol. group
Audit	24,089	7,280	31,369
Tax advisory	–	–	–
Other advisory services	–	–	–
Total	**24,089**	**7,280**	**31,369**

18. Major future investments other than financial investments (planned for 2019)

Total investments of UniCredit Bank for 2020, excl. financial investments, are planned in the amount of CZK 2.4 billion, of which CZK 1.9 billion is for the planned purchase of assets for rent for UniCredit Leasing. Another major item is investment in IT (hardware and software) totalling CZK 317 million, which is primarily intended for the development of the Bank's information systems, with an emphasis on digitisation, automation and streamlining of processes, as well as for complying with the requirements of a regulatory and operating nature. It is only part of total IT investment because IT services on the part of the Bank are primarily supplied on an outsourcing basis and recognised in operating costs. Investments in fixed capital, including rented buildings, in the amount of CZK 48 million are focused mostly on the development and renovation of the distribution network.

19. Guarantees provided by the insurer

(CZK thousand)	31 Dec 2019	31 Dec 2018
Granted guarantees and collaterals	44,141,617	38,445,233
Guarantees granted under L/Cs	691,593	1,883,057
Total	**44,833,210**	**40,328,290**

20. Internal audit policy and procedures and rules for the issuer's approach to risks associated with financial reporting

All internal processes with either a direct or indirect influence on the Bank's reporting have been described in the UniCredit Czech Republic and Slovakia Group including the risks connected with these processes. Controls with varying periodicity have been set up in order to eliminate these risks. All processes are evaluated and updated twice a year, and the controls set up to eliminate the described risks are inspected.

The goal of the aforementioned effort was to establish corresponding internal controls that guarantee the accuracy of the financial reporting, achieve broader awareness of the risks connected with creating financial reports and keep these risks under control and at an acceptable level. The entire process is in accordance with Italian Act No. 262/2005 and legal regulation No. 303/2006, which were inspired by the American Sarbanes-Oxley Act.

The UniCredit Bank Czech Republic and Slovakia Group has prepared internal regulations relating to particular areas of the Group's activities that influence the Group's accounting. The valuation procedures applied to the statement of financial position and statement of comprehensive income items are described in the notes to the individual and consolidated annual financial statements, which form a part of this annual report. These annual financial statements are submitted for review by auditor and financial data intended for consolidation of the parent company are also submitted for review by auditor twice a year (mid-year and at year-end).

21. Licences and trademarks

UniCredit Bank uses dozens of trademarks for identification and protection of its products on banking markets in the Czech Republic and Slovakia. The Bank, as owner, has the trademarks registered with the Industrial Property Office of the Czech Republic and the Industrial Property Office of the Slovak Republic.

22. Information on regulated markets and rating of the issuer or its debt securities

The issuer has been assigned no rating. On 5 December 2019, the rating agency Moody's Investor Service, Inc. (hereinafter referred to as "Moody's") increased the rating of selected debt securities issued by the issuer (referred to in the summary below) by one notch from the original Aa3 to Aa2.

Moody's carries on its activities in the European Union and is registered in line with Regulation (EC) No 1060/2009 of the European Parliament and of the Council as amended (hereinafter referred to as the "Regulation on Credit Rating Agencies"). It is included in the list of credit agencies published by the European Securities and Market Authority (ESMA) on its web pages (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in line with the Regulation on Credit Rating Agencies.

The issuer has not contracted any other rating agency to issue a rating of identical issues or debt securities referred to in the summary below. If such a possibility occurs in the future, the issuer shall act in line with Article 8d of the Regulation on Credit Rating Agencies.

Summary of issued and outstanding debt securities of the Issuer admitted to trading on a regulated market

A list of outstanding debt securities of the issuer admitted to trading on the Prague Stock Exchange is presented in the following table. The data are valid as at 31 December 2019.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
HZL HVB 5.00/25	CZ0002000680	23 Nov 2005	15 Nov 2025	23 Nov 2005	–
UCB HZL 10Y FLOAT/37	CZ0002001910	21 Dec 2007	21 Dec 2037	21 Dec 2007	Aa2
UCB HZL 2.00/2020	CZ0002003080	3 June 2013	3 June 2020	19 Aug 2013	Aa2
UCB HZL 3.04/2028	CZ0002003114	7 June 2013	7 June 2028	19 Aug 2013	Aa2
UCB HZL 6M VAR/2020	CZ0002003148	18 July 2013	18 July 2020	26 Aug 2013	–

A list of outstanding debt securities of the issuer admitted to trading on the Luxembourg Stock Exchange is presented in the following table. The data are valid as at 31 December 2019.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 3M FLOAT/23	XS1206759406	20 March 2015	15 Sept 2023	20 March 2015	Aa2
UCB HZL 3M FLOAT/21	XS1206761139	20 March 2015	16 March 2021	20 March 2015	Aa2
UCB HZL 0.625/20	XS1225180949	30 April 2015	30 April 2020	30 April 2015	Aa2
UCB HZL 0.75/22	XS1559750671	3 Feb 2017	3 Feb 2022	3 Feb 2017	Aa2
UCB HZL II 0.75/22	XS1643471250	11 July 2017	11 July 2022	11 July 2017	Aa2
UCB HZL 1.00/24	XS1892859577	16 Oct 2018	16 Oct 2024	16 Oct 2018	Aa2

A list of outstanding debt securities of the issuer admitted to trading on the Bratislava Stock Exchange is presented in the following table. The data are valid as at 31 December 2019.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 1.55/2021	SK4120010208	28 Aug 2014	30 Aug 2021	22 Dec 2014	–
UCB HZL 1.20/2022 (UCBHZL14H)	SK4120010752	25 May 2015	25 May 2022	20 Jan 2016	Aa2
UCB HZL EUR 1,40/2024	SK4120011131	15 Oct 2015	15 Oct 2024	20 Jan 2016	–
UCB HZL EUR 1,80/2025	SK4120011123	15 Oct 2015	15 Oct 2025	20 Jan 2016	–
UCB HZL EUR 0,65/2021	SK4120011305	10 Dec 2015	10 Dec 2021	20 Jan 2016	Aa2

23. Non-Financial Information

UniCredit Bank Czech Republic and Slovakia, a.s. uses the exemption under Section 32g(7) of the Act on Accounting and the non-financial information is published by parent company UniCredit SpA. UniCredit SpA published non-financial information for 2019 in English at https://www.unicreditgroup.eu/en/a-sustainable-bank/.

A report on relations

between controlling and controlled entity and on relations between controlled entities and other entities controlled by the same controlling entity

A report on relations between controlling and controlled entity and on relations between controlled entities and other entities controlled by the same controlling entity

Pursuant to Article 82 et seq. of Act No. 90/2012 Coll. on Commercial Corporations, the Board of Directors of **UniCredit Bank Czech Republic and Slovakia, a.s.** having its registered office at Prague 4, Želetavská 1525/1,140 92, Reg. No. 64948242, registered in the Commercial Register maintained by the Prague Metropolitan Court, Section B, Insertion 3608 ("UniCredit Bank"), for the **period from 1. 1. 2019 to 31. 12. 2019** (hereinafter referred to as the "Period") prepared a report on relations.

1. Structure of Relations between UniCredit Bank and the Controlling Entity and Entities Controlled by the same Controlling Entity

Over this period, UniCredit Bank was directly controlled by **UniCredit, S.p.A.** having its registered office at Piazza Gae Aulenti 3 – Tower A - 20154 Milan, Italy.
UniCredit Bank itself controlled during the period the companies **UniCredit Leasing CZ, a.s.,** Reg. No. 15886492, Želetavská 1525/1, 140 10 Prague 4**, UniCredit Factoring Czech Republic and Slovakia, a.s.** Reg. No.: 15272028, Želetavská 1525/1, Michle, 140 00 Prague 4.
UniCredit Leasing CZ, a.s. during the period, was the sole shareholder of the following companies:
UniCredit Leasing Slovakia, a.s., Reg. No.: 35730978, Šancová 1/A, 814 99 Bratislava, **UniCredit Fleet Management, s.r.o.,** Reg. No.:62582836, Želetavská 1525/1, Michle, 140 00 Prague 4, **UniCredit pojišťovací makléřská spol. s r.o.,** Reg. No.: 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4, **HVB Leasing Czech Republic s.r.o.**, Reg. No.: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, Reg. No.:25751841, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing OVUS s.r.o.**, Reg. No.: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing, s.r.o.**, Reg. No.: 25708376, Prague 4 – Michle, Želetavská 1525/1, 14010.

UniCredit Leasing Slovakia, a.s. is the sole shareholder of the following companies: **UniCredit Leasing Insurance Services, s. r. o.,** Reg. No.: 47926481, Šancová 1/A, Bratislava 814 99, **UniCredit Broker, s. r. o.**, Reg. No.: 35800348, Šancová 1/A, Bratislava 814 11 a **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35820381, Šancová 1/A, Bratislava 814 99.
The structure of the UniCredit Group is described in detail in Annex No. 1 of this Report.

2. UniCredit Bank's Role within UniCredit Group:

The Czech and the Slovak Republics are among the leading countries within the CEE division. The merged entity UniCredit Bank is at the same time the largest bank within the CEE region in terms of consolidated profits (data from 2019).

UniCredit Bank performs the role of a universal bank in Slovak and Czech markets; within the CEE region it often has a role of product innovator. UniCredit Bank supports group-wide solutions in the area of products, processes or sales channels, which piloted within different countries and in case they are confirmed as successful, they are later implemented in other UniCredit banks in the Central and Eastern Europe divisions. UniCredit Bank is very active in this area.

