Unlock your potential

2021

Annual Report

Empowering
Communities to Progress.

This version of the Annual financial report is not prepared in the European Single Electronic Format („ESEF") and does not represent the version of the Annual financial report published in accordance with the Capital Market Undertaking Act no. 256/2004 in the XHTML format. UniCredit Bank took all the possible care to ensure that this version is an accurate representation of the version in XHTML format, except for the machine-readable XBRL tags that are embedded only in the XHTML version. However, in all matters of interpretation of information, the XHTML version of the Annual financial report takes precedence over this version. Statutory Annual Report in XHTML format can be accessed at: www.unicreditbank.cz/en/o-bance/vysledky/vyrocni-zpravy.html

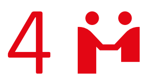
At a glance

UniCredit is a pan-European Commercial Bank with a unique service offering in Italy, Germany, Central and Eastern Europe. Our purpose is to empower communities to progress, delivering the best-in-class for all stakeholders, unlocking the potential of our clients and our people across Europe.

We serve over 15 million customers in a cohesive manner worldwide. They are at the heart of what we do in all our markets.

CORE MARKETS

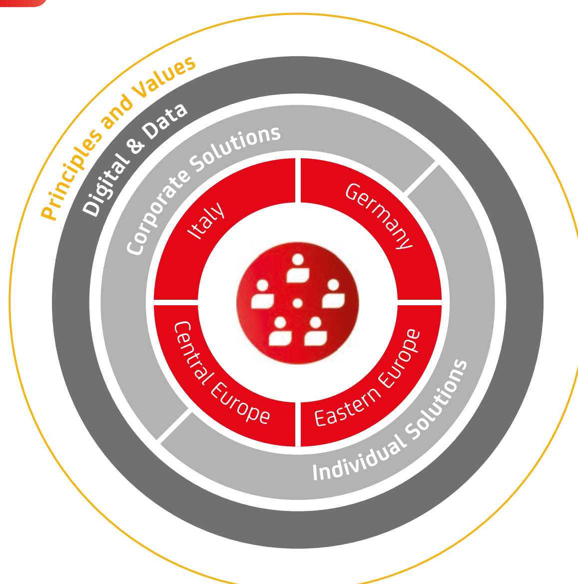
OUR ORGANIZATION



Coverage regions

Product factories serving all regions

Leaner Corporate Centre embedding Digital & Data



OUR CLIENTS, OUR COMMUNITIES, OUR PEOPLE

Our new strategy UniCredit Unlocked puts clients back at the centre, connecting them to their bank in a unified way across Europe. We are their gateway to Europe.

We have a harmonised service model, simplifying our processes and establishing a common organisational structure across our business to connect our clients to our 13 banks and 4 regions in a unified way across Europe.

Digitalisation and our commitment to ESG principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities and our people.

The diversity, knowledge and talent of our 87,000 people are the levers to go above and beyond for our clients. This will allow us to deliver all our ambitions.

Financial Highlights

FY21 COMMERCIAL RESULTS DEMONSTRATING THE INHERENT VALUE OF THE FRANCHISE

CONNECTING OVER 15M CLIENTS ACROSS EUROPE

~14 M RETAIL CLIENTS | **~1 M** CORPORATE CLIENTS | CROSS BORDER PAYMENTS MARKET SHARE: C. **2**X INTRA COUNTRY

THROUGH A UNIQUE AND DIVERSE TALENT BASE

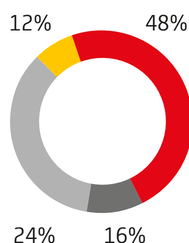
	PRESENCE IN BoD	PRESENCE IN GEC		
International mindset[1] Outside of head office country	38%	53%	14	Employees Resource Groups (LGBTI, Gender, Disability, Culture, Generations)
Gender balance[1] Female	46%	40%	33%	Presence in leadership team

13 BANKS EMBEDDED IN THE FABRIC OF EUROPE[2]

#2 ITALY | **#3** GERMANY | **#2** CENTRAL EUROPE | **#1** EASTERN EUROPE

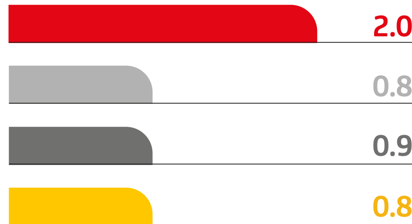
1. Calculated in FTEs.
2. Ranking by total assets. Germany only Private Banks. Italian and German Peers last available update as of 3Q21; Positioning vs other main Peers in CE region is as of 3Q21; ERSTE Austria in CE perimeter ranking consists of ErsteBank Oesterreich & Subsidiaries, Savings banks and Other Austria; Positioning vs other main Peers in EE region is as of 3Q21.

REVENUES (%)[3]

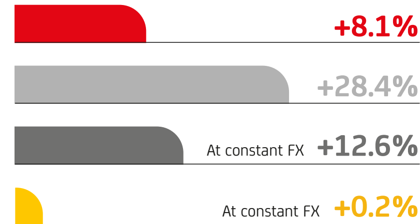


- Italy
- Germany
- Central Europe
- Eastern Europe

Net profit[4] FY21, bn



GOP[3] Δ% vs. FY20



	Net profit[4] FY21, bn	GOP[3] Δ% vs. FY20
ITALY	2.0	+8.1%
GERMANY	0.8	+28.4%
CENTRAL EUROPE	0.9	At constant FX +12.6%
EASTERN EUROPE	0.8	At constant FX +0.2%

OUR FINANCIAL RESULTS SHOWED POSITIVE MOMENTUM

GROW

Revenues: **18bn** exceeding guidance

STRENGTHEN

Non Core rundown completed

CET1 ratio: **15.03%**

DISTRIBUTE

Proposed shareholder distribution: **3.75bn**

OPTIMISE

Cost: **9.8bn** exceeding guidance

3. Revenues by region: Italy excl. PC_CE, PC_EE, PC_Russia, Germany Subgroup.
4. Net Profit means Stated net profit (for 2021 Underlying net profit) adjusted for AT1, CASHES payments and impacts from DTAs from tax loss carry forward sustainability test.

Chairman's message

"

Each new challenge is a new opportunity. And to believe in new opportunities is to believe in change. This is the reason we have adopted a long-term strategy which is already delivering results above expectations.

PIETRO CARLO PADOAN
CHAIRMAN
UNICREDIT S.P.A.

Dear Stakeholders,

it is my pleasure to write to you as Chairman of the UniCredit Board. It is a privilege to be part of this great Bank, a group that is truly diverse in terms of skills, nationalities and gender, as shown by our recent first place award in the 2021 Best Practice Leaders Italy ranking by the European Women on Boards network. I would like to extend my thanks to you all for the welcome you have given both me and our new CEO, Andrea Orcel, since our arrival in April.

There is an adage that every challenge is an opportunity, but since March 2020 and the onset of the pandemic, this has taken on new resonance. Covid-19 has driven change at an unprecedented pace. It has accelerated the digitalisation process within public and private sectors, further strengthened a customer-centric approach, and prompted a renewed focus on ESG issues as part of a path to a sustainable future.

Our industry plays a decisive role in each of these areas. The pandemic has reminded us in many ways what the banking system can and should do when challenged. First, to help manage the aftermath of economic shock, and then, to return to its fundamental role, filling the gap between savings and investments.

This has not been – and will continue not to be – easy or straightforward. But each new challenge is a new opportunity. And to believe in new opportunities is to believe in change: to believe that what is coming can be better than what has come before.

It is a privilege of those in the banking industry to know that we can help create a better future. And we must.

We must do so by returning to our fundamental roles of helping manage the allocation of resources and providing expertise to those in need – whether individuals, households, or companies. In doing so, we will support society through the post Covid-19 transition and help rebuild better than before.

This means providing the best expertise possible, whilst always acting in the interests of our clients. It means supporting the allocation of resources in a way that is sustainable and in the interests of society for the long-term. Practically speaking, this equates to a focus on ESG – and an equal focus on each of the Environmental, Social, and Governance priorities.

We, as banks are uniquely positioned to speed up this shift to a more sustainable way of living and working. Our knowledge of and proximity to our clients mean we can identify the most sustainable sectors and players to support growth over the long-term. And our role in providing financial and advisory support means we can channel resources to the most sustainable investments and strategies.

Supporting our clients and communities is our reason for existing, but we should not underestimate the impact of fostering a positive and responsible culture within our own business. UniCredit's choice to be guided by ESG frameworks and targets, setting appropriate policies to deliver on these, will ultimately be fundamental in building a better Europe.

Finally, more generally, the financial sector plays a crucial role in allocating national and public resources, such as the EU Recovery Fund, to trigger environmental and social transformation.

Our industry can drive swift change and sustainable recovery across Europe. This is a great challenge, but also an even greater opportunity.

UniCredit has been no stranger to change this year. We have a new leadership, and a new strategic plan to deliver growth for all our stakeholders.

The plan, to unlock the strength within UniCredit, enacts in a small way what we hope to see in Europe. It will identify the potential embedded in our bank and give us the necessary framework to excel in the long-term. I have confidence that the UniCredit leadership team will deliver on this mission. We have already made a strong start, exceeding 2021 key financial guidance, which allows us to offer substantial shareholder returns.

As we continue on this path, the Board is committed to providing the requisite oversight and controls to ensure that we are both holding ourselves accountable for all our actions and acting in line with the ECB's requirements at all times.

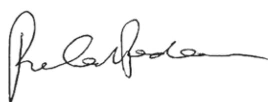
We have taken significant steps to strengthen our governance in line with the current environment. This includes creating a new ESG Board Committee to ensure this topic remains central to our overall corporate strategy and strengthening our Internal Controls & Risks Committee in line with industry best practices.

These are examples of actions taken willingly and proactively because we are invested in success not just for UniCredit, but for all our stakeholders. We know that the successful execution of this plan will impact each of our clients, investors, and regulators.

The challenge is to take each of these different perspectives into account and deliver something that enables them all to succeed.

The opportunity is for us all.

Yours sincerely,

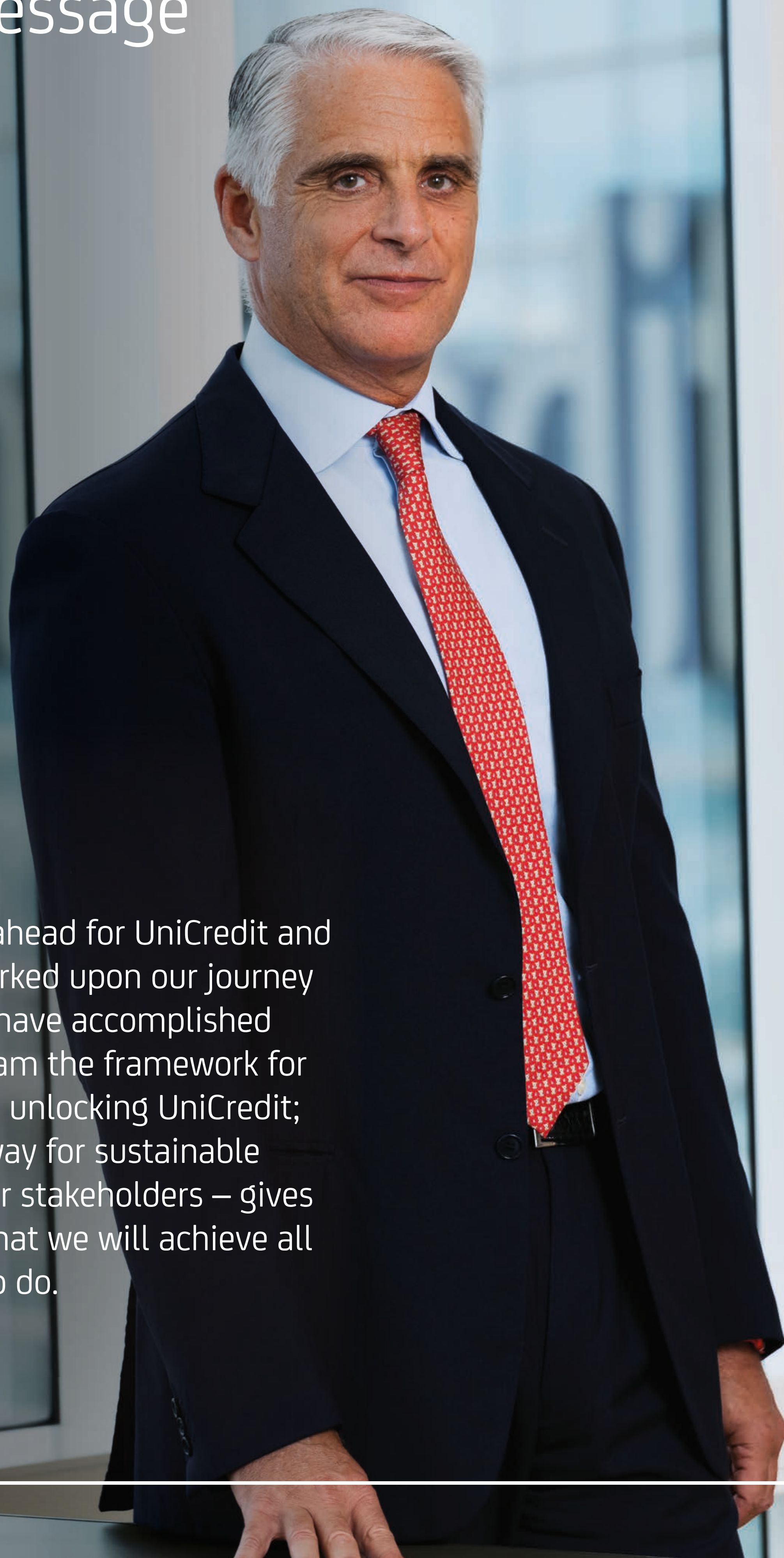


PIETRO CARLO PADOAN
CHAIRMAN UNICREDIT S.P.A.

UniCredit Tower

Our Headquarter
UniCredit Tower in Milan

Chief Executive Officer's message



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There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; beginning the unlocking UniCredit; and delivering a pathway for sustainable financial growth for our stakeholders – gives me every confidence that we will achieve all that we have set out to do.

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

Dear Stakeholders,

When I joined UniCredit early in 2021, I said it felt like coming home. This is true, but it was a home that was relatively unfamiliar.

Although I have worked closely with the bank throughout my career, nothing replaces what you discover about a business when you are on the inside.

So much of my first few months here was spent taking to our people, our investors, and our regulators, gathering an understanding of the bank and the needs and opinions of our stakeholders.

What I found was remarkable and deeply heartening, especially as we began to craft our long-term vision for UniCredit. Our bank is not an institution that needs to be fundamentally changed or rebuilt. We have all the raw ingredients for success: 13 banks across Europe; 87,000 people with a truly international mindset, and 15m clients. We are a truly local bank with a pan-European reach.

It would be an honour to be at the helm of such an institution at any time, but it is particular honour at this point in our collective history. As Europe emerges from the Covid-19 pandemic, we have a significant opportunity to rebuild: not only to recapture the strength and success we had before, but to go further and do better.

Banks have a critical role to play as we do so. Operating correctly, they act as the engines for financial progress – the plumbing which facilitates this recovery and regrowth. They are the key transmission mechanism for our financial system; the deployers of monetary policy; the financers of state projects designed to increase growth, and so much more.

As a continent, we need our banks to function well because at the moment Europe is underperforming. Our capital markets are less developed than those of other blocs and our real GDP growth is falling behind others. We as a society should not accept this, and we as UniCredit will not, because we have the ability to create change for the better.

UniCredit is the only pan-European bank. Our true and deep presence across the continent means we are well-positioned to provide this financial plumbing which will help local communities to progress and Europe to succeed.

My role is to ensure that we are utilizing our bank's ingredients properly to achieve the above, as well as our financial objectives: growth, profitability, strength, returns to shareholders, and long-term, sustainable success.

When we deliver this, we deliver for our people, giving them a bank to be proud of, and pride in the work they do every day. A team of passionate people, building true partnerships with clients and serving the communities they know well, will be at the heart of our success.

These things together will put UniCredit back in the top tier of European banks. Looking beyond our bank, I believe this combination of financial success and empowered people is what will form the basis of Europe's reestablishment as a leading economic bloc.

We have already made significant progress in 2021, working tirelessly with these goals in mind, and we have begun to see the results of such a strategy.

2021

Although we formally announced our strategic plan in December, our action to unlock UniCredit and build the bank for Europe's future began the moment we stepped through the door in April.

We were firmly in execution mode throughout 2021 and much of what we articulated in December was already in flight.

This year we have made significant changes to the way UniCredit operates, moving from five siloed business divisions to four coverage regions. We established Italy as a stand-alone territory. We removed unnecessary layers of decision making and empowered the people who really know their clients best to make decisions that concern them, within a clear risk framework.

We unified our view of our clients, ensuring that they are grouped in the same way across all regions. We developed two new, best-in-class product factories to serve these clients: corporate solutions and individual solutions. And we started rationalizing and transforming our technology.

In 2021 we saw the first signs of success from this strategy. Our Q4 results announced underlying net profit more than tripled compared to 2020 and net revenues were up 34% year on year.

Win. The right way. Together.

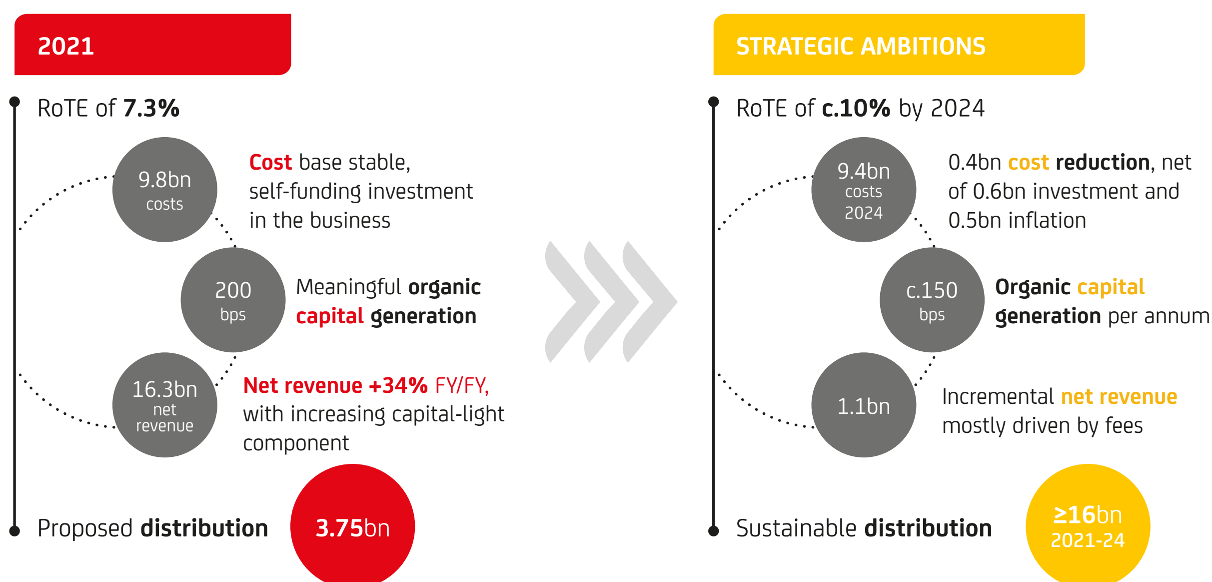
We should not underestimate the potential impact of us delivering on this strategy. Doing so will have repercussions – both financial and social – across the continent. This is what we mean when we say empowering communities to progress, and it is this that equates to helping Europe recover and rebuild post-pandemic.

The most important factor that will determine whether we deliver on our ambitions is the presence of an engaged, empowered and driven team around us. It is their unique understanding of our clients that will enable us to deliver for them and, in turn, deliver on all of our ambitions. We are committed to giving them the inspiration, passion, and ambition to do their very best and go above and beyond for our clients.

We have taken measures to do so this year, defining our collective mindset as Win. The Right Way. Together. We want our people to be driven to succeed for our clients and for themselves: ambition is not something we shy away from. We want them to do so in the right way, in a way that adheres to our values of Integrity, Caring and Ownership, and we want them to do so in partnership with one another and with our clients. This mindset will drive all the decisions we take and provide the requisite attitude for long-term, sustainable success.