In the area of standard banking activities, in addition to the contracts provided below, the controlled entity concluded with the controlling entity and with related parties, interbank, derivative and other banking transactions, and these entities cooperated in the issue of bonds, and also entered into client operations (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of controlled entities is backed by bank guarantees provided by UniCredit S.p.A., UniCredit Bank Austria AG and UniCredit Bank AG.

Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

3. Method and Means of Control

The general meeting is the supreme body of UniCredit Bank. UniCredit Bank S.p.A. manifests its will through exercising the authority of the general meeting through by sole shareholder's resolutions acting in capacity of the General Meeting.

According to UniCredit Bank Articles of Association, also the election of Supervisory Board members falls within the competence of the general meeting. The Supervisory Board monitors the conduct of Bank business and the exercise of Board of Directors responsibilities. The Supervisory Board also elects and removes the members of the Board of Directors and recommends candidates for the Chairman and Vice-Chairman of the Board of Directors. However, the members of the Board of Directors are not bound by such a recommendation in their election.

The controlling entity has its representatives both in the Bank Supervisory Board and in the Board of Directors.

UniCredit Bank as a member of the UniCredit Group must, subject to relevant legal regulations, perform the regulations issued by UniCredit S.p.A (the "Holding Company")within the Bank and all companies controlled by it through its directives (the "Directives of the Holding"). The Directives of the Holding means rules defining the management, the organisation chart and responsibilities of the managers within key processes in the UniCredit Group, which are issued in the exercise of Holding Company's powers in the area of supervision of the UniCredit Group and coordination of the UniCredit Group, all this according to instructions issued by Italian supervisory body in order to maintain the stability of the UniCredit Group.

UniCredit Bank performs its influence on its subsidiary companies through the exercise of its shareholder rights and also through its representatives in the bodies of some of these companies, in particular in their supervisory boards.

4. An overview of mutual contracts between UniCredit Bank and the controlling entity or between controlled entities

4.1. Between UniCredit Bank and **UniCredit S.p.A.,** Piazza Gae Aulenti 3, Tower A – 20154 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic (jointly with UniCredit Bank Austria AG)	2.2.2015
Intercompany services agreement	Advisory services in the area of methodological group management	11.12.2015
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	29.6.2016
GMRA Master Agreement	A general credit contract for secured by a transfer of securities	12.8.2016
Deposit Netting Agreement	Agreement concerning the reciprocal set-off of payables and receivables from interbank deposits in the event of default.	22.9.2016
Agreement on Anti money laundering transaction of Correspodent Banking monitoring	AML monitoring pro korespondenční banky	28.1.2018
GMSLA Master Agreement	Securities lending framework agreement	5.6.2019

4.2. Between UniCredit Bank and **UniCredit Bank Austria AG,** Rothschildplatz 1, 1020 Vienna, the Republic of Austria

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Custody and administration of securities (a branch in Slovakia)	24.11.1995
Subcustody Agreement	storage, management and settlement of securities	1.8.1997
Brokerage Agreement	Securities trading	2.1.2002
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	24.5.2012
Consultancy Service Agreement	Learning and Development Consultancy Services in the area of special professional skills, soft skills training and development and talent management	2012
Service Level Agreement	Management and assessment of risks Netting Agreements	5.9.2008
Risk Sharing Instrument (RSI) Guarantee Agreement	Tripartite agreement with the European Investment Fund for the provision of guarantees within the RSI programme (Risk Sharing Instrument)	24.6.2014
Agreement Funds Advisory	Purchase and sale of fund units through the platform UC Bank Austria	25.3.2005
Swapclear Dealer Clearing Agreement	Contract for settlement of swap transactions with central counterparties	7.7.2014
Subcustody Agreement	Management and custody of foreign securities	10.11.2014
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic	27.2.2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	16.7.2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	11.12.2015
Mandate Agreement	Tripartite agreement with CYRRUS CORPORATE FINANCE, Inc. regarding activities related to the squeeze-out	25.5.2016
Agreement for Fair Value	Calculation of the fair value and fair value hierarchy	25.1.2017

4.3. Between UniCredit Bank and **UniCredit Bank AG**, Arabellastrasse 12,81925 Munich, Germany

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of securities	1.7.2004
Securities Account and Custody Agreement	Management and custody of securities	19.9.2007
Brokerage agreement	Procurement of purchases and sale of foreign securities for Bank clients	6.7.2009
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	3.3.2010
Master Agreement – Global Debt Capital Markets	Conditions of cooperation of both banks in euro bond issues of clients.	30.6.2011
Agreement on the application service providing for the cash pool engine	Provision of services for cash pooling	9.5.2012
Subcustody Agreement	Custody, management and settlement of securities (the London branch)	17.5.2012
Agreement on reporting to a trade repository in accordance with Art.9 EMIR	Performance of duty to report according to EMIR	20.3.2014
Distribution agreement	Distribution of investment vehicles issued by UniCredit Bank AG through the Bank	10.4.2014
Agreement on reporting to a trade repository in accordance with Art.9 EMIR	Performance of duty to report according to EMIR	15.4.2014
Agreement	Distribution of investment vehicles issued by UniCredit Bank AG through the Bank using electronic platform	3.11.2014
SLA for certain co-operative activities	The subject is cooperation in the development and distribution of analytical source materials.	1.10.2015
GMRA Master Agreement	A general credit contract for secured by a transfer of securities	21.9.2016
SLA Sophis „Risque“ Sub-Licensing Agreement	Support for the use of SW Murex and Sophis Risque (for OTC derivatives)	16.9.2016
Mandate Agreement	mandating Unicredit Bank AG as an arranger for the bond program update (Frederick 2019) and an agreement on remuneration for external legal advisors (Allen & Overy).	23.5.2019
RET Service Level Agreement No. 001	UCtrader trading platform for FX trades – cost sharing	29.3.2019

4.4. Between UniCredit Bank, **Unicredit S.p.A** and **UniCredit Bank Austria AG**

Contract name	Subject-matter of contract	Contract concluded on
Agreement for Data Flow and Reporting	Agreement for Data Flow and Reporting in connection with the reorganization of the Group	30.9.2016

4.5. Between UniCredit Bank, **Unicredit S.p.A**, **UniCredit Bank AG** and **UniCredit Bank Austria AG**

Contract name	Subject-matter of contract	Contract concluded on
UniCredit Group – Master Cost Sharing Agreement	Cost allocation for seconded employees	19.5.2010

4.6. Between UniCredit Bank and **UniCredit Services S.C.p.A.** (until 30.6.2018 **Business Integrated Solutions S.C.p.A.)**, Via Livio Cambi 1, 201 51 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement No. 018/PP-2010/3560	Lease of non-residential premises in Šancova Street Bratislava	31.12.2010
Agency Contract	Sharing of the provision of services of Bank suppliers	1.1.2012
Sublease contract	Sublease of premises in the building no. 1525, Želetavská 1, Prague 4	29.6.2012
Non-residential Premises Lease Agreement	Lease of commercial space at Svätoplukova St. in Bratislava	1.8.2016
Confidentiality Agreement	Confidentiality Agreement	1.11.2017
Data Processing Agreement	Data processing and security agreement, protection and confidentiality of confidential information – CZ	26.6.2018
Data Processing Agreement	Data processing and security agreement, protection and confidentiality of confidential information – SK	26.6.2018
Project agreements	Delivery of individual projects primarily in the field of SW development (eg. GDPR, MIFID, AnaCredit, SWIFT, …)	Contracts valid in 2018
Purchase contract for furniture sales	Purchase of used furniture	19.12.2018
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement) – CZ	1.12.2017
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement) – SK	1.12.2017
Settlement agreement	Agreement on settlement of a disputed claim	11.12.2018
Mutual Agreement	Agreement on the abolition of the tax group between UniCredit Bank Czech Republic and Slovakia and UniCredit Services.	20.12.2019

4.7. Between UniCredit Bank a **UniCredit Leasing CZ, a.s.**, Reg. No.: 15886492, Prague 4 – Michle, Želetavská 1525/1,140 10

Contract name	Subject-matter of contract	Contract concluded on
Contract on lease of premises for business purposes	Lease of premises in the building no. 28, Široká 5, Liberec	28.7.2015
Contract on sub-lease of non-residential premises incl. supplements	Sublease of premises in the building no. 1176-1177, Dr. Davida Bechera 26, Karlovy Vary	23.3.2010
Contract for Lease of Security Equipment and Camera System	Lease of system owned by Bank installed on leased premises of UniCredit Leasing CZ, a.s.	1.4.2012
Agency Contract	Sharing of the provision of services of Bank suppliers	2.4.2012
Sublease contract	Sublease of parking spaces in building no. 1525, Želetavská 1, Prague 4	13.3.2013
Non-residential Lease Agreement	Lease of premises in the building no. 545, Divadelní 2, Brno	30.5.2013
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	3.6.2013
Contract for Search for Prospective Clients	Contract for mediation of consumer loans for UCB	1.3.2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 3348, 28. října 65, Ostrava	1.3.2014
Contract for the Provision of Services and Contract of Mandate	UCL CZ outsourced certain its activities into the Bank	6.8.2014
Contract for Processing of Personal Data	Processing of personal data of UCL CZ by the Bank with respect to outsourcing	6.8.2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. Sublease of commercial space at 457, 28.října 15, Olomouc	29.3.2016
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 36, Revoluční 2, Chomutov	24.1.2017
Contract on sublease of space serving business	Sublease of business premises in building no. 1222 Masaryk Square, Jihlava	26.6.2019

4.8. Between UniCredit Bank and **UniCredit Factoring Czech Republic and Slovakia**, Reg. No.: 152 72 028, Prague 4 – Michle, Želetavská 1525/1, 140 00

Contract name	Subject-matter of contract	Contract concluded on
Contract for Loan and Other Banking Services Provided in the Form of Multi-Purpose Line	Banking services	25.6.2010
General Contract for Trading in Financial Market	Trading in financial market	21.1.2015
Contract for Exchange of Parking Places	Mutual exchange of parking spaces in building Filadelfie, Želetavská 1525/1, Prague 4	4.6.2015
Contract for the Provision of Services and Contract of Mandate	Provision of banking services	4.1.2016
Agreement on Mutual brokerage business cases	Mutual brokerage of business cases	4.1.2016
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	21.1.2016
Risk participation contract (participation contract)	Participation in the risk of receivable non-payment	29.3.2017
Agreement dated 30th of October 2018 on Zero Balancing	Zero Balancing	30.10.2018

4.9. Between UniCredit Bank and **UCTAM Czech Republic s.r.o.**, Reg. No.: 24275671, Prague 1 – Nové Město, Náměstí Republiky 2090/3a, 110 00

Contract name	Subject-matter of contract	Contract concluded on
Sublease contract	Sublease of premises for business purposes in building no. 2090, náměstí Republiky 3a, Prague 1	22.3.2016

4.10. Between UniCredit Bank and **UniCredit Leasing Slovakia, a.s.**, Reg. No.: 35 730 978, Šancová 1/A, Bratislava, 814 16, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement No. 301/3563/2011	Lease of non-residential premises in Nitra in Štefánikova Street	27.6.2011
Non-residential Lease Agreement No. 302/3563/2011	Lease of non-residential premises in Košice in Rooseveltova Street	27.6.2011
Non-residential Lease Agreement No. 214/3563/2012	Lease of non-residential premises in Žilina in Národna Street	15.6.2012
Contract for the Provision of Services and Contract of Mandate	UCL SK outsourced certain its activities into the Bank	6.8.2014
Contract for Processing of Personal Data	Processing of personal data of UCL SK by the Bank with respect to outsourcing	6.8.2014
Non-residential Lease Agreement dated 31.10.2014	Lease of non-residential premises in Šancova 1/A BA (from 1.11.2014)	31.10.2014
Agreement on Lease of Commercial Space	Lease of Commercial Space Svätoplukova St. v Bratislava	1.8.2016
Non-residential Lease Agreement	Lease of non-residential premises in Štefánikova St. in Trnava	15.1.2017
Non-residential Lease Agreement	Lease of non-residential premises in Železničná St. in Lučenec	15.1.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Hlavná St. In Dunajská Streda	15.1.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Majzonovo nám. in Nové Zámky	15.1.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Nám. s. Anny in Trenčín	15.1.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Garbiarska St. in Liptovský Mikuláš	15.1.2017
Non-residential Lease Agreement	Lease of non-residential premises in Prešov in Hlavna Street (from 1.11.2017)	25.10.2017
Contracts for renting non-residential premises	Sublease of commercial premises in Poprad on Popradske nabrezi 18 (contract valid from 01.05.2019)	12.4.2019
Contracts for renting non-residential premises	Commercial premises for Rent in Zvolen, nám. SNP 50	1.1.2019

4.11. Between UniCredit Bank and **HVB Leasing Czech Republic s.r.o**, Reg. no: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4

Contract name	Subject-matter of contract	Contract concluded on
Framework Contract on Financial Market Trading	Financial Market Trading	7.2.2014
Agreement on the provision of advisory services	Advisory services in connection with the sale of real estate in Chrudim, Přerov, Svitavy and Ústí nad Orlicí	2.9.2019

4.12. Between UniCredit Bank and **UniCredit Bank Hungary Zrt.**, Szabadság tér 5–6, Budapest, 1054, Hungary

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	9.1.1999
Subcustody Agreement	Management and custody of securities (a branch in Slovakia)	23.1.2003
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	23.5.2007
Subcustody Agreement	Management and custody of foreign securities	21.12.2007

4.13. Between UniCredit Bank and **UniCredit banka Slovenija d.d.**, Šmartinska cesta 140, 1000 Ljubljana, Slovenia

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of foreign securities	10.11.2014

4.14. Between UniCredit Bank and **UniCredit Broker, s.r.o.**, Reg. No.: 35 800 348, Šancová 1/A, 814 11 Bratislava

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Mediation of clients	1.1.2011

4.15. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 62582836, Prague 4 – Michle, Želetavská 1525/1, 140 10

Contract name	Subject-matter of contract	Contract concluded on
General Contract for Hire of Vehicles	Specification of general conditions for making individual Lease agreement and Agreement to Amend SLA	4.3.2013
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 266 cars	Contracts valid in 2019

4.16. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35 820 381, Šancová 1/A Bratislava 814 99, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Operating Lease Contract	Conditions for operating lease of motor vehicles	30.8.2007
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 101 cars	Contracts valid in 2019

4.17. Between UniCredit Bank and **UniCredit Bank SA**, Sediul Central Bd., Expozitiei Nr.1F, Sect 1, Bucharest, 012101, Romania

Contract name	Subject-matter of contract	Contract concluded on
Service Agreement	Temporary advisory actions and support in banking services related to CEE 2020 Trade Finance Back and Project	26.1.2015
Risk participation agreement	Participation in the loan to a client in Romania	25.4.2017

4.18. Between UniCredit Bank and **Schoellerbank AG**, Renngasse 3, Vienna, Austria

Contract name	Subject-matter of contract	Contract concluded on
Cooperation agreement	Offer and mediation of services of Schoellerbank through UniCredit Bank	23.11.2012

4.19. Between UniCredit Bank and **Diners Club CS, s.r.o., organizační složka** (a branch), Reg. No.: 24768669 Prague 1, Široká 36/5, 110 00

Contract name	Subject-matter of contract	Contract concluded on
Intermediation Contract+ Contract for Processing of Personal Data	The content is cooperation concerning the mediation of the issue of charge cards Diners Club.	21.10.2009

4.20. Between UniCredit Bank and **UniCredit Services GmbH**, Rothschildplatz 4, 1020 Vienna, Austria

Contract name	Subject-matter of contract	Contract concluded on
Project Framework Agreement	Framework agreement covering the implementation of IT projects managed on the basis of i) Waterfall methods and ii) Agile methods (CZ)	25.11.2019
Project Framework Agreement	Framework agreement covering the implementation of IT projects managed on the basis of i) Waterfall methods and ii) Agile methods (SK)	25.11.2019
Project Framework Agreement	Framework contract covering the implementation of IT projects managed under the Waterfall method. (CZ)	26.2.2018
Project Framework Agreement	Framework contract covering the implementation of IT projects managed under the Waterfall method. (SK)	26.2.2018
Standard Terms and Conditions	Standard contract terms and conditions for provision of IT services	18.12.2015
Agreement on implementation of CEE2020 projects	Cooperation in implementation of IT projects	18.12.2015
Standard Terms and Conditions	Standard contract terms and conditions for provision of IT services (a branch in Slovakia)	18.12.2015
Agreement on implementation of CEE2020 projects	Cooperation in implementation of IT projects (a branch in Slovakia)	18.12.2015
Data Processing, Data Security, Data Protection and Security	Data Processing, Data Security, Data Protection and Security	9.6.2016

4.21. Between UniCredit Bank a **UniCredit Bank AG, London Branch**, London, 120 London wall, United Kingdom

Contract name	Subject-matter of contract	Contract concluded on
Fee Split Agreement	Consulting services related to M & A / ECM consulting services for specific clients to specific acquisition related to the Czech Republic	11.8.2016

4.22. Between UniCredit Bank a **UniCredit Bulbank AD Sofia**, 7 Sveta Nedelya Sq, Bulgaria

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	25.11.2015

4.23. Between UCB CS and **UniCredit Consumer Financing EAD** 14 Gyueshevo str. 1303 Sofia, Bulgaria

Contract name	Subject-matter of contract	Contract concluded on
Confidential Information Protection Contract	Confidential Information Protection	24.10.2018

4.24. In addition to the above stated contracts, in the last financial year, also other contracts were effective between UniCredit Bank and some other companies of the Group, which, however, are subject to the obligation of banking secrecy. These contracts relate to interbank, derivative and other banking transactions. UniCredit Bank cooperated with such companies in the issue of bonds, and also entered into client banking transactions (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of UniCredit Bank is backed by bank guarantees provided by UniCredit Bank Austria AG and UniCredit Bank AG. Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

5. Acts occurring in the last financial year, which were made on the initiative of or in the interest of the controlling entity or its controlled entities, if such acts related to assets exceeding 10% of equity of the controlled entity ascertained according to the most recent financial statements,

The limit of 10% of UniCredit Bank equity, according to the financial statements at the end of 2018, was 75.766mil. CZK, exceeded in 2019 the funding provided by UniCredit Bank to UniCredit Leasing CZ, a.s. and UniCredit Leasing Slovakia, a.s. (and to their subsidiaries).

In the course of 2019, the controlling entity and/or its controlled entities deposited amounts on its accounts kept at UniCredit Bank exceeding 10% of UniCredit Bank equity. The deposits were provided on conditions which are standard in the interbank market for the relevant currency and maturity.