We have started a Courageous Voices campaign, to encourage our team to speak up, in all different settings. Our team are our most important asset and we must listen to their ideas and different perspectives to ensure we are working as a united group, moving in the same direction with shared goals. Our success will be a direct reflection of theirs.

There is an inextricable connection between a businesses' financial success and an engaged team working to deliver a clear purpose. This is explicit in our plan, which sets out our dual goals of providing such a purpose and delivering a return on tangible equity of around 10%, annual net revenue growth of 2%, and a distribution of at least €16bn over 2021-2024, in spite of significant investment in our future – in our people as well as in our technology.



UniCredit Unlocked

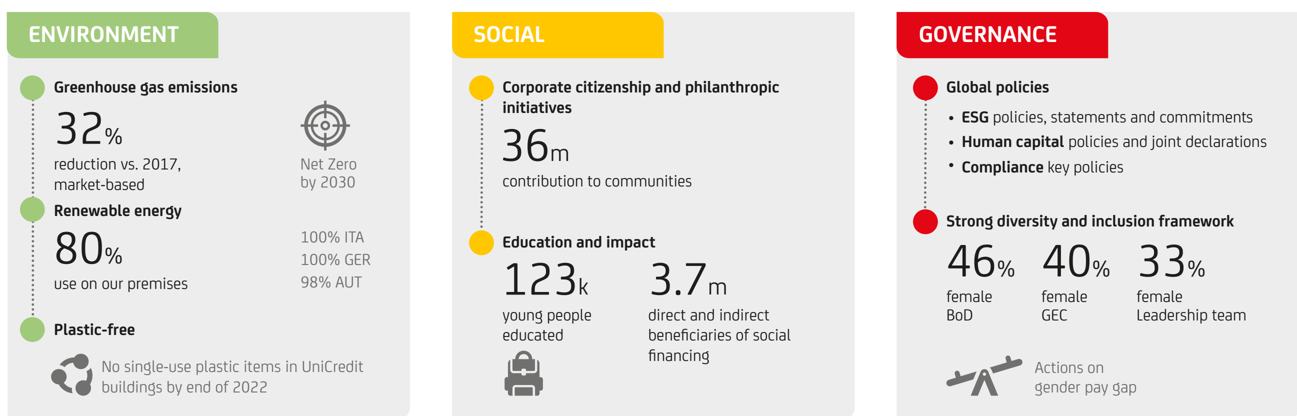
UniCredit Unlocked is a plan designed to deliver for all our stakeholders: investors, employees, and clients. It is a long-term plan for our business. For obvious reasons, key metrics are based on 2021-2024, but this is just one milestone. True success will be measured by how well the plan sets us up for success beyond this date.

It is a plan designed to ensure we are ready for the future and, more importantly, ready to serve our clients of the future. We have bold ambitions to make UniCredit a truly digital bank, powered by data in all we do, investing 2.8bn in this area and making 3,600 new hires to help us on this journey.

Any plan for the long-term must have ESG at heart. Our commitment to sustainability and positive action across all three pillars of ESG will be a guiding force in each and every one of our actions and decisions.

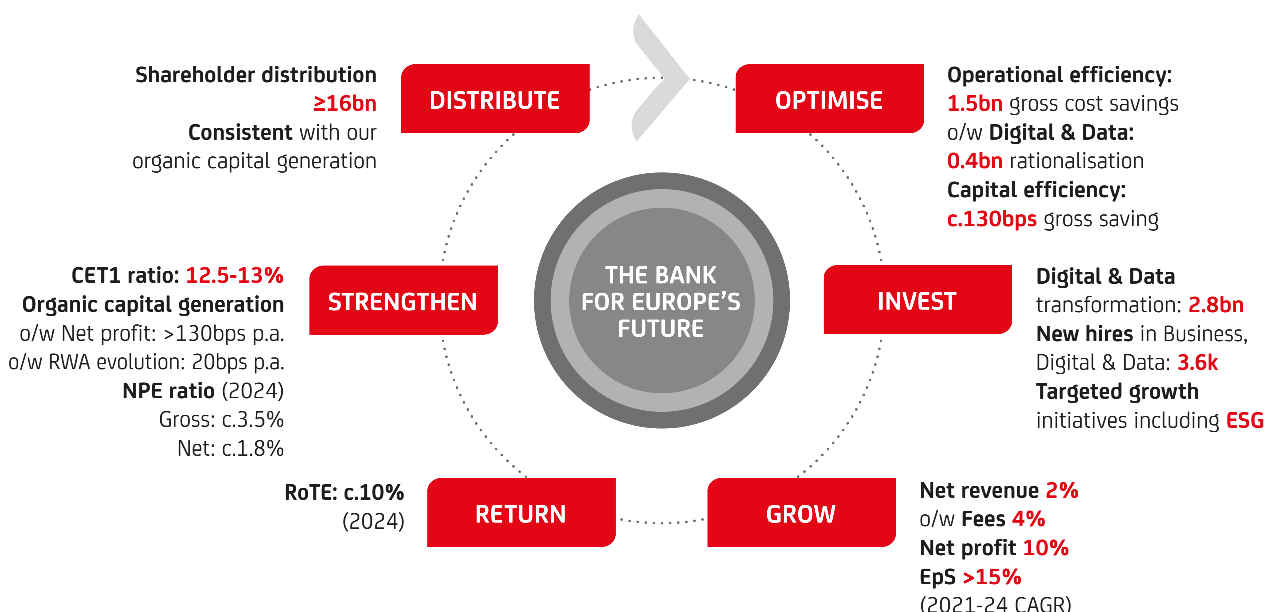
ESG is about actions, not words, for both our own business and in the support of our clients and communities as they embark on their own transitions. We are committed to maintaining the highest standards within UniCredit across each of Environmental, Social and Governance, and to expecting and asking nothing less from our clients too. Balancing these objectives will not always be straightforward. This is a journey, one which will not be complete overnight, but we will embody these principles every single day, working to do better and be better, until we get there.

We have committed to target net-zero by 2030 for our own emissions and have reduced our greenhouse gas emissions by 32% since 2017 (market based). We have contributed 36m to corporate citizenship and philanthropic initiatives, and to the education of 123,000 young people; and are investing 100m to ensuring equal gender pay, which means equal pay for equal jobs. The UniCredit Foundation continued its excellent work, donating €2.4m in Covid-19 relief to tackle hunger, providing over €1m to social solidarity projects and over €1m to support research, study and scholarship grants, whilst also providing €650,000 in match gifting to support our own employees' charitable contributions.

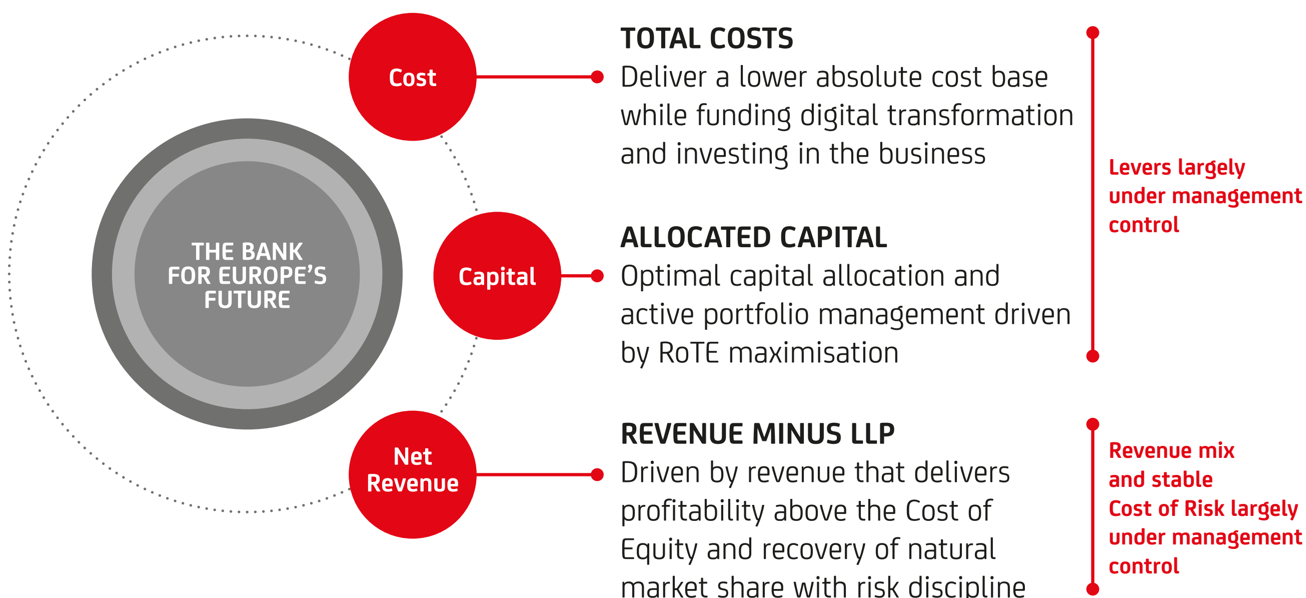


Our financial ambition to unlock UniCredit is based on six pillars, designed to deliver sustainable performance and profitable growth through the cycle.

We **optimise** UniCredit by improving both our operational and our capital efficiency, enabling us to **invest** these resources into our business, with a key focus on digital and data. The focus of our plan is **delivering** growth, at an accelerated rate from 2022, reaching a **return** on tangible equity of around 10% in 2024 and aiming to surpass it thereafter. This **strengthened** business will **distribute** at least €16bn over the next four years in a sustainable fashion.

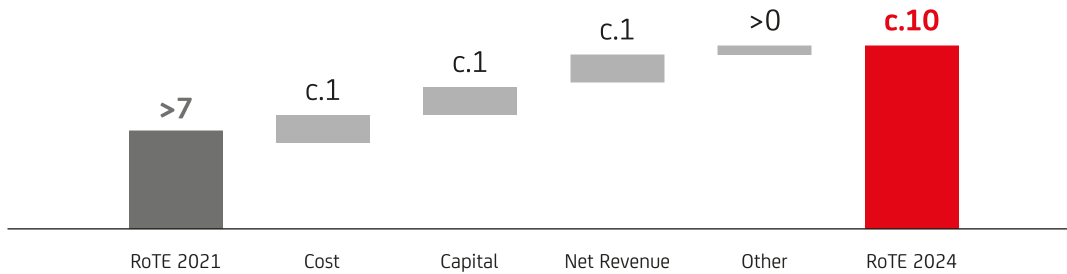


We have three interconnected levers that will drive returns over the coming years.

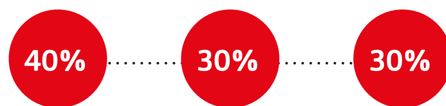


By managing the interaction of these three levers, we can optimally balance growth, strength and profitability.

RoTE walk
All figures in %



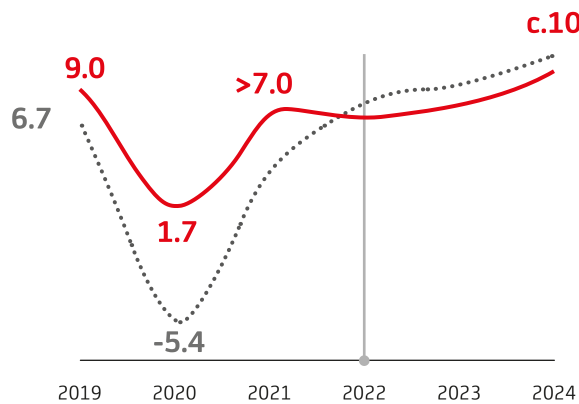
Contribution
to RoTE increase



RoTE evolution
All figures in %

2022 net profit guidance, >3.3bn, in line with 2021

Stated RoTE
RoTE



Future Focus

I do not want to underestimate the incline of the path ahead, but I also want to stress the scale of what I believe is possible if UniCredit unlocks its potential and operates in the right way.

When our bank's clearly defined ambition, purpose and values work in synergy, we will deliver for all stakeholders while not losing sight of the very fundamental reason for our existence: to empower communities to progress.

I truly believe that when these things operate in partnership, and when people work hard to win – the right way – together, this is when companies will excel. Furthermore, this is not limited to companies. It should not only be mantra for our bank, but for the communities and societies in which we operate.

If we get this right, I believe the convergence of a shared ambition, purpose and values is the principle that European recovery and growth will be founded on.

We will start with our bank: a bank that is united in this way, with the right measures in place to meet the needs of the clients of the future, so that we can better serve not only our clients but the societies in which we operate.

It is this that will enable us to be the engine of our continent's recovery, the bank for Europe's future.

This is a powerful purpose and one I hope that the UniCredit team can feel proud to be a part of.

I extend my sincere thanks to all those colleagues who have welcomed me so warmly and been open to the change that I know can be both exciting and challenging in equal measure.

There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; successfully beginning to unlock UniCredit; and delivering financial success for our stakeholders – gives me every confidence that we will achieve all that we set out to do.

I ask for the support of our investors and stakeholders as we do so; as we continue to deliver on our promise to build a better bank for Europe's future.

Thank you,

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

Protecting our most vulnerable: Doubravčice's Centrum péče Doubrava is a pillar of its local community, providing dignity in old age and peace of mind for families; we helped the facility expand.

Our Clients
Centrum Péče Doubrava
Czech Republic

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

UniCredit Bank Czech Republic and Slovakia, a.s.

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Chairman's Statement

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In 2021, UniCredit Bank Czech Republic and Slovakia achieved a consolidated results of CZK 6.98 billion."

JAKUB DUSÍLEK
CHAIRMAN OF THE BOARD
OF DIRECTORS AND CEO
UNICREDIT BANK CZECH REPUBLIC
AND SLOVAKIA, A.S.

Dear Shareholders, Business Partners, Ladies, and Gentlemen,

The year 2021 was a successful period for UniCredit Bank, despite all the obstacles that were mainly associated with the Covid-19 pandemic. The health situation continues to significantly affect the world economy and markets. However, owing to its solid foundations, our Bank was able to transform the challenging environment into a year in which we grew and maintained a strong position in the Czech and Slovak markets. We thank our loyal clients and motivated employees for that. UniCredit Group also strengthened its position as one of the most systemically important banking groups in Europe.

Our expertise and many years of experience make us one of the leading leaders in the Czech and Slovak banking markets. Our priorities include being a simple and efficient bank – owing to this clear vision, we are able to meet even the most demanding goals, as well as constantly evolve and respond flexibly to the rapidly changing modern age. We will further develop this direction in the new UniCredit Unlocked Group strategic plan.

Economic recovery helped the banking sector

In 2021, despite continuing uncertainty, we witnessed an economic recovery that had a positive impact on the performance of the financial sector. In the Czech Republic and Slovakia, the profit of the banking sector grew considerably owing to the release of provisions for non-performing loans created during the first waves of the pandemic. The performance of banks was also favourably affected by major interest rate hikes from mid-2021 in the Czech Republic and by the effect of the abolition of the bank levy in Slovakia.

Pessimistic expectations about the growth of the share of non-performing loans due to the effects of the pandemic did not materialise, nor did the scenario of a continuing decline in lending dynamics. On the contrary, both countries reported strong growth of lending activity. Especially in the area of housing loans, to which the CNB responded in the Czech Republic at the end of the year by setting stricter credit ratio limits when providing mortgages with effect from 1 April 2022.

UniCredit Bank still maintains its position of a leading player in both markets

Last year, we were able to systematically take advantage of interesting business and market opportunities, innovations, customer service, excellent risk management and much more, owing to which we achieved favourable results and maintained our leading position in UniCredit Group in Central and Eastern Europe.

In 2021, UniCredit Bank Czech Republic and Slovakia achieved consolidated results of CZK 6.98 billion, which represents a year-on-year increase of 31.3% of the consolidated net profit. The significant increase in the results was mainly due to the growing volumes of client transactions and the quality of the Bank‘s loan portfolio, together with credit risk management and effective operating cost management. The volume of client loans rose by 4.7% year-on-year, and as regards the volume of deposits from clients, UniCredit Bank Czech Republic and Slovakia reported an increase of 10.6% compared to 2020.

In the Retail Division, we place emphasis on the quality of our services and products, as well as on client satisfaction. The year 2021 was exceptional in terms of new transactions in credit products. The year-on-year increase in the sale of mortgages reached 39% and in consumer loans 56%. Our loan portfolio grew by 9.8% year-on-year and the portfolio of primary sources by 15.6%. The key to growth in retail banking is simple products and services accessible through online channels. The penetration of active digital banking users accounted for 79,5% of all active clients.

The year 2021 was also successful for the Corporate and Investment Banking Division. We continued to reinforce our strong position in the Czech and Slovak markets despite the difficult macroeconomic environment. We succeeded both in the growth of corporate loans and in the acquisition of new clients, mainly due to the provision of comprehensive services and high flexibility. We successfully continued to meet our strategic goals, in particular as regards maintaining and developing our position as a key player in the segment of financing of large international and domestic companies, together with increasing our market share in the small and medium-sized enterprises segment. The main focus in 2021 continued to be the support of our clients affected by the Covid-19 pandemic, individual approach and offer of a wide portfolio of local and European guarantee schemes.

We also maintained our leading position in the field of real estate financing of development projects. 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.

Digitisation saves time for customer care

At UniCredit Bank, we have long focused on modern and digital banking, which streamlines processes and saves time not only for our clients, but also for our employees, who can thus pay even more attention to customer care and other important tasks.

In July, we introduced UniCredit chatbot, a smart digital recruitment assistant, who conducts the first round of interviews with the candidates itself and then processes and provides valuable feedback not only to the Bank, but also to the candidates themselves. During September, we kicked off our new multi-channel OPEN platform for account opening purposes. Owing to this platform, clients may choose the channel to take out the product that suits them best. Our Bank has thus become available literally anytime and from anywhere. Clients could initially try taking out products with the new START, OPEN and TOP current accounts, which correspond to the modern needs of our clients. We soon added other key products to the current accounts in the OPEN platform – consumer credit and mortgage. In November, we introduced, in cooperation with VISA, a new UniCredit SoftPOS app, pocket payment terminals, to our clients from among small and medium-sized enterprises.

Appreciated by clients, partners and experts

The quality of our services and products has been repeatedly emphasised not only by our satisfied clients and business partners, but also by a number of Czech, Slovak and foreign awards. Our Smart Banking mobile app was awarded by Scott & Rose as the best banking app in the category of user availability in controlling basic functionalities. In 2021, we were named Best Social Impact Bank in Europe for the second time by

Capital Finance International magazine. As UniCredit Bank, we can be proud of the award of Best Sub-Custodian Bank 2021 from Global Finance or the top award in the Trade Finance and Cash Management Survey from Euromoney.

ESG and sustainability are the key to future success

Although ESG is still a relatively new concept for the general public, we at UniCredit Bank have been systematically addressing the topic of sustainable financing for several years. Supporting enterprises with an ESG vision goes without saying in our Bank. Last year, ESG loans accounted for almost 20% of the total portfolio of long-term corporate investment loans.

In 2022, in addition to sustainable financing itself, we will also focus on raising awareness of the ESG and sustainability topic among clients themselves. This will also be done through the new digital campaign, which will introduce this topic to the general public.

In addition to continued financing of social projects or investments in select funds and start-up financing, within the next year, as part of retail banking, we will focus on strengthening ESG-related products and developing activities that will underpin our strengthening position in the ESG financing market.

ESG is a topic that moves not only the financial segment, but also the non-financial world. Last year, UniCredit Leasing signed a cooperation agreement with the Tesla brand, which further reflects our efforts to meet the group-wide ESG goals.

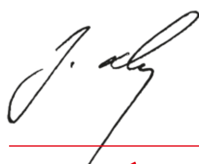
Helping where needed

Besides meeting business challenges and implementing projects in the field of sustainable future, we did not forget to help in 2021 either. In July 2021, Czechia was hit by a natural disaster, a tornado, in southern Moravia. Together with UniCredit Foundation, UniCredit Leasing and Konto Bariéry, we organised a fundraiser with our employees from the Czech Republic and Slovakia participating as well. Together, we sent CZK 3.4 million to the area concerned. We also considerably supported cancer research at the Institute of Microbiology. In Slovakia, we continue to cooperate with TV Markíza Foundation, which traditionally focuses on helping children.

Thank you for your trust

Whatever obstacles and opportunities the new year brings, our vision is to always have clients in the centre of attention and to strengthen the position of our employees and common values of integrity.

I would like to wish you good health, stability and a lot of success in 2022. I believe that together we can cope with any possible obstacles.



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 2021 MCZK	31 Dec 2020 MCZK
Operating results		
Net interest income	12 981	12 091
Net fee and commission income	3 595	3 541
Administrative expenses	(7 288)	(7 092)
Profit before income tax	8 840	6 708
Net profit after tax	6 981	5 317
Statement of financial position figures		
Total assets	693 464	664 352
Receivables from clients – net value	483 349	461 476
Deposits from clients	470 158	425 147
Issued capital	8 755	8 755
Alternative performance indicators*		
Return on average assets (ROAA)	1,0 %	0,8 %
Return on average equity (ROAE)	8,8 %	7,0 %
Assets per employee	213,9	198,5
Administrative expenses per employee	2,2	2,1
Net profit per employee	2,2	1,6
Information about capital and capital adequacy		
Tier 1	78 550	80 852
Tier 2	630	120
Capital	**79 180**	**80 972**
Capital requirement for credit risk under the standardised approach:	**3 760**	**4 110**
Capital requirements for exposure to central government or central banks	152	176
Capital requirements for exposure to regional government or local authorities	77	23
Capital requirements for exposure to institutions	6	3
Capital requirements for exposure to businesses	1 847	1 931
Capital requirements for retail exposures	1 265	1 387
Capital requirements for exposures secured by real estate	26	51
Capital requirements for exposures at default	75	87
Capital requirements for high risk exposures	79	146
Capital requirements for equity exposures	161	160
Capital requirements for other items	72	146
Capital requirement for credit risk under the IRB approach:	**21 997**	**20 626**
Capital requirements for exposure to central government or central banks	114	212
Capital requirements for exposure to institutions	458	915
Capital requirements for exposure to businesses	18 004	16 264
Capital requirements for retail exposures	3 012	2 833
Capital requirements for other non credit-obligation assets	409	402
Capital requirements for position risk	638	333
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	3	6
Capital requirements for operational risk	2 275	2 251
Capital requirements for credit valuation adjustment	104	56
Capital requirement for other risk exposures	183	301
CET1 capital ratio	21,70 %	23,36 %
Tier 1 capital ratio	21,70 %	23,36 %
Total capital ratio	21,87 %	23,40 %
Average number of employees	3 242	3 347
Number of branches	104	108

Reconciliation of equity to regulatory capital (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2021 MCZK	31 Dec 2020 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	(5 994)	1 304
Retained earnings, reserve funds and other capital funds	68 644	66 721
Profit for the year	6 981	5 317
Total equity	**81 881**	**85 592**
CET1 capital adjustments:		
Profit for the year	(6 981)	(2 759)
Reserve from revaluation of hedging instruments	5 998	(567)
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(2 876)	(1 990)
Credit risk adjustments for non-defaulted exposures	2 906	–
Anticipated losses for non-defaulted exposures	(2 944)	–
Effect of companies not included in the prudential consolidation group	(317)	166
Other adjustments	883	410
Total CET 1	**78 550**	**80 852**
Total Tier 1 (T1)	**78 550**	**80 852**
Credit risk adjustments for exposures at default	7 071	9 648
Anticipated losses for exposures at default	(6 441)	(9 369)
Non-deductible surplus above the risk-weighted assets limit	–	(159)
Total Tier 2 (T2)	**630**	**120**
Capital	**79 180**	**80 972**

*** 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 = 2021 and X-1 = 2020

Financial Highlights – Separate

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2021 MCZK	31 Dec 2020 MCZK
Operating results		
Net interest income	11 583	10 705
Net fee and commission income	3 198	3 141
Administrative expenses	(6 737)	(6 592)
Profit before income tax	7 705	6 386
Net profit after tax	6 114	5 162
Statement of financial position figures		
Total assets	680 396	648 590
Receivables from clients – net value	470 318	446 164
Deposits from clients	469 876	424 922
Issued capital	8 755	8 755
Alternative performance indicators*		
Rentability of average assets (ROAA)	0,9 %	0,8 %
Rentability of average Tier 1 Capital (ROAE)	8,0 %	7,1 %
Assets per employee	233,6	214,9
General Administrative Expenses per employee	2,3	2,2
Net profit per employee	2,1	1,7
Information about capital and capital adequacy		
Tier 1	74 927	77 644
Tier 2	630	120
Capital	**75 557**	**77 764**
Capital requirement for credit risk under the standardised approach:	**824**	**777**
Capital requirements for exposure to central government or central banks	125	142
Capital requirements for exposure to regional government or local authorities	77	22
Capital requirements for exposure to institutions	–	–
Capital requirements for exposure to businesses	163	81
Capital requirements for retail exposures	–	–
Capital requirements for exposures secured by real estate	3	1
Capital requirements for exposures at default	15	23
Capital requirements for high risk exposures	79	146
Capital requirements for equity exposures	362	362
Capital requirements for other items	–	–
Capital requirement for credit risk under the IRB approach:	**23 917**	**22 867**
Capital requirements for exposure to central government or central banks	114	212
Capital requirements for exposure to institutions	458	915
Capital requirements for exposure to businesses	19 972	18 516
Capital requirements for retail exposures	3 012	2 833
Capital requirements for other non credit-obligation assets	361	391
Capital requirements for position risk	638	333
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	3	6
Capital requirements for operational risk	2 003	2 063
Capital requirements for credit valuation adjustment	104	56
Capital requirement for other risk exposures	164	289
CET1 capital ratio	21,67 %	23,54 %
Tier 1 capital ratio	21,67 %	23,54 %
Total capital ratio	21,86 %	23,57 %
Average number of employees	2 913	3 018
Number of branches	104	108

Reconciliation of equity to regulatory capital (separate)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2021 MCZK	31 Dec 2020 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	(6 103)	1 312
Retained earnings, reserve funds and other capital funds	65 700	63 815
Profit for the year	6 114	5 162
Total equity	**77 961**	**82 539**
CET1 capital adjustments:		
Profit for the year	(6 114)	(2 659)
Reserve from revaluation of hedging instruments	6 106	(575)
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(2 629)	(1 869)
Credit risk adjustments for non-defaulted exposures	2 940	–
Anticipated losses for non-defaulted exposures	(3 031)	–
Other adjustments	(306)	208
Total CET 1	**74 927**	**77 644**
Total Tier 1 (T1)	**74 927**	**77 644**
Credit risk adjustments for exposures at default	7 071	9 702
Anticipated losses for exposures at default	(6 441)	(9 464)
Non-deductible surplus above the risk-weighted assets limit	–	(118)
Total Tier 2 (T2)	**630**	**120**
Capital	**75 557**	**77 764**

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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.

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 = 2021 and X-1 = 2020

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 leading banks in the Czech and Slovak markets 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 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.

Our UniCredit Unlocked strategy means putting clients at the centre of everything we do. In every situation, we keep in mind the sustainability of our business, we follow a simple principle that helps us translate these values into everyday life: Do the right thing!

ESG – Environmental, Social, and Corporate Governance

For us, thematic discussions concerning the environment and social responsibility are not just about choosing the right words, especially when actions can speak louder than words. At UniCredit Bank, we care about sustainable financing and we support companies with an ESG vision. In 2021, we achieved almost a 20% share of ESG loans in the total portfolio of long-term corporate loans with a total volume of CZK 33.3 billion.

Also, in 2021 we provided loans in the amount of CZK 22,716 million in the area of environmentally beneficial financing, in particular in the field of green energy.

The assessment of whether the loans meet the parameters for inclusion in the category of ESG loans is carried out at the level of individual cases within the ESG Banking Commission for Corporate Loans, following the generally defined parameters of sustainable, environmental and socially beneficial financing.

The mandatory and voluntary disclosures relating to the ESG EU Taxonomy eligibility will be inserted in the Integrated Report 2021 published by UniCredit S.p.A. at consolidated entity level and will include information from all UniCredit Group subsidiaries.

Social projects with a positive impact on society constitute another important part financed by our Bank. These projects are implemented in the field of healthcare, centres for elderly people, nursing homes and public sector investment. One of our accomplishments is, for example, the provision of financing in the amount of CZK 75 million for the construction of the Doubrava Care Centre, where specialised care is given to chronically ill seniors.
In 2022, we want to focus on raising awareness of sustainability among clients through the #TogetherWeMatter digital campaign.

As regards our retail activities, we achieved the greatest accomplishment in investment and financing of start-ups, primarily using the MicroCredit product, which we can use if we know only its objective and three months of demonstrable experience. In 2021, we reached a financed volume of more than CZK 13 million. As for retail banking, in 2022 we want to focus on strengthening these products and developing other activities in order to boost our growing ESG market position.

Last but not least, we are actively involved in volunteering and financial education, which is part of the Social Impact Banking group initiative. The aim of this initiative is to help the most vulnerable, which means children and the elderly, get financial education. Since May 2021, 155 of our banking and leasing employees from the Czech Republic and Slovakia have signed up for the project of volunteer trainers. During the last four months of 2021, when the project could be actively launched, we trained primary and secondary school pupils at 15 different school facilities, both on the initiative of our employees and in cooperation with the Czech Banking Association. A total of 1,530 pupils were trained in financial education and 40 trainers from among our employees actively participated in the presentations, some of them repeatedly. The educational materials are focused on the world of finance in general, explaining to students the purpose of banks, the importance of loans, savings or non-cash payment methods, as well as currently discussed topics such as cybersecurity. The presentations also include competitions, during which students can receive a reward for their activities in the form of our Bank's gift items.

Sponsoring and charity

The Bank's charitable activities in 2021 were also affected by the global Covid-19 pandemic. However, other unpredictable events also affected the long-term sponsorship strategy, including natural disasters in the form of a tornado in South Moravia. Besides support of traditional partners such as Poradna při finanční tísni (Debt Advisory Centre), Foundation of Paediatric Oncology Krtek, Institute of Microbiology, the Na kole dětem (Cycling for Children) foundation, Syner Foundation and many other charities, we also organised a fundraiser in cooperation with the UniCredit Foundation and UniCredit Leasing to support eight of our clients' employees and their families, who were among those affected by the tornado in June.

Immediately after the announcement of the fundraiser, employees from Czech Republic and Slovakia themselves began to participate spontaneously, donating more than CZK 480,000 for the reconstruction of the destroyed homes. With the contribution of the Bank, Leasing and the UniCredit Foundation, we managed to collect an incredible CZK 3.4 million in just two weeks.

UniCredit Bank and UniCredit Leasing in Slovakia continued to develop cooperation with the TV Markíza Foundation, which handed over financial support in the amount of EUR 50,000 for the construction of a day care centre for the Department of Paediatric Psychiatry and other projects aimed at helping children.

In 2021, we continued to engage in the Fulfilled Wishes project, where, as in the previous year, our clients selected three Czech and three Slovak local organisations. In the Czech Republic, we donated 100,000 to Děti úplňku (Children of the Full Moon), the Club of Single Mothers and the OAZA Hodonín Association, as well as to the Centre for Pedagogical and Psychological Counselling and Prevention in Nitra, o.z., IPčko and FitAut in Slovakia.

As part of UniCredit Group and its "Call for Europe" initiative, we donated CZK 1.6 million (EUR 60,000) to a total of 10 non-profit organisations that help children and young people under 18 in the Czech Republic and Slovakia.

Moreover, we developed the traditional Gift Matching Program, through which the UniCredit Foundation doubled our employees' donations to a total of 30 non-profit organisations and projects aimed at helping children and young people, or actively combat Covid-19.

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, electromobility or the granting of loans for renovation aimed at energy savings.

We purposefully reduce the consumption of disposable plastics and we also regularly participate in the Earth Hour initiative. As part of the digitisation project and paperless process implementation, we save hundreds of thousands of papers and printed materials every year.

All our subsidiaries also share the focus on sustainability, environmental protection and meeting ESG goals. An example is UniCredit Leasing's cooperation with the Tesla brand, established in 2021, concerning the support of electromobility and financing in the form of operating lease, which guarantees faster handling and simpler conditions for ordering and financing cars of this brand.

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, an extra day off for birthdays 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 programmes 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, it also offers a series of support programmes and a contribution system that include bonuses/contributions for life or work jubilees, a retirement bonus, a contribution while facing difficult life situations or programmes to support parents in their return from maternity/parental leave. Under normal health and safety circumstances, the Bank, in cooperation with trade unions, organises cultural and sporting events for employees, their families and seniors.

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.

Macroeconomic situation

Czech Republic

In 2021, the Czech economy was characterised by a recovery from the deep recession of the previous year, caused by the pandemic. However, the recovery did not begin until the second quarter, losing its strength again at the end of the year, so GDP still remained below the end-2019 level. The possibilities of the Czech economy were limited by issues in global production chains, the continuing slowdown in tourism and the general labour shortages. The companies responded to the first of these issues with a huge increase in inventories, which was one of the factors behind the deterioration in the foreign trade balance. Households have been increasing their consumption year-on-year since the second quarter, reducing their savings rate inflated by the pandemic only since the autumn. Investment activity did not recover significantly from the slump of the previous year, when it was hampered by the uncertain economic outlook on the demand side and the lack of new passenger cars on the market on the supply side.

In an environment of perceived labour shortages, companies practically did not lay off workers and the share of the unemployed fell to the historically third lowest value at year end. Wage development remained stable, disregarding a one-off bonus payment in health care. It did not respond to the inflation wave, which had strengthened since mid-year. The year-on-year consumer price growth reached 6.6 % in December, the highest since 2008. Unlike previous inflation episodes, this time price pressures were based on international and domestic factors. In an effort to curb inflation expectations, the CNB increased its repo rate sharply from mid-year to 3.75 % in December. However, the braking effects of monetary policy did not materialise in the economy until the end of the year. Credit growth strengthened especially in the second half of the year. The volume of newly provided mortgages was record-breaking in 2021, with prices of flats rising at a double-digit rate. Risks to financial stability prompted the CNB to announce an increase in the countercyclical capital buffer for banks and to tighten mortgage rules.

The government's policy consisted of continued massive transfers from the state budget to companies and households, which was apparently due to the pandemic, as well as the autumn parliamentary elections. The amendments to the Income Tax Act came into force as well, dramatically cutting the revenue side of the budget. The result was a record deficit equivalent to almost 7 % of GDP. Efforts to curb the loosening of fiscal policy led to the rejection of the draft 2022 state budget after the elections. The year thus began with a reversionary budget.

Slovakia

In 2021, the Slovak economy began to recover from the pandemic shock but it still did not reach the pre-crisis level. The economy was driven mainly by the growing domestic demand. Household consumption was boosted by the continued dynamic wage growth and deferred consumption. However, at the beginning and end of the year, it was still hampered by the recurring waves of the pandemic and the resulting restrictions. On the contrary, investment remained subdued and its year-on-year growth was probably due to the low benchmark and increased inventories. This was encouraged mainly by the disrupted global subcontracting chains, which led to the accumulation of work-in-progress and reserve stocks of materials. Since the late spring, bottlenecks have hampered the recovery of the industry, which learned to operate quite efficiently despite continued pandemic-related restrictions. At the same time, they significantly affected a key sector of the economy – car production. Their side effect was also increased price pressure, which was further accentuated by rising commodity prices and inflation expectations anchored at almost 10-year highs. Producer prices thus climbed to double-digit levels at the end of the year, with consumer inflation ending the year at a 17-year high (5.8%).

Record inflation in the eurozone has so far been disregarded by the ECB – leaving key interest rates unchanged because it assessed the rising inflationary pressures as temporary. Interest rates on the interbank market thus remained close to historical lows and further contributed to the decline in interest income of Slovak banks, despite the relatively dynamic asset growth. Loans were boosted mainly by the strong growth in mortgages. On the contrary, interest in consumer financing remained low. Corporate demand for new financing began to gradually increase only in the second half of the year. Despite lower interest income, the net profit of Slovak banks increased in 2021. It was driven by the abolished bank levy and lower provisioning, when concerns for the deteriorating quality of the loan portfolio did not materialise. On the other hand, the rate of non-performing loans dropped to an all-time low.

Although several turbulences in the governing coalition hampered the pace of approval of reforms, the governing coalition held the necessary majority. Disagreements within the coalition have, among other things, delayed the amendment of the law on budgetary responsibility. At the same time, the ongoing pandemic has made it impossible for the time being to consolidate public finances. On the other hand, the government deficit increased slightly compared to the previous year.

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

The 2021 results of UniCredit Bank Czech Republic and Slovakia, a.s., were marked by a partial recovery from the impacts of the Covid-19 pandemic. Operating income increased year-on-year, both in net interest income, and in fees and commissions. As regards fees and commissions, the increase may be attributed to higher transaction activity of clients and higher sales due to the partial epidemiological recovery. As for interest income, the impact of the increased interest rates in the Czech Republic may be identified in particular. The Bank continued to grow considerably year-on-year in client loans and client deposits, both in retail and corporate banking. Operating costs decreased year-on-year due to the lower costs of information technology and preventive measures which had to be taken last year in relation to the Covid-19 pandemic. Due to higher income and lower operating costs, the cost-to-income ratio improved on a year-on-year basis. The cost of credit risk also improved on a year-on-year basis due to the partial epidemiological recovery and its impact on risk models.

Expected Economic and Financial Situation of UniCredit Bank Czech Republic and Slovakia, a.s., in 2022

The 2022 plan is based on the assumption of further recovery of both economies following the consequences of the Covid-19 pandemic. However, the macroeconomic environment will be marked by higher inflation rate and, in the Czech Republic, rising interest rates and a gradual strengthening of the Czech koruna against the euro. The plan assumes organic growth of client transactions with an emphasis on the growth of the client base in all segments. The positive impact of rising interest rates on net interest income and the continuation of digitisation and process optimisation projects, which lead to effective management of operating costs with year-on-year growth below the expected inflation rate, will contribute to increasing profitability and return on capital. Owing to the improving macroeconomic environment, we expect a year-on-year decline in the cost of credit risk in 2022. The Bank's capital adequacy and liquidity ratios will traditionally be well above regulatory requirements.

The information provided may not fully reflect the current geopolitical situation and the impact on business given the situation in Eastern Europe.

Corporate and Investment Banking

2021 represented a very successful year for the Corporate and Investment Banking division. We continued to reinforce our strong position in the Czech and Slovak markets despite the difficult macroeconomic environment. We succeeded both in the growth of corporate loans and in the acquisition of new clients, mainly due to the provision of comprehensive services and high flexibility for our clients. We successfully continued to meet our strategic goals, in particular maintaining and developing our position as a key player in the segment of financing of large international and domestic companies, together with increasing our market share in the SME segment. The main focus in 2021 continued to be the support of our clients affected by the COVID-19 pandemic through individual approach and offer of a wide portfolio of local and European guarantee schemes. Revenues from the provision of services to corporate clients increased by more than 6% year-on-year, significantly exceeding the results from previous years.

The division continued to strengthen its position in client deposits, focusing on the Czech koruna. Despite the strong competitive environment exacerbated by the increased key interest rates in the second half of the year, we managed to increase volumes by more than CZK 31 billion, representing a year-on-year growth by almost 14 %.

The division's priority was to increase the volume of loans, with an emphasis on the portfolio's sound risk profile. In 2021, we grew by more than CZK 9 billion year-on-year. We achieved excellent results in the large corporates segment, where we increased our loan volume by more than 14%, thus continuing to strengthen our traditionally strong position in this group. We were also very successful in the SME segment, where we continued to increase the volume of financing and the number of transactions. Growth was also reported in the segment of international clients, where we further strengthened the traditionally strong portfolio, benefiting from the pan-European presence of the UniCredit banking group. Our goal was also to strengthen our position in the field of operational financing, where we continued to develop and innovate our product range and the unique concept of consultancy in the area of managing our clients' working capital.

In the context of the Covid-19 pandemic, we continued to offer guarantee schemes aimed at financing the operational and investment needs of corporate clients from all segments. Owing to our extended cooperation with Českomoravská záruční a rozvojová banka (ČMZRB), Exportní garanční a pojišťovací společnost (EGAP), the European Investment Fund (EIF), Slovak Investment Holding (SIH) and Eximbanka SR, we were able to offer one of the widest portfolios of guarantee schemes in both markets, and thus support the highest number of corporate clients ever.