6. **Evaluation of whether any loss was caused to the controlled entity, and assessment of the compensation pursuant to Articles 71 and 72 of Act on Commercial Corporations**

The UniCredit Bank Board of Directors declares that no loss was caused to UniCredit Bank Czech Republic and Slovakia, a.s. under the concluded contracts and arrangements.

7. **Evaluation of advantages and disadvantages arising from relationships between entities under paragraph 82 par. 1 of Act on Commercial Corporations**

Advantages of integration of UniCredit Bank into the structure of the UniCredit Group:
A brand known internationally and reputational benefit resulting from the integration of the UniCredit Group into SIFI (Systemically Important Financial Institution).

Sharing of IT infrastructure, development, maintenance within the UniCredit Group and resulting economies of scale in the following areas:
Sharing of know-how of a major European bank and one of the most active and most significant banks in Central and Eastern Europe in the commercial area, i.e. in the development of products, introduction of business innovations and management of sales network.
Possible involvement in growth initiatives of the UniCredit Group, e.g., Transform 2019, providing UniCredit Bank with support and know-how in the area of development of a strong position of a universal bank in the Czech and Slovak markets.

Human Resources Development associated with sharing the UniCredit Group's experience in European markets, possible for employees to gain practical experience in other banks or Holding's management structures, career opportunities within the UniCredit Group.
Possible to apply, in local conditions, the Sponsoring and Marketing of the UniCredit Group on the European level.

Participation of UniCredit Bank in a sophisticated system of services for international clients through International desk / International clients Units in relevant countries, and mutual cooperation of these Units in handling and dealing with the needs of international clients.

We can include the following in possible disadvantages of integration of UniCredit Bank into the structure of the UniCredit Group:
A comprehensive organisational structure of a transnational banking group.

Possible mutual influence from other countries, mainly in the area of reputation and perception of the UniCredit brand (Cross-border sentiment).
When assessing a total influence of the integration of UniCredit Bank into the UniCredit Group, the advantages resulting from this position significantly outweigh the disadvantages. The Bank prevents actively the possible above stated disadvantages both in the form of operational measures in local management of UniCredit Bank and communication, and by building a strong 'brand' on the local level.

In Prague, on 10 March 2020

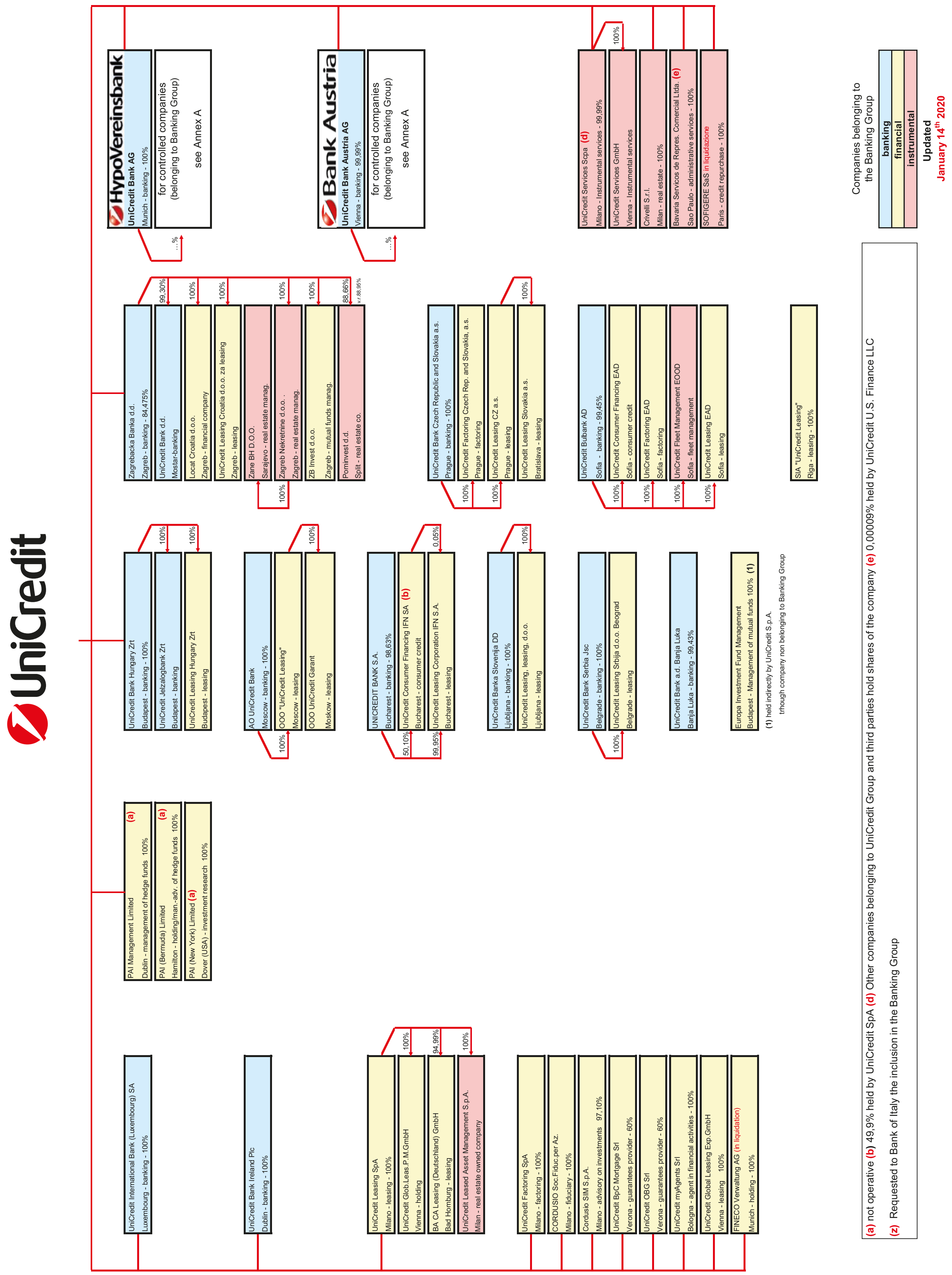
On behalf of the Board of Directors of
UniCredit Bank Czech Republic and Slovakia, a.s.

Ing. Mgr. Jakub Dusílek, MBA Chairman of the Management Board	Ljubiša Tešić Member of the Management Board

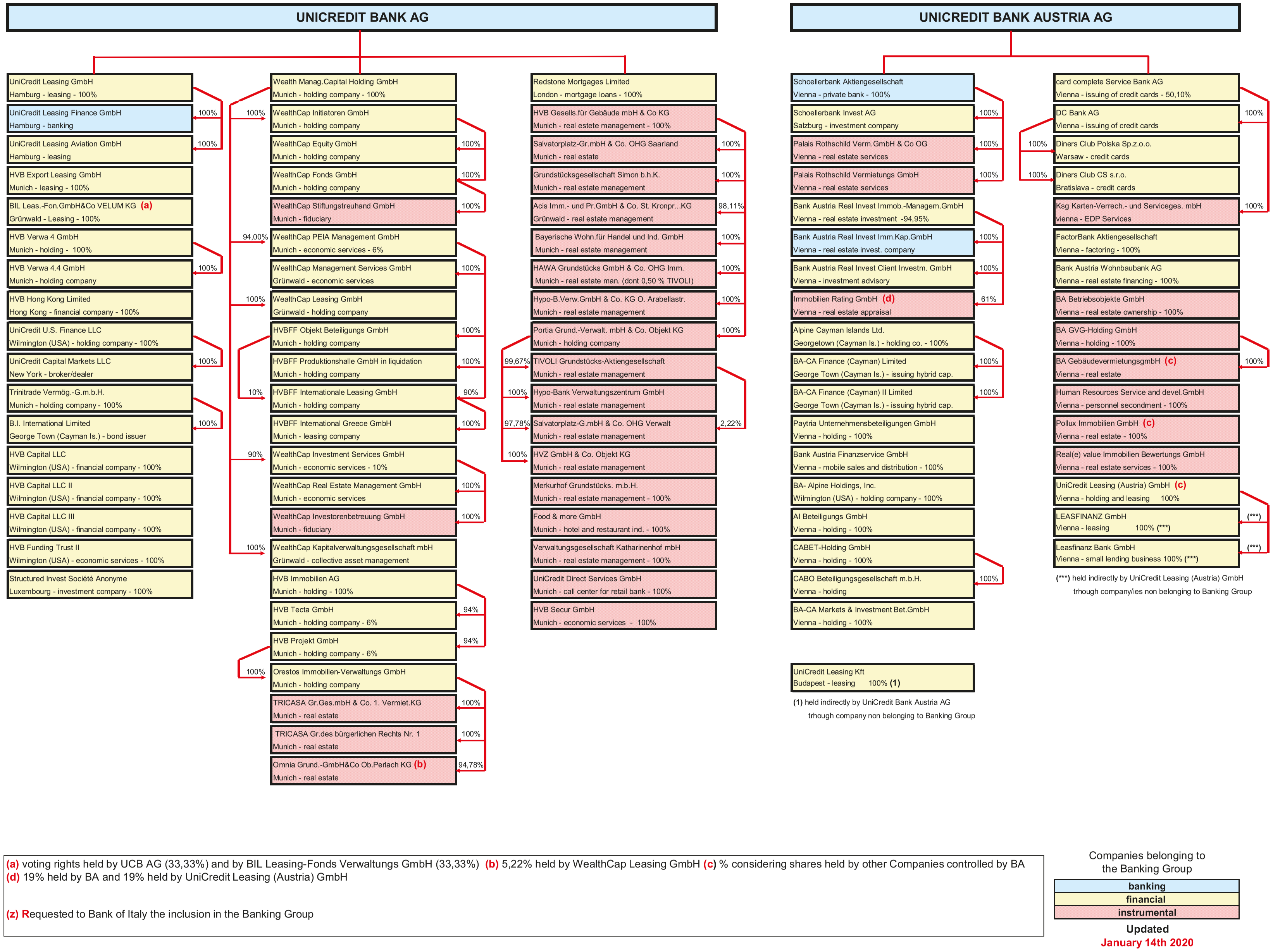
Annexes:

1. Organisation Chart of the UniCredit Group

Structure of UniCredit Group



Annex A



(a) voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (b) 5,22% held by WealthCap Leasing GmbH (c) % considering shares held by other Companies controlled by BA
(d) 19% held by BA and 19% held by UniCredit Leasing (Austria) GmbH

(z) Requested to Bank of Italy the inclusion in the Banking Group

List of Branches

Czech Republic

RETAIL BRANCHES UNICREDIT BANK

REGION PRAGUE

BD POBOČKA BANKOVNÍ DŮM
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 602 871 223
fax: +420 221 159 622
bankovnidum@unicreditgroup.cz

BD OSOBNÍ BANKOVNICTVÍ
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 602 870 988

BD PODNIKATELSKÉ CENTRUM
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 602 870 612

BD CENTRUM MEZINÁRODNÍ KLIENTELY
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 721 048 770
fax: +420 221 159 622
icc@unicreditgroup.cz

ADRIA
Jungmannova 31
110 00 Praha 1
tel.: +420 602 871 390
fax: +420 221 153 101
praha.adria@unicreditgroup.cz

ANDĚL
Štefánikova 281/4
150 00 Praha 5
tel.: +420 602 870 826
fax: +420 221 155 660
praha.andel@unicreditgroup.cz

BUDĚJOVICKÁ
Olbrachtova 1946/64
140 00 Praha 4
tel.: +420 602 870 887
fax: +420 221 155 580
praha.budejovicka@unicreditgroup.cz

EDEN
Vršovická 1398/70
101 00 Praha 10
tel.: +420 602 870 894
fax: +420 221 155 710
praha.eden@unicreditgroup.cz

FILADELFIE
Želetavská 1525/1
140 00 Praha 4
tel.: +420 602 870 849
fax: +420 221 155 205
praha.filadelfie@unicreditgroup.cz

FLÓRA
Vinohradská 151
130 00 Praha 3
tel.: +420 602 871 426
fax: +420 221 153 205
praha.flora@unicreditgroup.cz

HŮRKA
Petržílkova 1435
158 00 Praha 13
tel.: +420 602 870 016
fax: +420 221 155 200
praha.butovice@unicreditgroup.cz

KARLÍN
Thámova 84/23
186 00 Praha 8
tel.: +420 602 870 829
fax: +420 221 155 690
praha.karlin@unicreditgroup.cz

KOBYLISKÉ NÁMĚSTÍ
Horňátecká 447/1
180 00 Praha 8
tel.: +420 602 870 912
fax: +420 221 155 700
praha.kobylisy@unicreditgroup.cz

VALDEK
Jugoslávská 29
120 00 Praha 2
tel.: +420 602 870 687
fax: +420 221 159 722
praha.valdek@unicreditgroup.cz

VÍTĚZNÉ NÁMĚSTÍ
Vítězné náměstí 10
160 00 Praha 6
tel.: +420 602 870 090
fax: +420 221 153 301
praha.vitezne@unicreditgroup.cz

VYSOČANY
Freyova 945/35
190 00 Praha 9
tel.: +420 602 870 881
fax: +420 221 155 190
praha.vysocany@unicreditgroup.cz

REGION BOHEMIA SOUTH

BENEŠOV
Masarykovo náměstí / Řeznická 228
256 01 Benešov
tel.: +420 602 871 293
fax: +420 221 155 005
benesov@unicreditgroup.cz

ČESKÉ BUDĚJOVICE NÁMĚSTÍ
nám. Přemysla Otakara II. 122/35
370 21 České Budějovice
tel.: +420 602 870 153
fax: +420 221 155 620
cb.otakara@unicreditgroup.cz

JINDŘICHŮV HRADEC
nám. Míru 164
377 01 Jindřichův Hradec
tel.: +420 602 870 239
fax: +420 221 155 045
jindrichuvhradec@unicreditgroup.cz

KLATOVY
Kpt. Jaroše 47
339 01 Klatovy
tel.: +420 602 871 136
fax: +420 221 155 060
klatovy@unicreditgroup.cz

PÍSEK
Alšovo náměstí 16
397 01 Písek
tel.: +420 602 870 181
fax: +420 221 155 720
pisek@unicreditgroup.cz

PLZEŇ NÁM. REPUBLIKY
nám. Republiky / Riegrova 1
301 00 Plzeň
tel.: +420 602 871 159
fax: +420 221 157 001
plzen.republiky@unicreditgroup.cz

PŘÍBRAM
náměstí T. G. Masaryka 144
261 01 Příbram
tel.: +420 602 870 228
fax: +420 221 157 920
pribram@unicreditgroup.cz

STRAKONICE
Lidická 207
386 01 Strakonice
tel.: +420 602 870 238
fax: +420 221 155 125
strakonice@unicreditgroup.cz

TÁBOR
třída 9. května 2886
390 02 Tábor
tel.: +420 602 870 189
fax: +420 221 155 590
tabor@unicreditgroup.cz

REGION BOHEMIA NORTH EAST

HRADEC KRÁLOVÉ
Ulrichovo nám. 854
500 02 Hradec Králové
tel.: +420 602 870 146
fax: +420 221 157 701
hradec.ulrichovo@unicreditgroup.cz

KOLÍN
Pražská 167
280 02 Kolín
tel.: +420 602 870 667
fax: +420 221 155 065
kolin@unicreditgroup.cz

KUTNÁ HORA
Šultysova 153
284 01 Kutná Hora
tel.: +420 602 870 625
fax: +420 221 155 070
kutnahora@unicreditgroup.cz

LIBEREC MOSKEVSKÁ
Moskevská 638/8
460 01 Liberec
tel.: +420 602 870 038
fax: +420 221 157 501
liberec.moskevska@unicreditgroup.cz

MLADÁ BOLESLAV
Českobratrské nám. 1321
293 01 Mladá Boleslav
tel.: +420 602 870 096
fax: +420 221 157 601
mb.ceskobratrske@unicreditgroup.cz

NÁCHOD
Palackého 921
547 01 Náchod
tel.: +420 602 870 673
fax: +420 221 155 095
nachod@unicreditgroup.cz

PARDUBICE
třída Míru 92
530 01 Pardubice
tel.: +420 602 871 079
fax: +420 221 157 801
pardubice.grand@unicreditgroup.cz

REGION BOHEMIA NORTH WEST

BEROUN
Husovo nám. 11/83
266 01 Beroun
tel.: +420 602 870 721
fax: +420 221 155 010
beroun@unicreditgroup.cz

ČESKÁ LÍPA
Jindřicha z Lipé 108
470 01 Česká Lípa
tel.: +420 602 871 110
fax: +420 221 155 025
ceskalipa@unicreditgroup.cz

DĚČÍN
Husovo nám. 74/5
405 02 Děčín
tel.: +420 602 870 743
fax: +420 221 157 940
decin@unicreditgroup.cz

CHEB
Svobody 520/3
350 02 Cheb
tel.: +420 602 870 695
fax: +420 221 157 900
cheb@unicreditgroup.cz

CHOMUTOV
Revoluční 36 / Husovo náměstí
430 01 Chomutov
tel.: +420 602 870 796
fax: +420 221 157 301
chomutov.revolucni@unicreditgroup.cz

KARLOVY VARY TGM
Zeyerova 892/7
360 01 Karlovy Vary
tel.: +420 602 870 789
fax: +420 221 157 201
kv.tgm@unicreditgroup.cz

KLADNO
Havířská 96
272 01 Kladno
tel.: +420 602 870 702
fax: +420 221 155 055
kladno@unicreditgroup.cz

MĚLNÍK
nám. Karla IV. 143
276 01 Mělník
tel.: +420 602 871 132
fax: +420 221 155 085
melnik@unicreditgroup.cz

MOST
Budovatelů 295
434 01 Most
tel.: +420 602 870 109
fax: +420 221 155 090
most@unicreditgroup.cz

TEPLICE
náměstí Svobody 40/1
415 01 Teplice
tel.: +420 602 870 779
fax: +420 221 155 600
teplice@unicreditgroup.cz

ÚSTÍ NAD LABEM
Mírové nám. 35A
400 01 Ústí nad Labem
tel.: +420 602 870 766
fax: +420 221 157 401
usti.mirove@unicreditgroup.cz

REGION MORAVIA SOUTH WEST

BLANSKO
Wanklovo nám. 1436
678 01 Blansko
tel.: +420 602 870 406
fax: +420 221 155 015
blansko@unicreditgroup.cz

BRNO DIVADELNÍ
Divadelní 2
601 57 Brno
tel.: +420 602 871 262
fax: +420 221 155 610
brno.divadelni@unicreditgroup.cz

BRNO KRÁLOVO POLE
Palackého třída 721/78
612 00 Brno
tel.: +420 602 870 292
fax: +420 221 155 195
brno.kralovopole@unicreditgroup.cz

BRNO TRINITI
Úzká 488/8
602 00 Brno
tel.: +420 602 871 259
fax: +420 221 154 001
brno.triniti@unicreditgroup.cz