In 2021, 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. For example, we provided financing in the total amount of EUR 1 billion to EPH Group, with UniCredit acting as the bookrunner and lead arranger. Another significant transaction was financing in the total amount of EUR 1.7 billion for CETIN, a member of PPF Group, with UniCredit acting as the bookrunner and lead arranger again. As an arranger, we also participated in a number of other club financing – for example, financing for Czech Gas Networks Investments or financing for LAMA ENERGY GROUP a.s. in the amount of CZK 2.4 billion.
A large number of structured transactions was also carried out in the SME and MID segment, where, as a result of generational turnover, entire companies or part of their business shares are sold.

Debt Capital Markets participated in arranging several major corporate issues in local and international markets in 2021, despite the complicated conditions caused by the pandemic. At the same time, Debt Capital Markets also focused on its own issuance activity in the form of structured investment products or the issuance of covered bonds within a programme for the issuance of covered bonds under German law in international markets. Also, Debt Capital Markets successfully prepared the issue of senior non-preferred bonds of the Bank as the first issue of its kind issued in order to meet the minimum requirements for own funds and eligible liabilities (MREL).

UniCredit 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, financing of real estate projects in total volume of more than CZK 28 billion was concluded in 2021. This volume was largely due to loans in the industrial property and office segment. The top transaction of 2021 was a club loan of EUR 1 billion for the refinancing of logistics facilities for CTP Group and the second largest loan of over CZK 5 billion was the refinancing of several office buildings and shopping centres for CPI Property Group.
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, in 2021 we became one of the most important partners in the acquisition of the Aupark Bratislava shopping centre by WOOD & Company, where a club of banks provided almost EUR 300 million. We are also a key institution in the financing of the Bratislava Eurovea 2 complex, where we cooperate with the developer J&T Real Estate both on the construction of the residential part and on the expansion of the Eurovea centre and the adjacent office building.

Together with the Bank's sales network and specialised structures, the Industry Expertise Center managed to underpin the market position growth in strategic sectors. 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 financing of renewable resources and energy.

In the area of healthcare, in 2021 we focused on supporting large healthcare facilities by financing investment and operational needs, as well as purchase of receivables (forfaiting). The Bank also supported the construction of homes with a special regime caring primarily for the elderly.
We remained very active in the public and municipal sector, both in terms of its direct financing (infrastructure and social projects) and in terms of administration and appreciation of deposits of regions, cities and municipalities.

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

In 2021, a dedicated ESG team was established within the Industry Expertise Center, focusing on the development of activities in the area of sustainable, environmental and social financing. This is a particularly important area that we want to further develop. This is one of our commitments of a socially responsible company.

Markets

Financial markets were affected by the ongoing COVID-19 pandemic last year as well. However, the disruption of supply and demand chains, combined with the recovery in demand, meant that the issue of inflation and, in particular, how individual central banks would respond to it was gaining prominence. The gradual tightening of monetary policy by the Czech National Bank was subsequently accompanied by an increase in the interest rate curve and in the EUR/CZK currency pair interest rate differential.

The increased interest of clients in hedging against rising interest rates and against the strengthening of the Czech koruna, together with their above-average transaction activity, significantly helped achieve another record result in trading in financial markets for corporate customers.

As regards trading on its own account, the Bank managed to achieve a solid result again, despite the difficult beginning of the year, which was largely owing to its active operations in the money and bond markets.

Our efforts and quality work were recognised by a number of awards:

Securities management products and services – Global Finance:
- (#1) Best Sub-custodian Banks 2021 in the Czech Republic

Trade finance products and services:
- Euromoney Trade Finance Survey 2021:
  – (#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 2021
  – (#1) Market Leader in Slovakia

UniCredit Factoring
The year 2021 may be considered one of the most successful in history, despite the growing volatility of the macroeconomic environment and the ongoing coronavirus pandemic. UniCredit Factoring recorded a year-on-year increase in purchased receivables by 21.8 % to CZK 35.2 billion and the year-on-year growth in the financing volume by 11.5 % to CZK 2.9 billion. It turns out that our business strategy, which is based, among other things, on creditworthy clients, for whom factoring is a full-fledged financial management tool, is successful.

We managed to achieve excellent business results at a very low level of cost of risk in the amount of CZK 2 million, which together with cost prudence in the operating area contributed to the generation of a net profit of CZK 51.1 million, which corresponds to a net profit margin of 49.5% and a risk-adjusted return on allocated capital ROAC of 13.4%.

In 2021, we also continued to build a reputation for factoring as a modern financial tool and continuously improved our range of liability financing products such as Supply Chain Finance and Payment Agent. As regards receivable financing products, besides traditional financing in the form of the entire package of assigned receivables, we also began to offer clients the possibility of financing individual receivables. In order to keep up with the global innovation and technological progress, we have launched a strategic partnership dialogue with some European technology companies operating in the receivables financing market.

In 2021, we completed the transition to the new accounting system. The goal of this project was to streamline our IT architecture, enhance data protection and eliminate manual tasks. Owing to the transition to a new accounting system, our IT environment is ready for further investment in automation, digital interaction with clients and the development of new products that will bring our clients greater user comfort and a better customer experience.

UniCredit Leasing CZ
In 2021, UniCredit Leasing Group confirmed its stable position of a provider of non-bank financing in both markets. Based on the consolidated results, UniCredit Leasing CZ, a.s., including its subsidiaries in both markets, financed movable and immovable property in a total volume exceeding CZK 19.8 billion with year-on-year increase of 8.73 %. In 2021, the number of newly concluded contracts reached almost 24,000 and new clients accounted for 20.5% of all these contracts.

The total financed value of passenger cars and utility vehicles up to 3.5 tonnes fell by 5.74% year-on-year, which was mainly due to the continuing impact of the Covid-19 pandemic and delayed supplies of new vehicles to end clients. The sale of freight transport equipment over 3.5 tonnes grew year-on-year together with the volume of new financed value, namely by 51%. As for the machinery and equipment segment, our forecast of deferred demand from 2020 was confirmed in 2021 and the volumes of new deals grew by a total of 22%.

At the end of 2021, UniCredit Leasing added the Yamaha brand under the YoU YAMAHA Finance name to its brand financing portfolio in the Czech and Slovak markets. We have also established cooperation with the Tesla brand concerning financing in the form of operating lease, which guarantees faster handling and simpler conditions for ordering and financing cars of this brand.

We continued our long-term well-functioning business cooperation with UniCredit Bank's Corporate and Investment Banking division, as well as further systematic cooperation with UniCredit Bank's Retail division.

We also continued to develop and implement digital technology and process digitisation, both towards our customers and cooperation partners, and to improve and streamline processes within our company.

Retail and Private Banking

In the course of 2021, in relation to the Covid-19 pandemic, the priority was again the safety and health of employees and clients and the availability and continuity of our services to clients. In the second year of the pandemic, however, we learned to cope far more effectively with the situation, which applies to our employees and our clients. We were able to introduce new products across all segments as well as a number of innovations in process, distribution and service quality. All this has led to a considerable improvement in business and financial results.

The pandemic also upheld the importance of our strategic focus on digital business and transaction channels. During the year, we intensified our efforts in this regard by offering other services remotely and by significantly increasing the share of clients using mobile and online banking.

Customer experience is an absolute priority for us and our efforts towards clients are evidenced 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 Central Europe division in 2021.

Bank activities in retail and private banking
In 2021, despite the specific situation caused by the Covid-19 pandemic, 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, in the long run, 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 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 key business accomplishments in 2021 include an 11 % growth in the retail loan portfolio owing to mortgage loans and consumer credit. Confidence in our Bank was also reflected in the 12.8% increase in retail clients' deposits. As regards private banking, the volume of investments rose by 11.1% year-on-year and the loan portfolio grew by 13.5%. In the area of digital banking, we managed to increase the share of clients who actively use online and mobile banking to 79.5%.

Digital
The year 2021 was a year of strategic changes in digital solutions. A multi-channel OPEN concept gradually implemented for the purposes of the simplest possible client access to the Bank through various channels, modern fast paperless processes in current accounts, consumer credit and, at the end of the year, mortgages. For all these products, we managed to considerably reduce processing time and improve customer experience. The new digital platform with these processes is the basis of our multi-channel approach. It can be used by the branch network, but clients can also open new account packages directly from the websites or take out consumer credit by calling the call centre. Further development of the platform will ensure that clients will be able to purchase products just as conveniently from home, via mobile phone, through the call centre and at a branch.

At the same time, we continued to develop mobile banking. In Slovakia, we implemented a new version of the Smart Banking app with a considerably improved user interface, which has been used in the Czech Republic since the previous year. In both countries, we enabled clients to reactivate the banking app at any time without having to visit a branch or call the call centre. At the same time, a number of improvements and new features were added. All this led to a significant improvement in the evaluation of our mobile app by clients during the year.

In addition to modernising the ATM network, we also installed new deposit ATMs at all Slovak branches. Clients' interest in these ATMs led to rapid adoption and transition from branch counters to ATM transactions.

In 2021, we also managed to significantly improve the operation of the call centre and all its operation-related parameters. During the year, our Telesales team gradually grew as monthly sales of mostly credit products almost tripled. With the transition to a new digital platform, the call centre became a full-fledged sales channel this year.

Loans
In 2021, we changed the concept of offering a reward for proper repayment to the concept of a guaranteed interest rate. The principle of this change was for the client to know the interest rate from the very beginning of taking out the loan, and this interest rate will not change during the client's repayment. This change was very appreciated by clients, which is why we continued this concept throughout last year. Owing to the popularity of our PRESTO Loan with clients, we also topped the Consumer Credit ranking within the Finparáda.cz rating in November.

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.

We continued to enhance product availability in 2021 through online banking and mobile smart banking. Clients thus have the opportunity to draw a loan without having to visit a branch. In the new Open digital platform, the process of providing a PRESTO Loan and a bank overdraft for an existing client is now very simple and convenient and without unnecessary paperwork.

Mortgages

As regards mortgages, the year 2021 followed the previous year and focused on streamlining and increasing the transparency of our processes. We focused primarily on internal processes at the headquarters. Owing to the regular process measurement and their subsequent adjustments, we were able to process a record number of mortgages without significant queues and delays. We continued the process digitisation we started; at the end of the year, we processed the first mortgages in our new Open digital platform.

In terms of developments in interest rates, the year 2021 was more favourable for clients in Slovakia, because interest rates there were stable throughout the year and were below 1% p.a. In the Czech Republic, the situation was different, with interest rates rising very dynamically throughout the year, mainly due to the increase of interest rates by the CNB.
Despite the constant growth of interest rates in the Czech Republic, we again achieved excellent results in both markets, when we provided the most mortgages in history, surpassing the record last year. Clients in the Czech Republic continued to prefer interest rates with longer fixation periods; in Slovakia, the 3-year fixation remains the most popular. The average mortgage amount stabilised at around CZK 3 million.

At the same time, we focused very intensively on retention activities; we have set up retention tools and processes to retain clients with mortgages; we achieved record results as to the refixation success rate and allowed clients to fix low rates in advance for many years.

Current accounts

In 2021, we significantly changed our offer and introduced a new range of accounts to the market. The U konto family was replaced by the new START, OPEN and TOP accounts. The START account offers our clients all key transaction banking services: accounts, electronic payments, payment card and mobile and internet banking free of charge and with no conditions. The OPEN account entails additional services with unlimited withdrawals from ATMs and quality travel insurance, payment card insurance and personal belongings. The TOP account offers all the above services in a higher standard and is intended for premium clients. All new accounts are accessible via digital channels.

During the year, we successfully implemented a number of acquisition campaigns, either individually or with our partners. At the end of the year, our acquisition activities culminated in a co-branded campaign with the largest domestic e-commerce retailer, Alza.cz.

Investments and deposits

The basis of our product range 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.

Rising inflation last year, among other things, contributed to the record interest of our clients in investment products. The CPR – Global Disruptive Opportunities fund, which invests in shares of innovative companies that create so-called megatrends, changes in established markets or new markets, has become very popular. We are pleased that another very popular fund is Amundi Multi-Asset Sustainable Future, focused on the responsible investment trend, which combines shares and bonds exclusively of companies meeting strict ESG criteria – environmental impact, social impact and corporate governance assessment.

Again, we prepared two issues of Amundi Buy and Watch funds. These funds have a fixed investment horizon of 4 years, investing in select, mainly US, high-yield corporate bonds. The sales success confirmed the growing popularity of this investment concept. Besides investments in mutual funds, we have offered a new investment certificate in Slovakia, enabling participation in the positive development of the Climate Action Strategy index, the value of which is based on the CPR Invest – Climate Action fund. It is therefore another in a series of investment products used by our Bank to promote the very important topic of sustainability.

Within the private banking segment, we continue to apply the open architecture principle, where we offer clients a wide range of investment products of preferred partners with whom we have established long-term cooperation. The private banking offer entails the best and most effective strategies within a given asset class.

In 2021, we recorded excellent business results, which were also underpinned by the expanded offer of new Qualified Investor Funds and the new ETF Asset Management strategy in Slovakia. We continue to confirm our strong market position in structured products, where we prepared 40 new issues for our private clients with innovative underlying assets, focusing mainly on ESG and thematic investments.

Private clients have recently been introduced to the exclusive Private Invest asset management app, which enables them to continuously monitor their securities portfolio, communicate securely with their banker and actively trade in select investment products.

Small Business

In 2021, as for the Small Business segment, we significantly adjusted the product offer, streamlined the process of providing and obtaining loans, especially for existing clients, and made the price, parameters and method of providing loans more attractive for housing cooperatives and associations of property owners; we also expanded our loan offer with the popular Mortgage for Entrepreneurs.

In the segment of liberal professions, which remains at the centre of our attention, 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 the year, after the successful migration of the portfolio to the Visa payment association, we continued to implement product solutions and services enabling clients to use our payment cards in the Internet environment and without the need to visit a branch. We introduced direct insertion of our cards into ApplePay wallets and also added new card control functions in mobile banking to the existing ones, for example a function for displaying PIN. By automating and harmonising internal apps, we streamlined the setting up of new clients and the handling of their requirements. For clients who still need cash management of their funds, we expanded the network of deposit ATMs, especially in Slovakia.

Bancassurance

In 2021, we continued our strategic partnership with Allianz and Generali, based on which we are constantly expanding our offer with new insurance products. What was new was the introduction of regularly paid unit-linked products, which we prepared in cooperation with Allianz and Amundi for retail and private sales. It is life insurance with an investment component in attractive Amundi funds. During the year, we also prepared two one-off unit-linked life insurance policies for our clients with an attractive structured underlying asset. After the extremely successful introduction of a new variant of insurance of the ability to repay loan products with Generali in 2020 in the Czech Republic, we launched the sale of new packages, including unique coverage of serious diseases in Slovakia.

Branch distribution network

The Covid-19 pandemic affected branches and franchise points of sale in 2021 to a lesser extent than in the previous year. The reductions in the opening hours of branches for clients were not as extensive as in the previous year, and the organisation of bankers' work at branches returned to normal, so the branches no longer worked in the system of changing shifts at the front office and back office.

During 2021, there were no major organisational changes in the branch network. However, the installation of deposit ATMs at many points of sale and more efficient processes in taking out banking products enabled us to transform 22 branches in the Czech Republic and 4 branches in Slovakia to cashless operation.

Supporting 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 of 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 terms of operational risk management in 2021, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of Covid-19.

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 2021 the Bank did not record

any significant events leading to a revaluation of the strategy or significant reset of the applicable limits.

Assets and Liabilities Management

The Bank has long 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. Already in 2020, the Bank increased its participation in the TLTRO programme and, as a result, reduced deposits provided by the parent company. 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.

Services

The Bank's operating activities in the Czech Republic and Slovakia were stable during 2021. Owing to a fully decentralised operating model and a high standard of security and business continuity processes, the ongoing Covid-19 pandemic did not fundamentally affect the Bank's operations. At the same time, we systematically took steps to maximise the health of all our employees.

All of the Bank's operating structures continued to provide high quality services and improved customer experience and satisfaction. Continued automation, robotisation and process optimisation made it possible to further increase the efficiency of operational processes in both countries.

The IT services support model did not change in 2021 and the services are provided by a sister company within UniCredit Group, UniCredit Services S.C.p.A.

In 2021, the Bank focused on the implementation and development of the banking digital platform, which now enables us to serve our customers in an integrated manner across various communication and sales channels. We thus digitally offer clients banking products such as current accounts, mortgages and consumer finance.

In relation to the development of digital approach, other areas are being implemented and developed, such as the development of CRM and connection to individual communication channels or the implementation of a new Banking Identity.

Besides digitisation activities, the Bank introduced system adjustments associated with changes in the regulatory framework. As in previous years, we focus on further improving system availability, system and application security, and fraud monitoring.

Human Resources

People at UniCredit are the key to the company's success and sustainable growth. They play an important role in achieving the Bank's strategy and goals. We therefore put emphasis on creating a corporate culture and work environment that allow people to develop their potential, use their talents and competences. Achieving business goals is the Bank's main priority. However, no less important areas of continuous people capital development are also digitisation, process automation and strategic work with data.

Beyond traditional HR employee care processes, the 2021 priorities included digitisation of recruitment, equal pay, development through upgrading the skills and raising the visibility of all aspects of diversity and inclusion inside and out of the company. Within the entire UniCredit Group, the Human Resources structure was renamed to People & Culture, which more accurately reflects its current focus.

In July 2021, we were the first on the market to use artificial intelligence – the UniCredit chatbot. The smart recruitment chatbot does the first round of interviews with the candidates and provides valuable data not only to the company, but also to the candidates in the form of a development report for each of them. The chatbot not only talks to candidates, but also analyses their data, testing and sorting them according to how they fit the position. The chatbot reduces the recruitment time and increases quality thanks to data used by the manager and People & Culture in the second round. It also contributes significantly to the diversity of people in the Bank, as it approaches candidates objectively and without prejudice.

In 2021, we focused mainly on equality and therefore fairness in compensation. In cooperation with and in line with the UniCredit Group's methodology, we considerably reduced the gender pay gap based on an analysis. Another activity aimed at fair compensation was to reduce the pay gap of employees in the same job position. The variable compensation scheme underwent a significant change as well. We aligned our approach in the Czech and Slovak parts of the Bank, achieving a streamlined and transparent existing system. Fair and equal pay is a key and long-term principle of our culture and strategy.

Learning and development remains a long-term priority of the Bank, and for the second year in a row, it takes place online at 90% due to the pandemic. Legal certifications for business positions are the only ones taking place in person. However, this did not diminish the diversity and number of trainings. On the contrary, the online form increases flexibility and extends the reach of training to a wider group of employees. We carried out more than 260 types of training focused on leadership, teleworking and specific competences. Training in new MSO 365 technology such as MS Teams, OneDrive or SharePoint represents an innovation and targeted support. These tools significantly change the form of cooperation across the Bank and help increase work efficiency.

Digitisation, technological development and rapidly changing conditions are the driving force behind people's continuous development and ability to adapt quickly. Therefore, concepts such as "upskilling and reskilling", i.e., training and retraining, are essential in our people development plan.

Our focus on the so-called skills of the future such as critical thinking, emotional and social intelligence or adaptive thinking together with a strategic priority in digitisation, i.e., IT skills and the importance of data, was reflected in the launch of two new development programmes:

- Leaders for the Future – 24 talents completed a demanding selection process and develop the skills of the future already described through project work.
- Data Academy – is designed for all employees interested in changing or expanding their career and becoming a data analyst.

The Bank's culture always reflects regular satisfaction surveys of our people. The importance of communication and connection of employees and management is also based on them. For the second year in a row, the "Management at Your Place" initiative connects CEO Jakub Dusílek and General Manager Marc Iannaccone with a wide audience of employees, and they discuss both current events, as well as issues and topics that are of interest to people.

Also in 2021, one of the Bank's core tasks was to address the prevention, safety and health protection of our employees during the pandemic. We continue to meet the needs of our employees in many ways and provide them with extra options with a primary consideration not only for the protection of their health, but also for the care of their family members. We continue to support the development of flexible forms of work, both when working from home and by introducing the so-called Smart Office in the newly reconstructed headquarters premises.

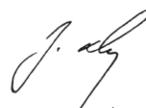
The survey monitoring the perception of the current situation associated with the set measures against the spread of Covid-19 allowed employees to express their views and feelings about whether they have sufficient information and protective equipment and whether they feel sufficient security and support for their work performance by both colleagues and management. Despite the very challenging period and conditions in which some of our employees worked during the year, they expressed confidence in the measures set by the Bank. The results of the survey thus confirmed the sufficiency and suitability of the activities we carry out to ensure the safety of workplaces and the protection of the health of our employees.

The Bank respects human and social rights and pays attention to the needs of its employees. In the long run, we cater to those in a difficult life situation and support employees individually with regard to the life situations they have to face (flexible working hours, reduced working hours, working from home, financial support, unpaid leave, etc.). Support for employees in difficult life situations has long been enshrined in the Collective Agreement. As part of collective bargaining, we placed particular emphasis on agreeing on the conditions and rules for wage increases for our employees in 2022 in our negotiations with representatives of the Czech and Slovak trade unions.

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 2021 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 2022



Jakub Dusílek
Chairman of the Board of Directors

Massimo Francese
Member of the Board of Directors

Report of the Supervisory Board

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 six 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 reviewed the statutory individual and consolidated financial statements, the financial statement for the Slovak branch of the bank prepared as at 31st December 2021 and the proposal for distribution of profit without any remarks.

The Supervisory Board cooperated closely with the Bank's Audit Committee in all major matters falling within the competence of both bodies.

The Supervisory Board further states that, based on the statutory financial statements and other documents provided to the Supervisory Board in 2021, 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 2022

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 2021, the basis for calculating the contribution to the Guarantee Fund was CZK 769,861,268.95. The contribution to the Guarantee Fund is 2% of this amount, i.e., CZK 15,397,225.38.

CENTRUM PÉČE DOUBRAVA

Situated in the leafy village of Doubravčice on the outskirts of Prague, **Centrum péče Doubrava** is a specialised **therapeutic care centre** focused around three core tenets: **health**, **nursing**, and **activation**. The harmonious, award-winning facility caters to those who require continuous care with chronic diseases and impaired cognitive functions, delivering a **highly-personalised** service through its hundred-strong team of nurses, caregivers, activators, physiotherapists and masseurs.

In just three short years, Centrum péče Doubrava has built a stellar reputation based on its **modern approach** and exceptional levels of **patient expertise**. It is the first care centre in the Czech Republic, for instance, to provide Namaste Care: an exclusively non-pharmacological method that enables staff to cater to the personal needs of residents living with advanced dementia, focusing on the person rather than the process and protocol. In its private park, inspired by the rolling hills of the French countryside, residents can undertake both creative and physical activities in a natural setting. This outdoor recreation simultaneously prolongs the active part of their lives whilst **alleviating the intense pressures associated with such caregiving** that often fall to close family members. In addition, a personal physician is located on site, complemented by a team of specialists including a psychiatrist, a neurologist, and an ENT doctor.

Thanks to the quality of services that it offers, Centrum péče Doubrava became **an important pillar of its local community**. However, with this growth in stature naturally came increased interest.

The centre's management soon realised that additional capacity was required to provide for the influx of patients. Plans were immediately drawn up to build a second senior house, once more revolving around the model of continuous care but this time with a sharper focus on treatment of the neurodegenerative disease Alzheimer's.

The centre's ambitions were noble, but if it was to expand and provide care for this condition, which requires a unique degree of treatment, it would need funding. Recognising the value of the institution and what it could provide the community, **UniCredit Bank Czech Republic & Slovakia** granted Centrum péče Doubrava CZK75 million in loans in order to both finance the facility and boost the company's working capital.

How society treats its most vulnerable is always the foremost measure of its humanity. In providing both dignity in old age and peace of mind for families, Centrum péče Doubrava continues to exemplify this value on a daily basis, ensuring quality of life for its patients until the end of life – with **CEO Miloš Tkáčik c**ommenting: "Dignified old age is something we care about. We are very pleased that, with the financial support of UniCredit Bank, we have built Centrum péče Doubrava – the place you want for your loved ones where specialized care of the highest order is provided for chronically ill seniors".

Consolidated financial statements

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

	Note	2021 MCZK	2020 MCZK
Interest income, *of which:*		15 305	14 493
– interest income calculated using the effective interest method		12 722	13 071
Interest expense		(2 324)	(2 402)
Net interest income	(1)	**12 981**	**12 091**
Fee and commission income		5 009	4 858
Fee and commission expenses		(1 414)	(1 317)
Net fee and commission income	(2)	**3 595**	**3 541**
Dividend income	(3)	4	6
Net income/(loss) from trading	(4)	2 111	1 859
Net income/(loss) from hedging against risk of changes in fair value	(5)	(1)	–
Net income/(loss) from the sale or repurchase of:	(6)	435	499
Financial assets at amortised cost		357	88
Financial assets at fair value through other comprehensive income		94	412
Financial liabilities		(16)	(1)
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, *of which:*	(7)	(12)	82
Mandatorily at fair value		(12)	82
Operating income		**19 113**	**18 078**
Impairment losses on:	(8)	(2 044)	(2 798)
Financial assets at amortised cost		(2 045)	(2 800)
Financial assets at fair value through other comprehensive income		1	2
Modification gain/(loss)		–	(57)
Administrative expenses	(9)	(7 288)	(7 092)
Net provisions for risks and charges:	(27)	41	(673)
Loan commitments and financial guarantees given		18	(570)
Other net provisions		23	(103)
Depreciation and impairment of property, equipment and right of use assets	(18)	(1 064)	(1 001)
Amortisation and impairment of intangible assets	(19)	(676)	(548)
Other operating income and expenses	(10)	665	759
Operating expenses		**(8 322)**	**(8 555)**
Net income/(loss) on property and investment property measured at fair value	(18)	2	(12)
Profit/loss from equity investments		61	52
Profit/(loss) from the sale of non-financial assets		30	–
Profit before income tax		**8 840**	**6 708**
Income tax	(28)	(1 859)	(1 391)
Profit after tax		**6 981**	**5 317**
Net profit attributable to the Group's shareholders		**6 981**	**5 317**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property used in business measured at fair value, *of which:*		(53)	(11)
Change in fair value		(51)	(3)
Transfers to other net equity items		(15)	(11)
Deferred tax		13	3
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, of which:		(6 565)	1 365
Change in fair value		(8 111)	1 699
Revaluation reclassified to profit or loss		–	–
Deferred tax		1 546	(334)
Reserve from revaluation of financial assets at fair value through other comprehensive income, *of which:*		29	(211)
Change in fair value		89	64
Revaluation reclassified to profit or loss		(53)	(326)
Deferred tax		(7)	51
Foreign exchange rate gains from the consolidation of a foreign branch		(709)	424
Other comprehensive income, net of tax		(7 298)	1 567
Other comprehensive income, net of tax, attributable to the Group's shareholders		(7 298)	1 567
Total comprehensive income, net of tax		**(317)**	**6 884**
Total comprehensive income, net of tax, attributable to the Group's shareholders		**(317)**	**6 884**

The notes on pages 43–122 form a part of these financial statements.

Consolidated Statement of Financial Position as of 31 December 2021

	Note	2021 MCZK	2020 MCZK
Assets			
Cash and cash balances*	(11)	5 772	7 207
Financial assets at fair value through profit or loss, *of which:*	(12)	35 190	17 082
Held for trading		34 646	16 542
Mandatorily at fair value		544	540
Financial assets at fair value through other comprehensive income	(13)	21 802	20 518
Financial assets at amortised cost, of which:		605 192	595 296
Loans and advances to banks*	(14)	121 843	133 820
Loans and advances to customers	(15)	483 349	461 476
Positive fair value of hedging derivatives	(16)	12 341	10 385
Changes in fair value of the portfolio of hedged instruments		(366)	–
Equity investments	(17)	365	359
Property, equipment and right of use assets	(18)	6 511	6 879
Investment property	(18)	–	360
Intangible assets	(19)	2 876	2 608
Tax receivables, *of which:*	(28)	2 553	1 546
Current income tax		349	799
Deferred tax		2 204	747
Non-current assets held for sale		8	40
Other assets	(20)	1 220	2 072
Total assets		**693 464**	**664 352**
Liabilities			
Financial liabilities at fair value through profit or loss, of which:		35 135	16 812
Held for trading	(21)	35 135	16 812
Financial liabilities at amortised cost, of which:		550 898	541 139
Deposits from banks	(22)	56 874	105 519
Deposits from customers	(23)	470 158	425 147
Debt securities issued	(24)	23 866	10 473
Negative fair value of hedging derivatives	(25)	21 755	7 455
Changes in fair value of the portfolio of hedged instruments		(5 395)	1 636
Tax liabilities, of which:	(28)	998	905
Current income tax		260	57
Deferred tax		738	848
Other liabilities	(26)	6 827	9 312
Provisions for risks and charges	(27)	1 365	1 501
Total liabilities		**611 583**	**578 760**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		(5 994)	1 304
Retained earnings and reserve funds	(31)	68 644	66 721
Profit for the period		6 981	5 317
Total shareholder‘s equity		**81 881**	**85 592**
Total liabilities and shareholder‘s equity		**693 464**	**664 352**

* Balances as of 31 December 2020 have been restated. Further details are provided in the Section III. Significant Accounting Policies (point 8) and in Section V. Other Notes (points 11 and 14).

The notes on pages 43–122 form a part of these financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2021

	2021 MCZK	2020 MCZK
Profit after tax	**6 981**	**5 317**
Adjustments for non-monetary items:		
Impairment losses of:	2 044	2 855
Financial assets at amortised costs	2 045	2 857
Financial assets at fair value through other comprehensive income	(1)	(2)
Revaluation of financial instruments	1 358	252
Net provisions for risks and charges:	(41)	673
Loan commitments and financial guarantees given	(18)	570
Other net provisions	(23)	103
Depreciation and impairment of property, equipment and right of use assets	1 064	1 001
Amortisation and impairment of intangible assets	676	548
Net income/(loss) from the sale or repurchase of:	(94)	113
Financial assets at fair value through other comprehensive income	(94)	113
Profit/(loss) from equity investments	(6)	13
Profit/(loss) from the sale of non-financial assets	(30)	–
Taxes	1 859	1 391
Unrealised foreign currency gains/(losses)	(709)	424
Other non-monetary adjustments (FX revaluation, Accruals and Others)	(3 705)	(4 558)
Operating profit before change in operating assets and liabilities	**9 397**	**8 029**
Financial assets at fair value through profit or loss, *of which:*	(19 482)	(6 108)
Held for trading	(19 466)	(6 133)
Mandatorily at fair value	(16)	25
Financial assets at amortised cost, *of which:*	(9 533)	30 446
Loans and advances to banks	12 038	52 081
Loans and advances to customers	(21 571)	(21 635)
Other assets	852	58
Financial liabilities at fair value through profit or loss, *of which:*	18 336	6 188
Held for Trading	18 336	6 188
Financial liabilities at amortised cost, *of which:*	(3 366)	(25 250)
Deposits from banks	(48 372)	(35 452)
Deposits from customers	45 006	10 202
Other liabilities	(3 230)	481
Income tax paid	(1 291)	(2 457)
Net cash flows from operating activities	**(8 317)**	**11 387**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	(3 492)	1 203
Cash proceeds from the sale of property and equipment and intangible assets	1 525	1 061
(Acquisition) of property and equipment and intangible assets	(895)	(649)
Dividends received	4	6
Net cash flows from investment activities	**(2 858)**	**1 621**
Dividends paid	(3 299)	–
Financial liabilities at amortised cost – debt securities issued and repaid	13 401	(10 044)
(Payment) of Lease liabilities	(362)	(391)
Net cash flows from financial activities	**9 740**	**(10 435)**
Cash and cash balances at the beginning of the period	**7 207**	**4 634**
Cash and cash balances at the end of the period	**5 772**	**7 207**
Interest received	15 347	15 496
Interest paid	(2 625)	(3 528)

The notes on pages 43–122 form a part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

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
Balance as of 1 January 2020	**8 755**	**3 495**	**(798)**	**564**	**261**	**(290)**	**5 243**	**13 240**	**(111)**	**38 132**	**10 122**	**78 613**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit								1 231		8 891	(10 122)	–
Dividend payment												
Consolidation impact									64	31		95
Total comprehensive income for the current period												
Net profit for the current period											5 317	5 317
Other comprehensive			1 365	(211)	(11)	424						1 567
Balance as of 31 December 2020	**8 755**	**3 495**	**567**	**353**	**250**	**134**	**5 243**	**14 471**	**(47)**	**47 054**	**5 317**	**85 592**
Balance as of 1 January 2021	**8 755**	**3 495**	**567**	**353**	**250**	**134**	**5 243**	**14 471**	**(47)**	**47 054**	**5 317**	**85 592**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit										5 317	(5 317)	–
Dividend payment								(2 069)		(1 230)		(3 299)
Consolidation impact									(100)	5		(95)
Total comprehensive income for the current period												
Net profit for the current period											6 981	6 981
Other comprehensive			(6 565)	29	(53)	(709)						(7 298)
Balance as of 31 December 2021	**8 755**	**3 495**	**(5 998)**	**382**	**197**	**(575)**	**5 243**	**12 402**	**(147)**	**51 146**	**6 981**	**81 881**

The notes on pages 43–122 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. 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.

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 option contracts, 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 2021 and comparatives for 2020 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.

After assessing all potential effects of the COVID-19 on business activities, the Group assessed that there is no effect that would significantly affect the Group's ability to continue its operations in the foreseeable future. The Group achieved a positive economic result for 2021. The Group will continue to monitor the potential impact of COVID-19 and will take all necessary steps to mitigate the negative impacts on the Group, its employees and clients.

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 2020 were approved by the Shareholder of the Bank on 14 April 2021. The profit distribution for 2020 was approved by the Shareholder of the Bank on 24 November 2021.

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 and properties held for investment, 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 2021, the consolidation group includes the Parent Company and the following entities (hereinafter „consolidation entities“):

Name of the entity percentage	Business activities Consolidation 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
UniCredit 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
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 2021

- the assets of the defunct company BACA Leasing Alfa s.r.o. were transferred to UniCredit Leasing CZ, a.s. as the successor company because of the intra-national amalgamation as of 1 January 2021.

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 (hereinafter also "foreign operations"). The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the foreign operations are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The income statement 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. Non-monetary items that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was measured. Foreign exchange differences arising on translation are recognised in the income statement as "*Net income/(loss) from trading*".

III. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the item *"Cash and cash balances"*. For more details see point 8. Cash and cash balances in this section.

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 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 terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 income statement 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 amortised cost of the 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 financial asset at amortised cost. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest 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 additional significant financing, net of collaterals, is granted to a credit-impaired borrower. The Group identified no POCI assets during 2021, or in 2020.

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 applied to the amortised cost of financial asset.

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 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 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 the income statement 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 Group 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 transferred to 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 income statement 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 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 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 the income statement 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.

Gains and losses from *"Financial assets at fair value through profit or loss: Mandatorily at fair value"*, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss: Mandatorily at fair value*". 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 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 2021 and in 2020 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 the income statement as *"Interest income"*.

d) Modification and Derecognition of Financial Asset

A financial asset is derecognised when the rights to contractual cash flows from an asset expire 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.

This difference is recognised in the income statement under the item "*Modification gains/ (losses)*". In subsequent accounting periods, the modification gains/losses are amortized till the maturity date of the financial asset. This amortization is recognised in the income statement under the item *"Interest income"*.

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 the line *"Impairment losses on: Financial assets at amortised cost"*.

The receivable is written-off when:

- The expected costs of recovery of the receivable are higher than its expected recovery;
- All collaterals have been realized and no further performance can be expected;
- Defaulted unsecured receivable for which no performance has been accepted in the last 36 months and no legal action has been initiated during this period;
- Termination of bankruptcy against the debtor due to lack of assets or after meeting the schedule resolution;
- Dissolution of a legal entity without a legal successor (eg liquidation) or death of a natural person, when partial satisfaction has already occurred or cannot be satisfied at all.

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 rate method. Such interest is recognised in the item *"Interest expense"*.

"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 expense"*.

"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 on each reporting date subsequent to the initial recognition 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 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 related to changes in credit risk of these financial liabilities (so-called own credit risk). In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to other comprehensive income. 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 credit risk 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 2021 and in 2020 the Group held no such liabilities.

The Group derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

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 key management personnel 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 and financial assets at fair value through profit or loss that are designated as at FVTPL may not be reclassified, as a decision to designation 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 Group typically does not conduct this type of transactions with Day 1 Profit/Loss.

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 credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition 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 impaired credit exposures. 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 Group'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, transfer to Watchlist 2 process or client PD exceeding 14,7%).

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 Group 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 Group 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" from which the bank take a loss);
- 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.

From 1 January 2021, the new definition of default / client failure is valid and as regulated by Final Report Guidelines on the application of the definition of default (EBA/GL/2016/07) the impact of definition of default was analyzed and based on the prudent approach the expected impact was reflected in 2020 financial figures (within loan loss provisions without reassigning specific clients to Stage 3) including the default detection and process changes effect including impact within bank's subsidiaries.

Main changes implemented within above mentioned regulation:
- New thresholds applied, absolute and relative,
- DPD counter start and end rules update,
- Probation rules update,
- Overdue aggregation and joint obligation rules update,
- Distressed restructuring rules update.

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 carrying amount 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 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.

For COVID-19 impacts on credit risk and impairment see section V. Other Notes, point 35 b).

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 (FVA)

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 Funding 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, e.g. 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 forecast 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 firm 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 expense"*.

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

For sale of a security acquired from a 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.

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Group adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*".

"Cash and cash balances" includes cash balances, cash advances and other on-demand deposits with the Czech National Bank, National Bank of Slovakia and commercial banks.

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

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 land used in the business (ruled by IAS 16 "Property, plant and equipment") are measured according to to the fair value model for the measurement subsequent to initial recognition;
- Tangible assets used in the business, other than buildings and land, are measured according to cost model.

<u>Buildings and land used in the business</u>

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.

The differences between current fair value and the previous fair value are recognised:

- If negative,
  - – in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"* to the extent it reverses a previous positive revaluation, or otherwise
  - – in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value"*,
- If positive,
  - – in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value"*

to the extent it reverses a previous negative revaluation, or otherwise
- in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"*.

The "*Reserve funds from revaluation"* is 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.

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

Fair value was determined through the use of external independent expert valuations on semi-annually basis (as of 30 June and 31 December).

Tangible assets used in the business

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

Depreciation, Impairment and Gains and losses on disposal

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 insignificant costs of repair, maintenance and technical improvement are expensed as they are incurred. Vice versa, major repairs and technical improvements 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"*.

10. Investment Property

Investment property is represented by buildings and land and 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"*.

Fair value was determined through the use of external independent expert valuations on semi-annually basis (as of 30 June and 31 December).

No depreciation charges or impairment adjustments are recognised.

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

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

Leases accounting policies are based on the standard IFRS 16 "Leases".

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 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.

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

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*".

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*".

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.

Details related to determining of lease term see part Determining lease term in the section IV. Critical Accounting Judgements, Estimates and Assumptions.

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 expense calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expense is reported in the item "*Interest expense*".

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 2021 and 31 December 2020 is presented in the following tables:

Consolidated Statement of Comprehensive Income	Point in the section V. Other Notes	2021	2020
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(420)	(356)
Interest expense	1. Net interest income	(12)	(19)
Consolidated Statement of Financial Position	**Point in the section V. Other Notes**	**31 Dec 2021**	**31 Dec 2020**
Right of use assets	18. Property, equipment and right of use assets	2 322	2 598
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	2 385	2 646

Lease modifications are changes in the term or condition of a lease contract that change the scope of the lease contract (e.g. by adding or decreasing assets under lease); the consideration to be paid; or the contractual lease term.

Lease modifications are accounted for as a separate lease contract which is additional to the original lease contract being modified if both of the following conditions are satisfied:

- the modification increase the scope of the lease by adding additional asset, and
- the lease payments are also increased so to reflect the market value of such increase in scope (possibly adjusted to take into account the specific feature of the specific lease contract).