BŘECLAV
17. listopadu 3
690 02 Břeclav
tel.: +420 602 870 488
fax: +420 221 155 020
breclav@unicreditgroup.cz

HAVLÍČKŮV BROD
Havlíčkovo náměstí 158
580 01 Havlíčkův Brod
tel.: +420 602 871 440
fax: +420 221 155 035
havlickuvbrod@unicreditgroup.cz

JIHLAVA
Masarykovo náměstí 54
586 01 Jihlava
tel.: +420 602 870 262
fax: +420 221 154 501
jihlava.masarykovo@unicreditgroup.cz

KROMĚŘÍŽ
Vodní/Farní 95
767 01 Kroměříž
tel.: +420 602 870 481
fax: +420 221 155 780
kromeriz@unicreditgroup.cz

TŘEBÍČ
Komenského nám. 1045/18
674 01 Třebíč
tel.: +420 602 870 243
fax: +420 221 154 640
trebic@unicreditgroup.cz

VYŠKOV
Masarykovo nám. 145/30
685 01 Vyškov
tel.: +420 602 870 471
fax: +420 221 155 150
vyskov@unicreditgroup.cz

ZNOJMO
Horní nám. 139
669 02 Znojmo
tel.: +420 602 870 410
fax: +420 221 155 160
znojmo@unicreditgroup.cz

ŽĎÁR NAD SÁZAVOU
náměstí Republiky 145
591 01 Žďár nad Sázavou
tel.: +420 602 871 402
fax: +420 221 155 155
zdarnadsazavou@unicreditgroup.cz

REGION MORAVIA NORTH EAST

FRÝDEK-MÍSTEK
Pivovarská 2340
738 01 Frýdek-Místek
tel.: +420 602 870 309
fax: +420 221 154 600
frydek-mistek@unicreditgroup.cz

HAVÍŘOV
Československé armády 195/1a
736 01 Havířov
tel.: +420 602 870 380
fax: +420 221 155 030
havirov@unicreditgroup.cz

KARVINÁ
třída Osvobození 1720/11
735 06 Karviná
tel.: +420 602 871 375
fax: +420 221 155 050
karvina@unicreditgroup.cz

NOVÝ JIČÍN
5. května 18
741 01 Nový Jičín
tel.: +420 602 871 399
fax: +420 221 155 100
novyjicin@unicreditgroup.cz

OLOMOUC
28. října 15
772 00 Olomouc
tel.: +420 602 870 444
fax: +420 221 154 401
olomouc.28rijna@unicreditgroup.cz

OPAVA
Ostrožná 18
746 01 Opava 1
tel.: +420 602 870 522
fax: +420 221 155 790
opava@unicreditgroup.cz

OSTRAVA
28. října 3348/65
702 00 Ostrava
tel.: +420 602 871 394
fax: +420 221 154 201
ostrava.karolina@unicreditgroup.cz

OSTRAVA HRABŮVKA
Horní 1642/55a
700 30 Ostrava-Hrabůvka
tel.: +420 602 870 373
fax: +420 221 155 110
ostrava.hrabuvka@unicreditgroup.cz

OSTRAVA PORUBA
Hlavní tř. 583/99
708 00 Ostrava-Poruba
tel.: +420 602 871 319
fax: +420 221 155 770
ostrava.poruba@unicreditgroup.cz

PROSTĚJOV
náměstí T. G.Masaryka 8
796 01 Prostějov
tel.: +420 602 870 541
fax: +420 221 155 530
prostejov@unicreditgroup.cz

PŘEROV
Čechova 37
750 02 Přerov
tel.: +420 602 871 366
fax: +420 221 155 120
prerov@unicreditgroup.cz

ŠUMPERK
náměstí Svobody 2840
780 01 Šumperk
tel.: +420 602 870 587
fax: +420 221 154 620
sumperk@unicreditgroup.cz

TŘINEC
nám. Svobody 527
739 61 Třinec
tel.: +420 602 870 320
fax: +420 221 155 130
trinec@unicreditgroup.cz

VALAŠSKÉ MEZIŘÍČÍ
náměstí 90/23
757 01 Valašské Meziříčí
tel.: +420 602 871 333
fax: +420 221 155 145
valasskemezirici@unicreditgroup.cz

ZLÍN BARTOŠOVA
Bartošova 5532
760 01 Zlín
tel.: +420 602 870 483
fax: +420 221 154 301
zlin.bartosova@unicreditgroup.cz

BUSINESS VENUES EXPRES

EXPRES BOHUMÍN
tř. Dr. E. Beneše 231
735 81 Bohumín
tel.: +420 955 963 272
expres.bohumin@unicreditgroup.cz

EXPRES BOSKOVICE
Komenského 341/9
680 01 Boskovice
tel.: +420 955 964 886
expres.boskovice@unicreditgroup.cz

EXPRES BRANDÝS NAD LABEM
Petra Jilemnického 15/4
250 01 Brandýs nad Labem
tel.: +420 955 962 990
expres.brandysnadlabem@unicreditgroup.cz

EXPRES BRNO – VINOHRADY
Pálavské náměstí 4246/5
628 00 Brno-Vinohrady
tel.: +420 605 839 363
expres.brno-vinohrady@unicreditgroup.cz

EXPRES ČÁSLAV
Dusíkova 78
286 01 Čáslav
tel.: +420 602 794 254
expres.caslav@unicreditgroup.cz

EXPRES ČESKÁ TŘEBOVÁ
Staré náměstí 16
560 02 Česká Třebová
tel.: +420 724 602 277
expres.ceskatrebova@unicreditgroup.cz

EXPRES DOBŘÍŠ
Plukovníka B. Petroviče 219
263 01 Dobříš
tel.: +420 955 964 400
expres.dobris@unicreditgroup.cz

EXPRES DVŮR KRÁLOVÉ N. L.
Revoluční 79
544 01 Dvůr Králové n. Labem
tel.: +420 955 964 320
expres.dvurkralove@unicreditgroup.cz

EXPRES HODONÍN
Národní třída 24
695 01 Hodonín
tel.: +420 605 839 363
expres.hodonin@unicreditgroup.cz

EXPRES JABLONEC NAD NISOU
Máchova 21/2
466 01 Jablonec n. Nisou
tel.: +420 955 959 908
expres.jablonecnadnisou@unicreditgroup.cz

EXPRES JIČÍN
Husova 60
506 01 Jičín
tel.: +420 955 962 973
expres.jicin@unicreditgroup.cz

EXPRES KRALUPY NAD VLTAVOU
náměstí J. Seiferta 698
278 01 Kralupy nad Vltavou – Lobeček
tel.: +420 955 962 990
expres.kralupynadvltavou@unicreditgroup.cz

EXPRES KRNOV
Zámecké náměstí 13/1
794 01 Krnov
tel.: +420 955 964 728
expres.krnov@unicreditgroup.cz

EXPRES KYJOV
Jungmannova 1310/10
697 01 Kyjov
tel.: +420 955 964 815
expres.kyjov@unicreditgroup.cz

EXPRES LANŠKROUN
nám. J. M. Marků 52
563 01 Lanškroun
tel.: +420 955 964 147
expres.lanskroun@unicreditgroup.cz

EXPRES LITOMĚŘICE
Michalská 40/2
Mírové náměstí 40
412 01 Litoměřice
tel.: +420 955 959 906
expres.litomerice@unicreditgroup.cz

EXPRES LOUNY
Osvoboditelů 2649
440 01 Louny
tel.: +420 955 963 885
expres.louny@unicreditgroup.cz

EXPRES LOVOSICE
Osvoboditelů 1228
410 02 Lovosice
tel.: +420 955 964 527
expres.lovosice@unicreditgroup.cz

EXPRES LYSÁ NAD LABEM
Husovo náměstí 175
289 22 Lysá nad Labem
tel.: +420 955 962 973
expres.lysanadlabem@unicreditgroup.cz

EXPRES MARIÁNSKÉ LÁZNĚ
Hlavní 279
353 01 Mariánské Lázně
tel.: +420 955 964 270
expres.marianskelazne@unicreditgroup.cz

EXPRES NERATOVICE
28. října 1510
277 11 Neratovice
tel.: +420 955 962 995
expres.neratovice@unicreditgroup.cz

EXPRES NYMBURK
Palackého tř. 2553
288 02 Nymburk
tel.: +420 955 964 320
expres.nymburk@unicreditgroup.cz

EXPRES PODĚBRADY
Lázeňská 1458
290 01 Poděbrady
tel.: +420 602 794 254
expres.podebrady@unicreditgroup.cz

EXPRES RAKOVNÍK
Vysoká 82
269 01 Rakovník
tel.: +420 955 964 270
expres.rakovnik@unicreditgroup.cz

EXPRES ROUDNICE NAD LABEM
Karlovo náměstí 24
413 01 Roudnice nad Labem
tel.: +420 955 963 885
expres.roudnicenadlabem@unicreditgroup.cz

EXPRES ŘÍČANY
Olivova 9
251 01 Říčany
tel.: +420 955 964 780
expres.ricany@unicreditgroup.cz

EXPRES SLANÝ
Masarykovo nám. 142/17
274 01 Slaný
tel.: +420 955 964 835
expres.slany@unicreditgroup.cz

EXPRES SVITAVY
náměstí Míru 133/70
568 02 Svitavy
tel.: +420 605 839 363
expres.svitavy@unicreditgroup.cz