On the contrary if the modification doesn't fulfill the condition above, modifications are accounted for by re-measuring the liability through discounting the revised lease payments for the revised lease term and applying the revised discount rate. The resulting adjustment to the lease liability is recognized by increasing/decreasing the right of use.

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 Incentives

The Group accounts for deferred incentives 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% (more likely than not), the Group recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100% (virtually certain), the Group recognises an asset and revenue.

17. Interest Income and Interest Expenses

Interest income and interest expense 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, financial assets measured at FVTOCI. Interest expense is 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 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 expense and negative interest expense is presented in interest income.

Net interest income comprises interest income and interest expense 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 522 as of 31 December 2021 (as of 31 December 2020 MCZK 586).

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 Group also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Group 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 Group'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:

- **Amendments to IFRS 4 Insurance Contracts** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases** – Interest Rate Benchmark Reform — Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 Leases** – COVID-19-Related Rent Concessions beyond 30 June 2021 – adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

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:

- **IFRS 17 Insurance Contracts** including amendments to IFRS 17 – adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 Business Combinations** – Reference to the Conceptual Framework with amendments to IFRS 3 – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 16 Property, Plant and Equipment** – Proceeds before Intended Use – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Onerous Contracts — Cost of Fulfilling a Contract – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018–2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16

only regards an illustrative example, so no effective date is stated.)

The Group has elected not to adopt new standard and amendments to existing standard in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group in the period of initial application.

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):

- **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),
- **Amendments to IFRS 17 Insurance contracts** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 Presentation of Financial Statements** – Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 Presentation of Financial Statements** – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 Income Taxes** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).

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.

Impact of COVID-19

In 2020, the COVID-19 affected the Czech Republic and Slovakia and continued in 2021. Related measures introduced by governments to limit its spread affected economic activity and, as a result, the group's profitability.

This requires a careful evaluation of certain items in the financial statements as at 31 December 2021, the recoverability of which depends on future cash flow projections, by reassessing cash flows to reflect assumptions about the impact of the COVID-19.

While these assessments were made on the basis of information considered adequate and substantiated as at 31 December 2021, the current scenario is affected by high uncertainty, the outcome of which is currently unpredictable and which may require an assessment of changes made to the pandemic and economic recovery.

The slowdown in economic activity resulting from the COVID-19 and related measures also affected the assessment of the return on credit exposures and the calculation of related loan impairment losses. In this context, it should be noted that in accordance with IFRS 9, their assessment depends on forecasts of future developments and on the development of the macroeconomic scenarios used to calculate these losses. With regard to COVID-19 and related measures, the group updated the macroeconomic scenario used in line with that approach.

Further details are provided in section V. Other Notes, point 35 b).

Impact of climate-related matters
Climate change is impacting both society and companies alike. The Group is considering the impact of climate change on its business model, risk strategy, and also the effect on its financial statements.

Climate-related matters may affect the Group´s exposure to credit losses due to environmental disasters, regulatory change or a borrower's ability to meet its obligations to the Group. Subsequently, these may have impact on ECL and/or collateral valuation. Management carefully reviews these risks.

Climate-related matters may affect also the classification and measurement of loans as lenders may include terms linking contractual cash flows to an entity's achievement of climate-related targets. In this respect, the Group assesses whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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
Financial 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 under ECL model. 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 financial guarantee contracts and loan commitments 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 2021 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*".

Inclusion of Forward Looking Information (hereinafter "FLI")

1. Macroeconomic Multiscenario Overlay Factor

The IFRS 9 impairment requirements set out that expected credit loss must be assessed based on past, current and forward-looking information. In this regard, the Bank usually updates macroeconomic scenarios on a half year basis and account for the related effects in half year and year-end financial reports. In line with this usual practice, an update has been made also before year-end 2021.

The degree of uncertainty of macroeconomic forecasts reduces the so-called multiscenario overlay factor. Through this component sensitivity of Expected Credit Loss ("ECL") evolution to different scenarios is incorporated into the calculation. The process defined to include multiple macroeconomic scenarios is fully consistent with forecast processes used by the Group for additional risk management purposes (for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and Internal Capital Adequacy Assessment Process ("ICAAP") Framework) and also takes advantage of independent UniCredit Research function. Specifically, the Bank has selected three macroeconomic scenarios to determine the forward-looking component: a baseline scenario, one positive scenario and one adverse scenario. The baseline scenario is the reference central scenario and therefore is the most probable realization. Positive and adverse scenarios represent possible alternative realizations, respectively a better and a worst one compared to the baseline in terms of evolution of the economy.

So called 'baseline' scenario expects in terms of macro-economic conditions that the recovery in the economic activity continues,

showing resilience to any renewed intensification of the pandemic. This is consistent with the view that the economic damage of new waves of COVID-19 tends to become progressively smaller. Fiscal policy gradually normalizes while remaining supportive and households can count on high savings accumulated during the pandemic. Overall, both Czech and Slovak economies would be on track for solid expansion in 2022, followed by a slowdown in growth rates in 2023–24 similarly to Western Europe Countries. The growth rates will be supported also by EU funding.

Negative scenario reflects the assumption that virus mutation will cause Europe to face a new severe wave of the pandemic. This will force governments to reintroduce restrictions to mobility and business activity. It is also assumed that some sort of herd immunity is only reached towards the end of the forecasting horizon. Given these assumptions, the COVID-19 crisis dampens private demand by more than assumed in the baseline scenario, and scarring effects are larger. Governments will keep expansionary policies in place to mitigate the effects of the pandemic and to preserve social stability. After expanding by 3.2% in 2021, Czech Gross Domestic Product ("GDP") would: (i) increase by 2.3% in 2022 (–1.8pp compared to baseline), (ii) followed by an expansion of only 1.3% in 2023 (–1.8pp) and 1.5% in 2024 (–1.0pp). Similarly for Slovak GDP it is expected in negative scenario to (i) increase by 2.3% in 2022 (–1.7pp compared to baseline), (ii) followed by an expansion of only 2.2% in 2023 (–1.8pp) and 2.5% in 2024 (–1.5pp). Then (iii) GDP for both countries by the end of 2024 remain well below its pre-crisis trend line.

The positive scenario assumes that roll-out of new vaccines and other medical treatments boosts confidence and GDP by more than in baseline scenario. A materially stronger pace of recovery driven by households significantly reducing precautionary savings, and firms forcefully resuming investment plans put on hold. Driven by pent-up demand, eurozone GDP is back to its pre-pandemic trend line by the end of 2022. Governments progressively scale back their support measures. In this scenario, Czech and Slovak GDP grows both by 5.6% in 2022 (+1.5, resp. +1.6pp compared to baseline); but Slovak GDP will grow similarly also in 2023 by 5.5% (+1.5pp) and by 3.4% in 2024 (+0.4pp). Where Czech GDP growth will slow down moderately to 4.6% (+1.5pp) in 2023 and 3.3% (+0.8pp) in 2024.

Considering the persisting uncertainty and in continuity with the approach used since 4Q2020, the baseline scenario was weighted 55% (probability of occurrence), while the positive and negative scenarios were respectively weighted 5% and 40%. Where in current situation the negative scenario is still more probable. In case of Stage 1, Stage 2 and Stage 3 – collective final expected credit loss is calculated using weighted average of ECLs under above mentioned scenarios.

See below overview of mentioned scenarios and its cumulative impact.

				Baseline (55%)	
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**	**2024**
Czech Rep.	Real GDP, yoy % change	3,2	4,1	3,1	2,5
Czech Rep.	Monthly Wage, nominal EUR	1478,8	1595,5	1687,4	1770,4
Czech Rep.	Unemployment rate, %	3,9	3,6	3,4	3,3
Czech Rep.	Short term rate,average	0,8	2,3	2,5	2,5
Czech Rep.	House Price Index, yoy % change	8,0	3,5	2,0	3,0
Slovakia	Real GDP, yoy % change	3,7	4,0	4,0	3,0
Slovakia	Monthly Wage, nominal EUR	1194,1	1267,8	1345,4	1414,1
Slovakia	Unemployment rate, %	6,9	6,1	5,3	4,9
Slovakia	House Price Index, yoy % change	4,5	4,0	3,3	3,3
Slovakia	Euribor 3m (avg)	–0,55	–0,55	–0,55	–0,53
				Negative (40%)	
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**	**2024**
Czech Rep.	Real GDP, yoy % change	3,2	2,3	1,3	1,5
Czech Rep.	Monthly Wage, nominal EUR	1478,8	1560,4	1623,7	1716,2
Czech Rep.	Unemployment rate, %	3,9	4,2	4,7	4,8
Czech Rep.	Short term rate,average	0,8	2,0	2,0	1,6
Czech Rep.	House Price Index, yoy % change	8,0	2,5	–0,2	1,3
Slovakia	Real GDP, yoy % change	3,7	2,3	2,2	2,5
Slovakia	Monthly Wage, nominal EUR	1194,1	1254,7	1293,5	1351,2
Slovakia	Unemployment rate, %	6,9	6,2	5,6	5,2
Slovakia	House Price Index, yoy % change	4,5	3,2	1,4	1,8
Slovakia	Euribor 3m (avg)	–0,55	–0,54	–0,55	–0,53

Country	Macroeconomic scenario	2021	2022	Positive (5%) 2023	2024
Czech Rep.	Real GDP, yoy % change	3,2	5,6	4,6	3,3
Czech Rep.	Monthly Wage, nominal EUR	1478,8	1630,8	1746,5	1821,2
Czech Rep.	Unemployment rate, %	3,9	3,3	2,8	2,7
Czech Rep.	Short term rate,average	0,8	2,1	2,6	2,7
Czech Rep.	House Price Index, yoy % change	8,0	4,0	3,4	4,1
Slovakia	Real GDP, yoy % change	3,7	5,6	5,5	3,4
Slovakia	Monthly Wage, nominal EUR	1194,1	1295,2	1386,9	1454,3
Slovakia	Unemployment rate, %	6,9	5,5	4,1	3,6
Slovakia	House Price Index, yoy % change	4,5	5,1	4,3	3,7
Slovakia	Euribor 3m (avg)	–0,55	–0,54	–0,55	–0,53

Country	Cumulative GDP change between 2021 and 2024	Baseline	Negative	Positive
Czech Rep.	Real GDP, 3y % change	10,0	5,0	14,1
Slovakia	Real GDP, 3y % change	11,4	7,2	15,1

a) *Sensitivity analysis*
Since GDP forecast stated in the above-mentioned scenarios is assumed not to be linearly correlated to the ECL, it was agreed to provide two sensitivities based on opposite GDP assumptions:
- ECL sensitivity considering an upside scenario (i.e. the positive IFRS9 scenario), and
- ECL sensitivity considering based on a downside scenario (i.e. the negative IFRS9 scenario).

In both cases the sensitivity is calculated as ratio between:
- the difference of ECL between the baseline and alternative scenario
- the difference of GDP in basis point between the baseline and alternative scenario.

The 3 years cumulated GDP growth (country specific) is used in all calculations further.

The ECL under each of the three scenarios (baseline, negative and positive) were calculated considering the latest portfolio available.

2. Inclusion of Specific Factors
Considering actual and expected factors with realization date shortly after the beginning of 2022 financial year, the Group decided already for 2021 to reassess its models for impairment losses on receivables and recognize this impact in the income statement of 2021, specifically:

a) Expected **material changes of IRB models**, which serve as an input for LLP calculation. This is relevant for PD model for Corporate and Private Individuals. The total increase of provision amounts to MCZK 548 (split on MCZK 65 on Corporate and MCZK 483 on Private individuals). The Group assumes that the revised model provides higher accuracy of expected credit losses estimation, and therefore the impact was recognized already in the income statement for 2021.

b) In order to address so called “**Electronic Chip Shortage Risk**” and on a wider perspective the “supply chain risk”, dedicated adjustment factor was derived. The need to cover additional risk stemming from overall difficult macroeconomic situation of the country (affected also by an energy crisis primarily driven by unprecedented rise in energy prices as well as a default of major energy supplier) has been also underlined in the CNB letter on expectations regarding institutions’ approach to determining the level of allowances and provisions for credit exposures. Following industries were identified as relevant for additional increase of provision due to above specified reasons: Automotive, Electronics, Machinery and Metals. The provisions increase amounts to MCZK 220.

c) **Increase of CZK interest rate** in the second half-year 2021 on the market can cause some loans to be endangered by increase of interest rate during next refixation at years 2022 and 2023. Impacts was simulated using adjusted increase of expenses within the retail mortgage portfolio. Finally, 891 loans with exposure of MCZK 1 253 is considered as base and all simulations are considering only delta of this group as endangered loans. Final additional provision steaming from this event amounts to MCZK 74.

d) Based on the recommendation from ECB following **adjustments in the transfer logic** (classification/staging) were introduced:
– new 3-months’ probation period for stage 2 rule forces to continue assignment of stage 2 to exposure for additional 3 months after the possibility to being returned to stage 1.
– threefold increase in lifetime PD means that exposures which’s current PD is more than 3x higher than the PD at the inception are to be transferred to stage 2.

The actual provisions increase resulting from this methodological change amounts to MCZK 119. The Group assumes that the

methodological change provides higher accuracy of expected credit losses estimation, and therefore the impact was recognized already in the income statement for 2021.

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

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

	2021	2020
Interest income		
Financial assets at amortised cost:	12 971	13 313
Loans and advances to central banks	2 086	2 312
Loans and advances to banks	327	377
Loans and advances to customers:	10 558	10 624
finance lease	553	638
other than finance lease	10 005	9 986
Financial assets at fair value through other comprehensive income	304	396
Financial assets at fair value through profit or loss:	9	32
Held for trading	9	25
Mandatorily at fair value	–	7
Hedging derivatives	1 949	752
Other assets	72	–
Interest income	**15 305**	**14 493**
Interest expense		
Financial liabilities at amortised cost:	(1 531)	(1 710)
Deposits from central banks	–	(22)
Deposits from banks	(216)	(200)
Deposits from customers	(1 168)	(1 273)
Debt securities issued	(147)	(215)
Financial liabilities at fair value through profit or loss:	(21)	(19)
Held for trading	(21)	(19)
Hedging derivatives	(760)	(654)
Lease liabilities	(12)	(19)
Interest expense	**(2 324)**	**(2 402)**
Net interest income	**12 981**	**12 091**

Negative interest expense from liabilities is reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2021 MCZK 334 (as of 31 December 2020 MCZK 190)
- Loans and advances to banks – as of 31 December 2021 MCZK 223 (as of 31 December 2020 MCZK 276)
- Loans and advances to customers – as of 31 December 2021 MCZK 171 (as of 31 December 2020 MCZK 8)

Negative interest income from assets is reported in interest expense in the following lines:
- Deposits from the central banks – as of 31 December 2021 MCZK (14) (as of 31 December 2020 MCZK (13))
- Deposits from banks – as of 31 December 2021 MCZK (44) (as of 31 December 2020 MCZK (22))
- Deposits from customers – as of 31 December 2021 MCZK (24) (as of 31 December 2020 MCZK (–))

2. Net fee and commission income

	2021	2020
Fee and commission income from		
Securities transactions	14	15
Management, administration, deposit and custody services	838	711
Loans	1 835	1 461
Payment services	659	672
Account administration	514	621
Payment cards	946	964
Other	203	414
Fee and commission income	**5 009**	**4 858**
Fee and commission expenses from		
Securities transactions	(13)	(13)
Management, administration, deposit and custody services	(115)	(104)
Loans	(338)	(220)
Payment services	(54)	(51)
Payment cards	(739)	(800)
Other	(155)	(129)
Fee and commission expenses	**(1 414)**	**(1 317)**
Net fee and commission income	**3 595**	**3 541**

3. Dividend income

	2021	2020
Dividend income		
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	2	4
Financial assets at fair value through other comprehensive income	2	2
Total	**4**	**6**

4. Net income/(loss) from trading

	2021	2020
Net realised and unrealised gain/(loss) from debt instruments held for trading	162	79
Net realised and unrealised gain/(loss) from derivatives held for trading	(410)	16
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	2 359	1 764
Net income/loss from trading	**2 111**	**1 859**

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

	2021	2020
Hedging instruments	(5 109)	561
Hedged instruments	5 108	(561)
Net income/loss from hedging against risk of changes in fair value	**(1)**	**–**

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

	2021	2020
Financial assets at amortised cost: Loans and advances to customers	357	88
Financial assets at fair value through other comprehensive income	94	412
Financial liabilities: Debt securities issued	(16)	(1)
Net income/loss from the sale or repurchase	**435**	**499**

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

	2021	2020
Shares	(12)	79
Debt securities	–	3
Net income/loss from financial assets and liabilities at fair value through profit or loss	**(12)**	**82**

8. Impairment losses

	2021	2020
Financial assets at amortised cost, *of which:*	**(2 045)**	**(2 800)**
Loans and advances to banks	**(1)**	**(4)**
Stage 1	(3)	(2)
Stage 2	2	(2)
Loans and advances to customers	**(2 044)**	**(2 796)**
Corporate Customers	**(1 289)**	**(2 620)**
Stage 1	(452)	(456)
Stage 2	(831)	(500)
Stage 3	(6)	(1 664)
Retail Customers	**(755)**	**(176)**
Stage 1	(535)	(6)
Stage 2	(217)	(10)
Stage 3	(3)	(160)
Financial assets at fair value through other comprehensive income	**1**	**2**
Stage 1	1	2
Total	**(2 044)**	**(2 798)**

9. Administrative expenses

	2021	2020
Personnel expenses		
Wages and salaries paid to employees	(2 544)	(2 453)
Social costs	(976)	(925)
Other	(242)	(284)
	(3 762)	**(3 662)**
Other administrative expenses		
Rent and building maintenance	(285)	(271)
Information technologies	(1 597)	(1 537)
Promotion and marketing	(220)	(159)
Consumables used	(58)	(78)
Audit, legal and advisory services	(167)	(143)
Administrative and logistic services	(192)	(196)
Deposits and transactions insurance	(744)	(539)
Other services	(225)	(224)
Other	(38)	(283)
	(3 526)	**(3 430)**
Total	**(7 288)**	**(7 092)**

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

	2021	2020
Short-term employee benefits	186	176
Post-employment benefits	1	11
Other long-term employee benefits	31	13
Total	**218**	**200**

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:

	2021		2020	
	Czech Republic	Slovakia	Czech Republic	Slovakia
Employees	2 217	1 025	2 241	1 106
Members of the Board of Directors	8	1	6	1
Members of the Supervisory Board	2	1	2	1
Other executives directly reporting to the Board of Directors	39	3	32	2

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.

10. Other operating income and expenses

	2021	2020
Income from rent	608	627
Income from rent of investment properties	7	30
Other income related to leases	89	109
Other income	424	547
Total other operating income	**1 128**	**1 313**
Other taxes	(27)	(28)
Fines and penalties	(4)	(141)
Other expenses related to leases	(94)	(124)
Other	(338)	(261)
Total other operating expenses	**(463)**	**(554)**
Total	**665**	**759**

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
2021			
Cash flows to be received from operating leases	503	657	1
2020			
Cash flows to be received from operating leases	522	782	52

11. Cash and cash balances

	31 Dec 2021	31 Dec 2020
Cash in hand	3 612	3 891
Balances with central banks	250	181
Other on-demand deposits	1 910	3 135
Total	**5 772**	**7 207**

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

Item *"Other on-demand deposits"* includes current accounts and sight deposits toward banks.

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Group adjusted the presentation of current accounts and sight deposits toward banks within item *"Current accounts"* and *"Loans"* as of 31 December 2020 in total amount of MCZK 3 135 from line *"Financial assets at amortised cost: Loans and advances to banks"* to line *"Cash and cash balances"* item *"Other on-demand deposits"*.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2021	31 Dec 2020
Debt securities	1 005	1 034
Derivatives	33 641	15 508
Total	**34 646**	**16 542**

From debt securities, no securities are provided as collateral as of 31 December 2021 and as of 31 December 2020.

(ii) Based on the Type of Issuer

	31 Dec 2021	31 Dec 2020
Debt securities		
Public administration	1 004	1 034
Other	1	–
Total	**1 005**	**1 034**

(b) Mandatorily at fair value

	31 Dec 2021	31 Dec 2020
Shares and Other debt securities	544	540
Total	**544**	**540**

(ii) Based on the Type of Issuer

	31 Dec 2021	31 Dec 2020
Shares and Other debt securities		
Other financial institutions	544	540
Total	**544**	**540**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2021	31 Dec 2020
Debt securities	21 782	20 511
Shares	20	7
Total	**21 802**	**20 518**

From debt securities, MCZK 6 234 are provided as collateral (as of 31 December 2020: MCZK 4 990).

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 2021	31 Dec 2020
Debt securities		
Financial institutions	2 493	–
Government institutions	15 463	15 078
Other	3 826	5 433
Shares		
Other	20	7
Total	**21 802**	**20 518**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2021 are classified by credit quality in stage 1 with the total allowance of MCZK 2 (as of 31 December 2020: MCZK 3).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2021	Net book value 2020	Share of the Group at 31 Dec 2021	Share of the Group at 31 Dec 2020
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 2021	31 Dec 2020
Current accounts	–	–
Term deposits	24 027	16 753
Loans	–	–
Reverse repurchase commitments (see section V, point 32)	84 661	116 184
Obligatory minimum reserves with central banks	13 155	883
Total	**121 843**	**133 820**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2021 are classified by credit quality at stage 1 with the total allowance of MCZK 7 (as of 31 December 2020: MCZK 4).

Only MCZK 0 of financial assets at amortised cost – loans and advances to banks as of 31 December 2021 are classified by credit quality at stage 2 with the total allowance of MCZK 0 (as of 31 December 2020 MCZK 64 of financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2 with the total allowance of MCZK 2).

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Group adjusted the presentation of current accounts and sight deposits toward banks within item *"Current accounts"* as of 31 December 2020 in total amount of MCZK 29 and *"Loans"* as of 31 December 2020 in total amount of MCZK 3 106 from line *"Financial assets at amortised cost: Loans and advances to banks"* to line *"Cash and cash balances"* item *"Other on-demand deposits"*.

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

	31 Dec 2021	31 Dec 2020
Czech Republic	100 045	128 443
Slovakia	11 854	3 889
Other EU countries	9 682	1 086
Other	262	402
Total	**121 843**	**133 820**

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 incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2021												
Current accounts (overdrafts)	24 206	(172)	24 034	6 930	(120)	6 810	2 419	(1 990)	429	33 555	(2 282)	31 273
Mortgage loans	97 173	(271)	96 902	12 393	(229)	12 164	3 778	(2 445)	1 333	113 344	(2 945)	110 399
Credit cards	7	–	7	1	–	1	1	(1)	–	9	(1)	8
Leases	11 195	(62)	11 133	1 834	(68)	1 766	813	(580)	233	13 842	(710)	13 132
Factoring	5 904	(19)	5 885	1 220	(4)	1 216	100	(22)	78	7 224	(45)	7 179
Other loans	142 599	(531)	142 068	13 192	(307)	12 885	3 934	(2 273)	1 661	159 725	(3 111)	156 614
Debt securities	1 455	–	1 455	–	–	–	–	–	–	1 455	–	1 455
Total	**282 539**	**(1 055)**	**281 484**	**35 570**	**(728)**	**34 842**	**11 045**	**(7 311)**	**3 734**	**329 154**	**(9 094)**	**320 060**

* The balance also includes unamortized modification loss of MCZK 9.

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 2020												
Current accounts (overdrafts)	23 263	(160)	23 103	6 603	(181)	6 422	3 104	(2 481)	623	32 970	(2 822)	30 148
Mortgage loans	102 785	(375)	102 410	10 983	(290)	10 693	4 354	(2 287)	2 067	118 122	(2 952)	115 170
Credit cards	4	–	4	3	–	3	2	(1)	1	9	(1)	8
Leases	18 980	(156)	18 824	3 755	(165)	3 590	1 314	(893)	421	24 049	(1 214)	22 835
Factoring	7 842	(42)	7 800	59	(4)	55	35	(11)	24	7 936	(57)	7 879
Other loans	125 139	(502)	124 637	7 824	(338)	7 486	4 910	(1 405)	3 505	137 873	(2 245)	135 628
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Total	**278 013***	**(1 235)**	**276 778**	**29 227**	**(978)**	**28 249**	**13 719**	**(7 078)**	**6 641**	**320 959**	**(9 291)**	**311 668**

* The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2021												
Current accounts (overdrafts)	1 086	(10)	1 076	252	(26)	226	156	(132)	24	1 494	(168)	1 326
Mortgage loans	135 071*	(208)	134 863	7 684	(346)	7 338	585	(184)	401	143 340	(738)	142 602
Credit cards and consumer loans	7 436**	(199)	7 237	1 632	(415)	1 217	240	(169)	71	9 308	(783)	8 525
Leases	1 383	(8)	1 375	161	(6)	155	90	(50)	40	1 634	(64)	1 570
Other loans	8 707	(56)	8 651	546	(27)	519	229	(133)	96	9 482	(216)	9 266
Total	**153 683**	**(481)**	**153 202**	**10 275**	**(820)**	**9 455**	**1 300**	**(668)**	**632**	**165 258**	**(1 969)**	**163 289**

* The balance also includes unamortized modification loss of MCZK 29.
** The balance also includes unamortized modification loss of MCZK 3.

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 2020												
Current accounts (overdrafts)	1 030	(7)	1 023	251	(13)	238	291	(251)	40	1 572	(271)	1 301
Mortgage loans	122 621*	(132)	122 489	3 561	(133)	3 428	799	(272)	527	126 981	(537)	126 444
Credit cards and consumer loans	7 459**	(84)	7 375	1 356	(177)	1 179	412	(294)	118	9 227	(555)	8 672
Leases	2 546	(17)	2 529	279	(13)	266	112	(61)	51	2 937	(91)	2 846
Other loans	10 080	(71)	10 009	479	(34)	445	230	(139)	91	10 789	(244)	10 545
Total	**143 736**	**(311)**	**143 425**	**5 926**	**(370)**	**5 556**	**1 844**	**(1 017)**	**827**	**151 506**	**(1 698)**	**149 808**

* The balance also includes modification loss of MCZK 36 recorded as of 31 December 2020.
** The balance also includes modification loss of MCZK 5 recorded as of 31 December 2020.

From financial assets at amortised cost – Loans and advances to customers MCZK 150 734 are provided as collateral (as of 31 December 2020: MCZK 134 047).

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

	31 Dec 2021	31 Dec 2020
Performing receivables – stage 1 and 2		
Internal rating 1	16 309	15 007
Internal rating 2	29 976	29 715
Internal rating 3	58 372	61 524
Internal rating 4	147 842	120 515
Internal rating 5	108 234	114 925
Internal rating 6	86 050	83 037
Other internal rating	32 856	26 692
Receivables without internal rating	2 428	5 487
Total	**482 067**	**456 902**
Non-performing receivables – stage 3	12 345	15 563
Total	**494 412**	**472 465**

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

	31 Dec 2021	31 Dec 2020
Financial institutions	30 679	25 107
Non-financial institutions	277 043	273 615
Government sector	12 338	12 946
Individuals and others	163 289	149 808
Total	**483 349**	**461 476**

(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 2021								
Stage 1	434 686	2 758	117 677	10 079	37 842	4 762	173 118	261 568
Stage 2	44 297	227	10 404	2 300	–	1 644	14 575	29 722
Stage 3	4 366	73	2 199	996	732	199	4 199	167
Total	**483 349**	**3 058**	**130 280**	**13 375**	**38 574**	**6 605**	**191 892**	**291 457**
31 Dec 2020								
Stage 1	420 203	3 272	110 359	6 361	38 617	5 221	163 830	256 373
Stage 2	33 805	184	7 866	571	–	651	9 272	24 533
Stage 3	7 468	38	2 452	26	728	1 527	4 771	2 697
Total	**461 476**	**3 494**	**120 677**	**6 958**	**39 345**	**7 399**	**177 873**	**283 603**

The item "Net exposure" includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 41 307 (as of 31 December 2020: MCZK 43 345). 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 2021	31 Dec 2020
Czech Republic	326 284	302 138
Slovakia	141 928	138 654
Other EU countries	12 390	17 395
Other	2 747	3 289
Total	**483 349**	**461 476**

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

	31 Dec 2021	31 Dec 2020
Real estate services	76 835	73 233
Financial services	17 781	14 416
Wholesale	28 673	30 802
Households (individuals)	159 236	133 005
Retail (entrepreneurs)	11 757	11 997
Leasing and rental	15 119	3 815
Automotive industry	11 885	11 186
Power industry	22 957	29 797
Other	139 106	153 225
Total receivables from customers	**483 349**	**461 476**

(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 2021							
Non-financial institutions	19 765	3 517	23 282	(301)	(2 476)	(2 777)	20 505
Other financial corporations	8	–	8	–	–	–	8
Individuals and others	541	252	793	(60)	(105)	(165)	628
Total	**20 314**	**3 769**	**24 083**	**(361)**	**(2 581)**	**(2 942)**	**21 141**

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 2020							
Non-financial institutions	16 233	3 211	19 444	(363)	(2 124)	(2 487)	16 957
Other financial corporations	19	–	19	–	–	–	19
Individuals and others	652	141	793	(59)	(67)	(126)	667
Total	**16 904**	**3 352**	**20 256**	**(422)**	**(2 191)**	**(2 613)**	**17 643**

Net balance of forborne receivables represented 4.37% of the total net receivables from customers as of 31 December 2021 (2020: 3.82%).

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 2021			
Performing receivables			
Before due	19 051	(318)	18 733
Past due	1 263	(43)	1 220
Total forborne performing receivables	**20 314**	**(361)**	**19 953**
Non-performing receivables			
Up to 90 days past due	3 186	(2 053)	1 133
91 to 180 days past due	220	(200)	20
181 days to 1 year past due	66	(52)	14
Over 1 year past due	297	(276)	21
Total forborne non-performing receivables	**3 769**	**(2 581)**	**1 188**
Total	**24 083**	**(2 942)**	**21 141**
31 December 2020			
Performing receivables			
Before due	15 500	(379)	15 121
Past due	1 404	(43)	1 361
Total forborne performing receivables	**16 904**	**(422)**	**16 482**
Non-performing receivables			
Up to 90 days past due	2 398	(1 437)	961
91 to 180 days past due	188	(114)	74
181 days to 1 year past due	57	(40)	17
Over 1 year past due	709	(600)	109
Total forborne non-performing receivables	**3 352**	**(2 191)**	**1 161**
Total	**20 256**	**(2 613)**	**17 643**

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

Balance as of 1 January 2020	16 506
Transfer to forborne receivables balance	8 945
Additions	594
Write-offs	(121)
Settled	(2 330)
Transfer from forborne receivables balance	(3 255)
Other	(83)
Total gross balance of forborne receivables as of 31 December 2020	**20 256**
Balance as of 1 January 2021	20 256
Transfer to forborne receivables balance	12 482
Additions	786
Write-offs	(1)
Settled	(2 747)
Transfer from forborne receivables balance	(6 849)
Other	156
Total gross balance of forborne receivables as of 31 December 2021	**24 083**

The table below shows movements in the impairment of forbearance:

Balance as of 1 January 2020	(2 162)
Transfer to forborne receivables balance	(1 504)
Charge during the current year	(538)
Release during the current year	287
Receivables written off – use	121
Transfer from forborne receivables balance	1 216
Other decreases	(33)
Total impairment of forborne receivables as of 31 December 2020	**(2 613)**
Balance as of 1 January 2021	(2 613)
Transfer to forborne receivables balance	(1 024)
Charge during the current year	(575)
Release during the current year	422
Receivables written off – use	1
Transfer from forborne receivables balance	824
Other decreases	23
Total impairment of forborne receivables as of 31 December 2021	**(2 942)**

(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 2020	(783)	(473)	(6 771)	(8 027)
Charge during the current year	(1 020)	(862)	(3 379)	(5 261)
Release during the current year	564	362	1 715	2 641
Receivables written off – use	11	–	1 367	1 378
FX differences	(7)	(5)	(10)	(22)
Total impairment of receivables from customers as of 31 December 2020	**(1 235)**	**(978)**	**(7 078)**	**(9 291)**
Balance as of 1 January 2021	(1 235)	(978)	(7 078)	(9 291)
Charge during the current year	(910)	(541)	(3 632)	(5 083)
Release during the current year	1 067	786	2 381	4 234
Receivables written off – use	13	1	799	813
FX differences	10	4	219	233
Total impairment of receivables from customers as of 31 December 2021	**(1 055)**	**(728)**	**(7 311)**	**(9 094)**

Retail Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2020	(312)	(365)	(982)	(1 659)
Charge during the current year	(410)	(307)	(365)	(1 082)
Release during the current year	404	297	205	906
Receivables written off – use	6	1	126	133
FX differences	1	4	(1)	4
Total impairment of receivables from customers as of 31 December 2020	**(311)**	**(370)**	**(1 017)**	**(1 698)**
Balance as of 1 January 2021	(311)	(370)	(1 017)	(1 698)
Charge during the current year	(463)	(720)	(244)	(1 427)
Release during the current year	286	268	332	886
Receivables written off – use	5	1	251	257
FX differences	2	1	10	13
Total impairment of receivables from customers as of 31 December 2021	**(481)**	**(820)**	**(668)**	**(1 969)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2021				
Transfer of the gross amount of receivables from Stage 1	(22 573)	19 453	3 120	–
Transfer of the gross amount of receivables from Stage 2	7 503	(9 428)	1 925	–
Transfer of the gross amount of receivables from Stage 3	98	1 142	(1 240)	–

The balance of the movement of gross amount of receivables from the stage 1 to the stage 3 largely includes existing exposures to defaulting clients that have been reposted between different accounts / loans of the given client. Due to the change in the identification of these individual receivables, they are reported as new exposures (derecognition accounting), which are added from the movement point of view to existing exposures migrating from the stage 1. The same procedure is applied in all categories of the migration matrix.

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2020				
Transfer of the gross amount of receivables from Stage 1	(23 327)	17 997	5 330	–
Transfer of the gross amount of receivables from Stage 2	3 623	(5 799)	2 176	–
Transfer of the gross amount of receivables from Stage 3	148	117	(265)	–

Retail Customers	Stage 1	Stage 2	Stage 3	Total
2021				
Transfer of the gross amount of receivables from Stage 1	(8 059)	7 758	301	–
Transfer of the gross amount of receivables from Stage 2	2 219	(2 486)	267	–
Transfer of the gross amount of receivables from Stage 3	113	161	(274)	–
2020				
Transfer of the gross amount of receivables from Stage 1	(4 666)	4 221	445	–
Transfer of the gross amount of receivables from Stage 2	2 920	(3 242)	322	–
Transfer of the gross amount of receivables from Stage 3	162	90	(252)	–

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 2021 was MCZK 2 013 (as of 31 December 2020: MCZK 3 073).

j) Receivables from Finance Leases

	31 Dec 2021	31 Dec 2020
	Cash Flow to be received (gross receivables from finance lease)	
Receivables from finance leases:		
Within 1 year	5 449	10 295
From one year to two years	4 273	7 510
From two years to three years	3 048	4 748
From three years to four years	1 858	2 946
From four years to five years	985	1 453
More than five years	860	1 778
Total cash flows to be received from finance leases	16 473	28 730
Unearned finance income	(997)	(1 744)
Lease receivables	**15 476**	**26 986**

k) Impact of COVID-19

Details of COVID-19 Impact on Financial assets at amortised cost – loans and advances to customers are included in section V. Other Notes, point 35. Financial Risk management, part b) Credit Risk, sub-point (vi) COVID-19 impacts on Credit Risk.

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2021	31 Dec 2020
Fair value hedging	2 370	2 425
Cash flow hedging	9 971	7 960
Total	**12 341**	**10 385**

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 2021						
RCI Financial Services, s.r.o. (50%)	2 977	2 343	634	211	121	365
Total						**365**
31 December 2020						
RCI Financial Services, s.r.o. (50%)	3 657	3 032	625	225	104	359
Total						**359**

Changes in Investments in Associates

	2021	2020
Balance at 1 January	359	372
Change in the income statement	61	52
Dividend	(55)	(65)
Change in equity	–	–
Total at 31 December	**365**	**359**

18. Property, equipment and right of use assets and investment property

	31 Dec 2021	31 Dec 2020
Property and equipment for operations		
Buildings and land	826	860
Leasehold improvements of rent buildings	217	191
Fixtures and fittings	27	29
IT equipment	68	70
Assets provided under operating leases	2 767	2 688
Other	284	443
Property and equipment held as an investment		
Buildings and land	–	360
Right of use assets		
Buildings and land	2 322	2 598
Total	**6 511**	**7 239**

(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
Fair Value (Buildings and land) / Cost at 1 January 2020	2 587	994	168	664	4021	729	9 163
Accumulated depreciation and impairment at 1 January 2020	(1 738)	(828)	(145)	(626)	(1 139)	(244)	(4 720)
Net Book Value at 1 January 2020	**849**	**166**	**23**	**38**	**2 882**	**485**	**4 443**
Increases in fair value	39	–	–	–	–	–	39
Reductions in fair value	(52)	–	–	–	–	–	(52)
Additions	43	74	12	37	902	75	1 143
Disposals	–	–	–	–	(675)	(119)	(794)
Depreciation charges	(31)	(42)	(5)	(36)	(506)	(25)	(645)
Transfer to the item "*Non-current assets held for sale*"	(7)	–	–	–	–	–	(7)
Other and FX rate gains or losses	19	(7)	(1)	31	85	27	154
Net Book Value at 31 December 2020	**860**	**191**	**29**	**70**	**2 688**	**443**	**4 281**
Fair Value (Buildings and land) / Cost at 31 December 2020	2 682	1 021	173	650	3 857	697	9 080
Accumulated depreciation and impairment at 31 December 2020	(1 822)	(830)	(144)	(580)	(1 169)	(254)	(4 799)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Fair Value (Buildings and land) / Cost at 1 January 2021	2 682	1 021	173	650	3 857	697	9 080
Accumulated depreciation and impairment at 1 January 2021	(1 822)	(830)	(144)	(580)	(1 169)	(254)	(4 799)
Net Book Value at 1 January 2021	**860**	**191**	**29**	**70**	**2 688**	**443**	**4 281**
Increases in fair value	21	–	–	–	–	–	21
Reductions in fair value	(56)	–	–	–	–	–	(56)
Additions	78	64	11	29	1 062	70	1 314
Disposals	–	–	–	–	(434)	(162)	(596)
Depreciation charges	(33)	(37)	(9)	(32)	(513)	(20)	(644)
Transfer to the item "*Non-current assets held for sale*"	(8)	–	–	–	–	–	(8)
Other and FX rate gains or losses	(36)	(1)	(4)	1	(36)	(47)	(123)
Net Book Value at 31 December 2021	**826**	**217**	**27**	**68**	**2 767**	**284**	**4 189**
Fair Value (Buildings and land) / Cost at 31 December 2021	2 542	1 050	148	630	3 889	498	8 757
Accumulated depreciation and impairment at 31 December 2021	(1 716)	(833)	(121)	(562)	(1 122)	(214)	(4 568)

(b) Movements in Property Held as an Investment

	Buildings and land	Total
Fair Value at 1 January 2020	**371**	**371**
Disposals	–	–
Change in Fair Value	(11)	(11)
Fair Value at 31 December 2020	**360**	**360**
Fair Value at 1 January 2021	**360**	**360**
Disposals	(360)	(360)
Change in Fair Value	–	–
Fair Value at 31 December 2021	**–**	**–**

(c) Movements in Right of Use Assets

	Buildings and land	Total
Net Book Value at 1 January 2020	**1 963**	**1 963**
Additions	1 019	1 019
Disposals	(26)	(26)
Depreciation	(356)	(356)
Other and FX rate gains or losses	(2)	(2)
Net Book Value at 31 December 2020	**2 598**	**2 598**
Cost at 31 December 2020	3 303	3 303
Accumulated depreciation and impairment at 31 December 2020	(705)	(705)
Net Book Value at 1 January 2021	**2 598**	**2 598**
Additions	313	313
Disposals	(169)	(169)
Depreciation	(420)	(420)
Other and FX rate gains or losses	–	–
Net Book Value at 31 December 2021	**2 322**	**2 322**
Cost at 31 December 2021	3 410	**3 410**
Accumulated depreciation and impairment at 31 December 2021	(1 088)	**(1 088)**

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2020	3 747	3 747
Accumulated amortisation and impairment at 1 January 2020	(1 402)	(1 402)
Net Book Value at 1 January 2020	**2 345**	**2 345**
Additions	706	706
Amortisation charges	(548)	(548)
Other	105	105
Net Book Value at 31 December 2020	**2 608**	**2 608**
Cost at 31 December 2020	4 914	4 914
Accumulated amortisation and impairment at 31 December 2020	(2 306)	(2 306)

	Software	Total
Cost at 1 January 2021	4 914	4 914
Accumulated amortisation and impairment at 1 January 2021	(2 306)	(2 306)
Net Book Value at 1 January 2021	**2 608**	**2 608**
Additions	846	846
Amortisation charges	(676)	(676)
Other	98	98
Net Book Value at 31 December 2021	**2 876**	**2 876**
Cost at 31 December 2021	5 571	5 571
Accumulated amortisation and impairment at 31 December 2021	(2 695)	(2 695)

20. Other assets

	31 Dec 2021	31 Dec 2020
Deferred expenses and accrued income	523	434
Trade receivables	190	291
Receivables from securities	7	12
Clearing and settlement accounts	357	1 268
Other	152	84
Total	**1 229**	**2 089**
Impairment losses on other assets	(9)	(17)
Net other assets	**1 220**	**2 072**

21. Financial liabilities held for trading

Based on the Type of Financial Instrument

	31 Dec 2021	31 Dec 2020
Liabilities from short sales	1 065	2 115
Derivatives	34 070	14 697
Total	**35 135**	**16 812**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2021	31 Dec 2020
Deposits from central banks	39 223	39 378
Current accounts	9 495	6 180
Loans	7 811	12 165
Term deposits	345	31 569
Sale and repurchase agreements (see section V, point 32)	–	16 062
Other	–	165
Total	**56 874**	**105 519**

Item "Deposits from central banks" includes as of 31 December 2021 MCZK 39 708 of funding from Targeted Longer-Term Refinancing Operations (hereinafter "TLTRO"), namely TLTRO III.4 which was drawn by the Bank in June 2020 and TLTRO III.7 drawn in March 2021 (as of 31 December 2020: TLTRO III of MCZK 39 551). Outstanding TLTRO II borrowings was repaid in June 2020 (original maturity in March 2021).