EXPRES TRUTNOV
Krakonošovo nám. 133
541 01 Trutnov
tel.: +420 955 959 867
expres.trutnov@unicreditgroup.cz

EXPRES TURNOV
Havlíčkovo náměstí 32
511 01 Turnov
tel.: +420 955 962 973
expres.turnov@unicreditgroup.cz

EXPRES UHERSKÉ HRADIŠTĚ
Palackého náměstí 175
686 01 Uherské Hradiště
tel.: +420 955 959 908
expres.uherskehradiste@unicreditgroup.cz

EXPRES UHERSKÝ BROD
Masarykovo náměstí 101
688 01 Uherský Brod
tel.: +420 955 964 665
expres.uherskybrod@unicreditgroup.cz

EXPRES VRCHLABÍ
Krkonošská 825
543 01 Vrchlabí
tel.: +420 955 964 320
expres.vrchlabi@unicreditgroup.cz

EXPRES ZÁBŘEH NA MORAVĚ
Valová 2357/8
789 01 Zábřeh na Moravě
tel.: +420 955 963 997
expres.zabrehnamorave@unicreditgroup.cz

BUSINESS VENUES EXPRES PARTNERS

EXPRES PARTNERS BRNO – NOVÉ SADY
Nové sady 988/2
602 00 Brno
tel.: +420 955 960 231
brno.novesady@unicreditgroup.cz

EXPRES PARTNERS BRNO BYSTRC
Kubíčkova 6
635 00 Brno – Bystrc
tel.: +420 955 963 189
brno.bystrc@unicreditgroup.cz

EXPRES PARTNERS BYSTŘICE NAD PERNŠTEJNEM
Masarykovo náměstí 53
593 01 Bystřice nad Pernštejnem
tel.: +420 955 964 849
bystricenadpernstejnem@unicreditgroup.cz

EXPRES PARTNERS ČESKÝ KRUMLOV
Urbinská 182
381 01 Český Krumlov
tel.: +420 955 962 980
expres.ceskykrumlov@unicreditgroup.cz

EXPRES PARTNERS ČESKÝ TĚŠÍN
Nádražní 207
737 01 Český Těšín
tel.: +420 955 963 275
expres.ceskytesin@unicreditgroup.cz

EXPRES PARTNERS CHRUDIM
Masarykovo náměstí 32
537 01 Chrudim
tel.: +420 955 964 771
expres.chrudim@unicreditgroup.cz

EXPRES PARTNERS FRÝDEK-MÍSTEK
Viléma Závady 3679
738 01 Frýdek-Místek
tel.: +420 955 964 719
frydek-mistek.vzavady@unicreditgroup.cz

EXPRES PARTNERS HORNÍ POČERNICE
Náchodská 444/145
193 00 Horní Počernice
tel.: +420 955 962 590
expres.hornipocernice@unicreditgroup.cz

EXPRES PARTNERS HRANICE
Třída 1. máje 1260
753 01 Hranice
601 560 298
expres.hranice@unicreditgroup.cz

EXPRES PARTNERS KUŘIM
Tyršova 84, 664 34 Kuřim
664 34 Kuřim
tel.: +420 955 963 235
expres.kurim@unicreditgroup.cz

EXPRES PARTNERS MORAVSKÁ TŘEBOVÁ
Cihlářova 5/15, 571 01
571 01 Moravská Třebová
tel.: +420 955 964 140
expres.moravskatrebova@unicreditgroup.cz

EXPRES PARTNERS NOVÉ MĚSTO NAD METUJÍ
T. G. Masaryka 64
549 01 Nové Město nad Metují
tel.: +420 955 964 289
novemestonadmetuji@unicreditgroup.cz

EXPRES PARTNERS OLOMOUC
Dolní náměstí 171/17
779 00 Olomouc
tel.: +420 955 963 979
olomouc1.maje@unicreditgroup.cz

EXPRES PARTNERS ORLOVÁ
Osvobození 828
735 14 Orlová
tel.: +420 955 963 290
orlova@unicreditgroup.cz

EXPRES PARTNERS OSTRAVA – PORUBA
Hlavní třída 562/85
708 00 Ostrava – Poruba
tel.: +420 955 960 245
ostrava.poruba.hlavni@unicreditgroup.cz

EXPRES PARTNERS OTROKOVICE
tř. Osvobození 154
765 02 Otrokovice
tel.: +420 955 964 044
expres.otrokovice@unicreditgroup.cz

EXPRES PARTNERS PRAHA SOKOLOVSKÁ
Sokolovská 979/209
190 00 Praha 9
tel.: +420 955 964 399
praha.sokolovska@unicreditgroup.cz

EXPRES PARTNERS PŘÍBRAM
Náměstí T.G.Masaryka 157
261 01 Příbram
tel.: +420 955 964 399
pribram.TGM157@unicreditgroup.cz

EXPRES PARTNERS ROKYCANY
Palackého 11
337 01 Rokycany
tel.: +420 955 964 807
expres.rokycany@unicreditgroup.cz

EXPRES PARTNERS ROŽNOV
Bayerova 53, 756 61
756 61 Rožnov pod Radhoštěm
tel.: +420 955 962 960
expres.roznov@unicreditgroup.cz

EXPRES PARTNERS RUMBURK
Třída 9. května 30,
408 01 Rumburk
tel.: +420 955 964 500
expres.rumburk@unicreditgroup.cz

EXPRES PARTNERS ŠTERNBERK
Radniční 87/4
785 01 Šternberk
tel.: +420 955 963 992
expres.sternberk@unicreditgroup.cz

COMMERCIAL CENTERS

PRAHA – BANKOVNÍ DŮM
náměstí Republiky 3a
110 00 Praha 1
praha@unicreditgroup.cz

PRAHA – FILADELFIE
Želetavská 1525/1
140 92 Praha 4
tel.: +420 955 959 921
praha@unicreditgroup.cz

BRNO
Trnitá 491/3
602 00 Brno
tel.: +420 955 959 909
jihomoravskykraj@unicreditgroup.cz

ČESKÉ BUDĚJOVICE
nám. Přemysla Otakara II. 122/35
370 21 České Budějovice
tel.: +420 955 959 910
jihoceskykraj@unicreditgroup.cz

HRADEC KRÁLOVÉ
Ulrichovo náměstí 854
500 02 Hradec Králové
tel.: +420 955 959 911
kralovehradeckykraj@unicreditgroup.cz

CHOMUTOV
Husovo náměstí / Revoluční 36
430 01 Chomutov
tel.: +420 955 959 912
usteckykraj@unicreditgroup.cz

JIHLAVA
Masarykovo náměstí 54
586 01 Jihlava
tel.: +420 955 959 913
krajvysocina@unicreditgroup.cz

KARLOVY VARY
Dr. Davida Bechera 26
360 01 Karlovy Vary
tel.: +420 955 959 914
karlovarskykraj@unicreditgroup.cz

LIBEREC
Široká 5/28
460 01 Liberec
tel.: +420 955 959 915
libereckykraj@unicreditgroup.cz

OLOMOUC
28. října 15
772 00 Olomouc
tel.: +420 955 959 916
olomouckykraj@unicreditgroup.cz

OSTRAVA
28. října 3348/65
702 00 Ostrava
tel.: +420 955 959 917
moravskoslezskykraj@unicreditgroup.cz

PARDUBICE
Čechovo nábřeží 1790
530 03 Pardubice
tel.: +420 955 959 918
pardubickykraj@unicreditgroup.cz

PLZEŇ
Riegrova 1
301 00 Plzeň
tel.: +420 955 959 919
plzenskykraj@unicreditgroup.cz

ÚSTÍ NAD LABEM
Mírové nám. 35A
400 01 Ústí nad Labem
tel.: +420 955 959 923
usteckykraj@unicreditgroup.cz

ZLÍN
Bartošova 5532
760 01 Zlín
tel.: +420 955 959 924
zlinskykraj@unicreditgroup.cz

Slovak Republic

RETAIL BRANCHES UNICREDIT BANK

REGION BRATISLAVA

AUPARK
Einsteinova 18
851 01 Bratislava
tel.: +421 908 721 045
fax: +421 02/68202035
bratislava.aupark@unicreditgroup.sk

HRON
Dudvážska 5
821 07 Bratislava
tel.: +421 918 501 735
fax: +421 02/40255700
bratislava.hron@unicreditgroup.sk

KRÍŽNA
Krížna 50
821 08 Bratislava
tel.: +421 918 501 736
fax: +421 02/49504412
bratislava.krizna@unicreditgroup.sk

MOSTOVÁ
Mostová 6
811 02 Bratislava
tel.: +421 918 861 192
fax: +421 02/59428000
bratislava.mostova@unicreditgroup.sk

PARK ONE
Nám. 1. Mája 18
811 06 Bratislava
tel.: +421 918 501 670
fax: +421 02/49504501
bratislava.parkone@unicreditgroup.sk

PLYNÁRENSKÁ
Plynárenská 7/A
821 09 Bratislava
tel.: +421 911 407 170
fax: +421 02/58103085
bratislava.plynarenska@unicreditgroup.sk

POLUS CC
Vajnorská 100
831 04 Bratislava
tel.: +421 903 205 107
fax: +421 02/49114800
bratislava.polus@unicreditgroup.sk

RUSTICA
Saratovská 6B
841 02 Bratislava
tel.: +421 905 479 930
fax: +421 02/58101403
bratislava.rustica@unicreditgroup.sk

ŠANCOVÁ
Šancová 1/A
813 33 Bratislava
tel.: +421 918 501 728
fax: +421 02/49502505
bratislava.sancova@unicreditgroup.sk

REGION SLOVAKIA WEST

BÁNOVCE NAD BEBRAVOU
Jesenského 561/3
957 01 Bánovce nad Bebravou
tel.: +421 918 501 702
fax: +421 038/7627015
banovcenadbebravou@unicreditgroup.sk

HLOHOVEC
M. R. Štefánika 4
920 01 Hlohovec
tel.: +421 918 501 635
fax: +421 033/7351015
hlohovec@unicreditgroup.sk

MALACKY
Záhorácka 51
901 01 Malacky
tel.: +421 918 501 679
fax: +421 034/7979279
malacky@unicreditgroup.sk

MYJAVA
M. R. Štefánika 581/29A
907 01 Myjava
tel.: +421 907 984 291
fax: +421 034/6983300
myjava@unicreditgroup.sk

NOVÉ MĚSTO NAD VÁHOM
Čsl. armády 4
915 01 Nové Město nad V.
tel.: +421 905 479 912
fax: +421 032/7484995
novemestonadvahom@unicreditgroup.sk

PEZINOK
Holubyho 27
902 01 Pezinok
tel.: +421 918 861 191
fax: +421 033/6905405
pezinok@unicreditgroup.sk

PIEŠŤANY
Nitrianska 5
921 01 Piešťany
tel.: +421 908 721 069
fax: +421 033/7910833
piestany@unicreditgroup.sk

POVÁŽSKÁ BYSTRICA
M. R. Štefánika 161/4
017 01 Považská Bystrica
tel.: +421 905 455 880
fax: +421 042/4379955
povazskabystrica@unicreditgroup.sk

SENEC
Lichnerova 30
903 01 Senec
tel.: +421 908 764 266
fax: +421 02/40202055
senec@unicreditgroup.sk

SENICA
Hviezdoslavova 61
905 01 Senica
tel.: +421 907 988 026
fax: +421 034/6909133
senica@unicreditgroup.sk

SKALICA
Škarniclovská 1
909 01 Skalica
tel.: +421 908 721 039
fax: +421 034/6906125
skalica@unicreditgroup.sk

TRENČÍN
Nám. Svätej Anny 3
911 01 Trenčín
tel.: +421 908 793 817
fax: +421 032/6509203
trencin@unicreditgroup.sk

TRNAVA
Štefánikova 48
917 01 Trnava
tel.: +421 915 913 940
fax: +421 033/5908305
trnava@unicreditgroup.sk

REGION SLOVAKIA WEST II

DUNAJSKÁ STREDA
Hlavná 5599/3B
929 01 Dunajská Streda
tel.: +421 908 721 102
fax: +421 031/5905500
dunajskastreda@unicreditgroup.sk

GALANTA
Revolučná 1
924 01 Galanta
tel.: +421 911 407 569
fax: +421 031/7884500
galanta@unicreditgroup.sk

LEVICE
Sv. Michala 4 (blok ATOM 2)
934 01 Levice
tel.: +421 908 721 058
fax: +421 036/6350315
levice@unicreditgroup.sk

KOMÁRNO
Palatínova 39
945 05 Komárno
tel.: +421 908 721 158
fax: +421 035/7900065
komarno@unicreditgroup.sk

NITRA
Štefánikova tr.13
949 01 Nitra
tel.: +421 918 501 674
fax: +421 037/6926051
nitra@unicreditgroup.sk

NOVÉ ZÁMKY
Majzonovo nám.2
940 01 Nové Zámky
tel.: +421 918 868 118
fax: +421 035/6913433
novezamky@unicreditgroup.sk

PRIEVIDZA
G. Švéniho 3A
971 01 Prievidza
tel.: +421 905 899 853
fax: +421 046/5189420
prievidza@unicreditgroup.sk

SEREĎ
Dionýza Štúra 1012
926 01 Sereď
tel.: +421 915 786 004
fax: +421 031/7892707
sered@unicreditgroup.sk

ŠALA
Hlavná 12A
927 01 Šala
tel.: +421 905 231 101
fax: +421 031/7838700
sala@unicreditgroup.sk

ŠAMORÍN
Gazdovský rad 49/B
931 01 Šamorín
tel.: +421 905 400 990
fax: +421 031/5627962
samorin@unicreditgroup.sk

TOPOLČANY
Štúrova 4914/18
955 01 Topolčany
tel.: +421 908 721 098
fax: +421 038/5327055
topolcany@unicreditgroup.sk

REGION CENTRAL SLOVAKIA

BANSKÁ BYSTRICA SC EUROPA
SC EUROPA, Na Troskách 25
974 01 Banská Bystrica
tel.: +421 918 501 631
fax: +421 048/4723000
banskabystrica@unicreditgroup.sk

BREZNO
ČSA 17
977 01 Brezno
tel.: +421 908 721 038
fax: +421 048/6700055
brezno@unicreditgroup.sk

ČADCA
Palárikova 85
022 01 Čadca
tel.: +421 908 788 703
fax: +421 041/4302815
cadca@unicreditgroup.sk

LIPTOVSKÝ MIKULÁŠ
Garbiarska 4417
031 01 Liptovský Mikuláš
tel.: +421 908 794 213
fax: +421 044/5475005
liptovskymikulas@unicreditgroup.sk

LUČENEC
Železničná 15
984 01 Lučenec
tel.: +421 908 721 114
fax: +421 047/4303520
lucenec@unicreditgroup.sk

MARTIN
M. R. Štefánika 1
036 01 Martin
tel.: +421 905 455 828
fax: +421 043/4207011
martin@unicreditgroup.sk

RUŽOMBEROK
Mostová 2
034 01 Ružomberok
tel.: +421 918 501 626
fax: +421 044/4320660
ruzomberok@unicreditgroup.sk

ZVOLEN
Nám. SNP 50
960 01 Zvolen
tel.: +421 908 788 698
fax: +421 045/5248016
zvolen@unicreditgroup.sk

ŽIAR NAD HRONOM
Š. Moyzesa 427
965 01 Žiar nad Hronom
tel.: +421 918 501 709
fax: +421 045/6788905
ziarnadhronom@unicreditgroup.sk

ŽILINA
Národná 12
010 01 Žilina
tel.: +421 911 094 773
fax: +421 041/5628205
zilina@unicreditgroup.sk

ŽILINA AUPARK
Veľká okružná 59A
010 01 Žilina
tel.: +421 918 501 629
fax: +421 041/5628500
zilina.aupark@unicreditgroup.sk

REGION SLOVAKIA EAST

BARDEJOV
Dlhý rad 17
085 01 Bardejov
tel.: +421 908 721 134
fax: +421 054/4880410
bardejov@unicreditgroup.sk

HUMENNÉ
Mierová 64/2
066 01 Humenné
tel.: +421 907 735 669
fax: +421 057/7862341
humenne@unicreditgroup.sk

KEŽMAROK
Hlavné nám. 3
060 01 Kežmarok
tel.: +421 917 912 790
fax: +421 052/4680035
kezmarok@unicreditgroup.sk

KOŠICE ROOSEVELTOVA
Rooseveltova 10
040 01 Košice
tel.: +421 918 501 647
fax: +421 055/6232741
kosice.rooseveltova@unicreditgroup.sk

KOŠICE TORYSKÁ
Toryská 1/C
040 11 Košice
tel.: +421 905 899 851
fax: +421 055/7881860
kosice.toryska@unicreditgroup.sk

LEVOČA
Nám. Majstra Pavla 19
054 01 Levoča
tel.: +421 911 991 444
fax: +421 053/4182600
levoca@unicreditgroup.sk

MICHALOVCE
Nám. Osloboditeľov 1
071 01 Michalovce
tel.: +421 905 444 157
fax: +421 056/6880707
michalovce@unicreditgroup.sk

POPRAD
Popradské nábr. 18
058 01 Poprad
tel.: +421 907 735 648
fax: +421 052/7870327
poprad@unicreditgroup.sk

PREŠOV
Hlavná 29
080 01 Prešov
tel.: +421 903 205 143
fax: +421 051/7729605
presov@unicreditgroup.sk

ROŽŇAVA
Nám. Baníkov 33
048 01 Rožňava
tel.: +421 907 831 639
fax: +421 058/7880700
roznava@unicreditgroup.sk

SPIŠSKÁ NOVÁ VES
Zimná 56
052 01 Spišská Nová Ves
tel.: +421 908 721 139
fax: +421 053/4425788
spisskanovaves@unicreditgroup.sk

TREBIŠOV
M. R. Štefánika 20
075 01 Trebišov
tel.: +421 917 225 445
fax: +421 056/6670015
trebisov@unicreditgroup.sk

COMMERCIAL CENTERS

BRATISLAVA – KRÍŽNA
Krížna 50
821 08 Bratislava

BRATISLAVA – ŠANCOVÁ
Šancová 1/A
813 33 Bratislava

DUNAJSKÁ STREDA
Hlavná 5599/3B
929 01 Dunajská Streda

GALANTA
Revolučná 1
924 01 Galanta

KOŠICE
Rooseveltova 10
040 01 Košice

NITRA
Štefánikova tr. 13
949 01 Nitra

POPRAD
Popradské nábr. 18
058 01 Poprad

PREŠOV
Hlavná 29
080 01 Prešov

TRENČÍN
Nám. Svätej Anny 3
911 01 Trenčín

TRNAVA
Štefánikova 48
917 01 Trnava

ZVOLEN
Nám. SNP 50
960 01 Zvolen

ŽILINA
Národná 12
010 01 Žilina