The TLTRO liabilities are banking book funding instruments to be subsequently measured at amortised cost according to IFRS 9, 4.2.1. Financial conditions incorporated into TLTROs are reflecting The European Central Bank (hereinafter "ECB") monetary policy initiatives to prospectively reduce market cost of funding for banking institutions by using non-conventional tools and reflected in money market operations. In addition to the more favourable conditions already introduced in March 2020 (to be applied in the period from 24 June 2020 to 23 June 2021),

the Governing Council of ECB on 10 December 2020 decided to extend similar favourable conditions for the period from 24 June 2021 to 23 June 2022.

For banks that reach the lending performance threshold during the predefined reference periods the borrowing rates can be as low as 50 basis points below the average interest rate on the Deposit Facility Rate (hereinafter "DFR") during the periods from 24 June 2020 to 23 June 2021 and from 24 June 2021 to 23 June 2022, and as low as DFR during the rest of the life of the respective TLTRO III transaction.

Referencing EIR rules for markets-driven remunerations, changes in market index (e.g. base rate and spread) will be reflected by adjusting instruments' carrying amount calculated by referencing the evolution of the "TLTRO index" and limited to the accrued (to-date) portion. As a result, TLTRO III EIR for a 3year funding drawn in June 2020 and March 2021 ranges between –0.33% and –0.83% in 2021 as well in 2020, coherently with (i) benchmark achievements for Cumulative Net Lending (hereinafter "CNL") as at March 2021 and December 2021 and (ii) current Main Refinancing Operation and DFR levels.

In 2021 Bank recognized, a Net Interest Income contribution equal to MCZK 334 from TLTRO III applying interest rates from –0,5% to –0,83% (2020: MCZK 190 – hereof, interest from TLTRO II of MCZK 14 and interest from TLTRO III applying –0.83% of MCZK 176), based on Group´s CNL threshold achievements as supported by actual eligible business volumes development.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2021	31 Dec 2020
Current accounts	430 960	404 210
Term deposits	34 204	15 538
Lease Liabilities	2 385	2 646
Other	2 609	2 753
Total	**470 158**	**425 147**

Lease liability	2021	2020
As at 1 January	2 646	2 047
Additions	144	993
Accretion of interest	12	19
Lease payments	(362)	(391)
Other and FX rate gains or losses	(55)	(22)
Total at 31 December	**2 385**	**2 646**

The Group had total cash outflows for leases of MCZK 399 in 2021, incl. those leases that are not in-scope of IFRS 16 (in 2020: MCZK 428).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2021	31 Dec 2020
Mortgage bonds	5 860	7 772
Structured bonds	1 246	2 271
Other issued debt securities	16 760	430
Total	**23 866**	**10 473**

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 1 205 (at 31 December 2020: MCZK 2 420). The positive fair value of these derivatives of MCZK 23 is reported under "Financial assets held for trading" (at 31 December 2020: MCZK 5); the negative fair value of these derivatives of MCZK 204 is recognised under "Financial liabilities held for trading" (at 31 December 2020: MCZK 97).

Other issued debt securities includes as well MREL instrument (MREL = The Minimum Requirement for Own Funds and Eligible Liabilities) in the form of EUR Senior Non-Preferred Bond issued for purpose of fulfilment of the capital requirements under the EU law (BRRD2 Directive and Czech Recovery and Resolution Crisis Act) as a part of the Single Point of Entry model ("SPE") applied within UC Group. The MREL instruments was issued as of 23 November 2021 with total nominal value of MCZK 16 408 and maturity date as of 23 November 2027 with option to call the bond after 5 years. The only investor is UniCredit S.p.A. The total value as of 31 December 2021 is MCZK 16 418.

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2021	31 Dec 2020
Fair value hedging	5 855	745
Cash flow hedging	15 900	6 710
Total	**21 755**	**7 455**

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

26. Other liabilities

	31 Dec 2021	31 Dec 2020
Deferred income and accrued expenses	1 497	1 770
Trade payables	768	645
Payables to employees	455	284
Unsettled security transactions	2	172
Clearing and settlement accounts	3 638	6 005
Other	467	436
Total	**6 827**	**9 312**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2021	31 Dec 2020
Provisions for off-balance sheet credit exposures	1 230	1 293
a. Stage 1	202	179
b. Stage 2	136	346
c. Stage 3	892	768
Legal disputes	81	88
Provision for restructuring	15	69
Other	39	51
Total	**1 365**	**1 501**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	113	100	508	721
Charge during the year	168	268	646	1 082
Release during the year	(102)	(23)	(387)	(512)
Other – FX rate gains or losses	–	1	1	2
Total provisions for off-balance sheet credit items at 31 December 2020	**179**	**346**	**768**	**1 293**
Balance at 1 January 2021	179	346	768	1 293
Charge during the year	185	187	577	949
Release during the year	(155)	(387)	(425)	(967)
Other – FX rate gains or losses	(7)	(10)	(28)	(45)
Total provisions for off-balance sheet credit items at 31 December 2021	**202**	**136**	**892**	**1 230**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2020	37	62	62	161
Charge during the year	54	47	9	**110**
Usage during the year	(5)	(30)	(21)	**(56)**
Release of redundant provisions and other	2	(10)	1	**(7)**
Total other provisions at 31 December 2020	**88**	**69**	**51**	**208**
Balance at 1 January 2021	88	69	51	208
Charge during the year	4	2	22	28
Usage during the year	(7)	(20)	(23)	(50)
Release of redundant provisions and other	(4)	(36)	(11)	(51)
Total other provisions at 31 December 2021	**81**	**15**	**39**	**135**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2021	31 Dec 2020
Current tax payable	(1 898)	I(1 381)
Prior year tax	(17)	28
Deferred tax	56	(38)
Total income tax	**(1 859)**	**(1 391)**

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 2021	31 Dec 2020
Profit/loss for the year before tax	8 840	6 708
Tax calculated using the tax rate of 19%	(1 680)	(1 275)
Impact of prior years on the current tax payable	(17)	28
Non-taxable income	11	43
Tax non-deductible expenses	(108)	(112)
Impact of prior years on the deferred tax	5	(20)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(54)	(45)
Recognition of previously unrecognised deferred tax	18	(15)
Other	(34)	5
Total income tax	**(1 859)**	**(1 391)**

The effective tax rate of the Group is 21.03% (2020: 20.74%).

(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 2021 based on the current and anticipated future level of taxable profits.

(i) Deferred Tax Asset

	31 Dec 2021	31 Dec 2020
Tax non-deductible provisions	130	126
Impairment of loans and off-balance sheet items	829	979
Differences arising from the net book values of tangible assets	33	68
Reserve from revaluation of hedging instruments*	1 435	3
Reserve from revaluation of financial assets at fair value through other comprehensive income*	4	7
Other	166	136
Offsetting against deferred tax liability	(393)	(572)
Net deferred tax asset	**2 204**	**747**

* Change in deferred tax from these items is posted via Other Comprehensive Income.

(ii) Deferred Tax Liability

	31 Dec 2021	31 Dec 2020
Impairment of loans and off-balance sheet items	32	39
Differences arising from the net book values of tangible assets	99	115
Differences arising from the net book values of intangible assets	153	146
Reserve from revaluation of hedging instruments*	25	139
Reserve from revaluation of financial assets at fair value through other comprehensive income*	93	90
Reserve from revaluation of property measured at fair value*	51	65
Other	678	826
Offsetting against deferred tax asset	(393)	(572)
Net deferred tax liability	**738**	**848**

* Change in deferred tax from these items is posted via Other Comprehensive Income.

The Group additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions recognized UniCredit Bank of MCZK 11 and by UniCredit Leasing Slovakia, a.s. of MCZK 22 and from tangible assets by UniCredit Leasing CZ, 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 2021 and 2020.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2021				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2020				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2021 Number of shares	31 Dec 2021 MCZK	31 Dec 2020 Number of shares	31 Dec 2020 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 2021 and 31 December 2020, 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 2021	31 Dec 2020
Reserve funds	5 243	5 243
Special-purpose reserve fund	12 402	14 471
Retained earnings	51 146	47 054
Exchange rate differences arising on consolidation	(147)	(47)
Total	**68 644**	**66 721**

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 part of the Special-purpose reserve fund in total amount of MCZK 11 611 from cross-border merger can only be used to settle the loss of the Bank.

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

(a) Reverse Repurchase Transactions

	31 Dec 2021	31 Dec 2020
Loans and advances to banks	84 661	116 185
Fair value of securities received	84 661	116 185

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2021 and as of 31 December 2020.

(b) Repurchase Transactions

	31 Dec 2021	31 Dec 2020
Deposits from banks	–	16 062
Fair value of securities provided	–	16 086

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 2021, 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.

Loan Commitments, financial guarantees and other commitments given

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.

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 2021, the aggregate provisions amounted to MCZK 1 230 (as of 31 December 2020: MCZK 1 293), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2021			
Letters of credit and financial guarantees	47 833	(656)	47 177
– Stage 1	45 263	(103)	45 160
– Stage 2	1 936	(82)	1 854
– Stage 3	634	(471)	163
Other contingent liabilities (undrawn credit facilities)	165 928	(574)	165 354
– Stage 1	156 460	(99)	156 361
– Stage 2	8 745	(54)	8 691
– Stage 3	723	(421)	302
Total	**213 761**	**(1 230)**	**212 531**

	Gross amount	Impairment losses	Net amount
31 Dec 2020			
Letters of credit and financial guarantees	46 575	(700)	45 875
– Stage 1	43 059	(95)	42 964
– Stage 2	2 981	(164)	2 817
– Stage 3	535	(441)	94
Other contingent liabilities (undrawn credit facilities)	140 852	(593)	140 259
– Stage 1	131 659	(84)	131 575
– Stage 2	8 726	(182)	8 544
– Stage 3	467	(327)	140
Total	**187 427**	**(1 293)**	**186 134**

(b) Contingent Assets

The Bank has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 219.5 (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 2021			
Trading instruments – interbank market (OTC)			
Options	110 800	1 504	1 514
Interest rate swap contracts	780 444	24 801	25 539
Forward rate agreements (FRA)	6 820	–	17
Cross currency swap contracts	184 672	3 966	3 161
Foreign exchange forwards and swaps	47 979	273	798
Other instruments	5 037	3 063	3 041
Total	**1 135 752**	**33 607**	**34 070**
Trading instruments – stock exchange			
Futures	505	34	–
Total trading instruments	**1 136 257**	**33 641**	**34 070**
Hedging instruments			
Interest rate swap contracts	659 526	10 244	20 868
Cross currency swap contracts	121 925	2 097	887
Total hedging instruments	**781 451**	**12 341**	**21 755**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2020			
Trading instruments – interbank market (OTC)			
Options	84 938	886	909
Interest rate swap contracts	682 521	8 560	8 270
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	169 210	3 472	2 752
Foreign exchange forwards and swaps	35 394	268	507
Other instruments	8 402	2 290	2 259
Total	**980 465**	**15 476**	**14 697**
Trading instruments – stock exchange			
Futures	1 496	32	–
Total trading instruments	**981 961**	**15 508**	**14 697**
Hedging instruments			
Interest rate swap contracts	607 228	9 340	6 508
Cross currency swap contracts	136 572	1 045	947
Total hedging instruments	**743 800**	**10 385**	**7 455**

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

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2021				
Trading instruments				
Interest rate instruments	119 128	440 970	250 733	810 831
Equity instruments	1 329	1 202	–	2 531
Currency instruments	213 468	95 609	8 276	317 353
Other	4 149	888	–	5 037
Total	**338 074**	**538 669**	**259 009**	**1 135 752**
Hedging instruments				
Interest rate instruments	120 211	332 154	207 161	659 526
Currency instruments	33 760	25 774	62 391	121 925
Total	**153 971**	**357 928**	**269 552**	**781 451**
31 Dec 2020				
Trading instruments				
Interest rate instruments	63 160	390 849	254 039	708 048
Equity instruments	2 713	2 341	–	5 054
Currency instruments	177 865	81 096	–	258 961
Other	6 824	1 578	–	8 402
Total	**250 562**	**475 864**	**254 039**	**980 465**
Hedging instruments				
Interest rate instruments	91 139	316 673	199 416	607 228
Currency instruments	49 566	56 549	30 457	136 572
Total	**140 705**	**373 222**	**229 873**	**743 800**

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 2021				
Net interest and dividend income	3 149	8 695	1 141	**12 985**
Other net income	1 639	5 368	(151)	**6 856**
Depreciation/impairment of property and equipment and intangible assets	(744)	(528)	(468)	**(1 740)**
Impairment loss	(837)	(1 221)	14	**(2 044)**
Segment expenses	(3 385)	(4 214)	382	**(7 217)**
Profit before tax	(178)	8 100	918	**8 840**
Income tax	–	–	(1 859)	**(1 859)**
Result of segment	**(178)**	**8 100**	**(941)**	**6 981**
Segment assets	167 805	510 694	14 965	**693 464**
Segment liabilities	206 739	377 416	27 428	**611 583**
31 Dec 2020				
Net interest and dividend income	2 955	7 922	1 220	**12 097**
Other net income	1 467	4 812	501	**6 780**
Depreciation/impairment of property and equipment and intangible assets	(651)	(487)	(411)	**(1 549)**
Impairment loss	(132)	(2 754)	31	**(2 855)**
Segment expenses	(3 734)	(4 488)	457	**(7 765)**
Profit before tax	(95)	5 005	1 798	**6 708**
Income tax	–	–	(1 391)	(1 391)
Result of segment	**(95)**	**5 005**	**407**	**5 317**
Segment assets	159 435	491 567	13 350	**664 352**
Segment liabilities	189 465	374 877	14 418	**578 760**

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 2021			
Net interest and dividend income	10 102	2 883	**12 985**
Other net income	5 078	1 778	**6 856**
Depreciation/impairment of property and equipment and intangible assets	(1 227)	(513)	**(1 740)**
Impairment loss	(1 541)	(503)	**(2 044)**
Segment expenses	(5 140)	(2 077)	**(7 217)**
Profit before tax	7 272	1 568	**8 840**
Income tax	(1 455)	(404)	**(1 859)**
Result of segment	**5 817**	**1 164**	**6 981**
Segment assets	541 027	152 437	**693 464**
Segment liabilities	470 359	141 224	**611 583**

	Czech Republic	Slovakia	Total
31 Dec 2020			
Net interest and dividend income	9 173	2 924	**12 097**
Other net income	4 440	2 340	**6 780**
Depreciation/impairment of property and equipment and intangible assets	(1 043)	(506)	**(1 549)**
Impairment loss	(2 439)	(416)	**(2 855)**
Segment expenses	(5 512)	(2 253)	**(7 765)**
Profit before tax	4 619	2 089	**6 708**
Income tax	(1 011)	(380)	**(1 391)**
Result of segment	**3 608**	**1 709**	**5 317**
Segment assets	523 223	141 129	**664 352**
Segment liabilities	437 187	141 573	**578 760**

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:

	2021	2020
Cash and cash balances	5 772	7 207
Financial assets at fair value through profit or loss, *of which:*	35 190	17 082
Held for trading	34 646	16 542
Mandatorily at fair value	544	540
Financial assets at fair value through other comprehensive income	21 802	20 518
Financial assets at amortised cost, *of which:*	605 192	595 296
Loans and advances to banks	121 843	133 820
Loans and advances to customers	483 349	461 476
Positive fair value of hedging derivatives	12 341	10 385
Changes in fair value of the portfolio of hedged instruments	(366)	–
Other assets	1 220	2 072
Total	**681 151**	**652 560**

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

	2021	2020
Letters of credit and financial guarantees	47 177	46 573
Other contingent liabilities (undrawn credit facilities)	165 354	145 954
Total	**212 531**	**192 527**

(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 behavioral 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 behavioral scoring method. A client's final rating combines both application and behavioral 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 receivable's gross carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate; (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 portion of lifetime expected credit losses (ECL) that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (1-year expected credit 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).

Credit exposures included in stage 1 due to low credit risk exemption amount to MCZK 13 as of 31 December 2021 represented by Non-financial corporations exposures (31 December 2020: MCZK 0).

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.

Impact of ESG Topics on Impairment Losses
In relation of the ESG topics currently no impact to provisions was identified. In coordination with the UniCredit Group´s activities data collection and delivery for stress testing (e.g. regarding physical risks and energy performance certificate) were carried out. No result or impact is known yet as of 31. December 2021. The Group is aware of the importance of ESG topic for the future and makes steps to be prepared to cover the upcoming requirements. The group is active to promote the ESG topic in communication with clients, also to support them to provide necessary information using implemented questionnaires. Data collection and assessment from ESG questionnaire process is mandatory part of approval process for high-end exposure part of portfolio with further future extension of the process to next group of clients. On the market the group is participating within the Czech Banking Association on the regular ESG committee as a standard member of the committee, supporting and cooperating on activities targeting future smooth data collection and processing and relieving the data collection and delivery for the clients. Internal implementation project regarding data storage and processing is in progress.

(v) 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).

(vi) 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).

(vii) 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.

(viii) COVID-19 impacts on Credit Risk

The Group faced during 2020 and 2021 significant macroeconomic changes and "COVID-19 waves" resulting in increase of risk in several risk categories including credit risk. The spread of the virus passed across European countries during first quarter 2020 followed by partial economy lockdowns resulting in significant economic recession.

The most affected sectors were retail trade, transport, tourism and in general services.

Local governments introduced several local government-guaranteed programs supporting Group lending continuation and to support local companies to overcome potential liquidity crisis.

Gradually there were introduced also government programs covering partial direct costs of companies hit by lockdown to prevent high unemployment rate growth and to stabilize the labor market short term. Across countries in Europe as well as in Czech Republic and Slovakia there were local public moratoriums presented and issued by law enabling postponement of repayments to the debtors, in particular in Czech Republic and Slovakia both in so called "opt-in" option.

Concessions on the Group's side are defined to support the drawback deriving from a temporary slow-down of the economy and support client's liquidity fully in line with law and regulator's regulation rules. The impact on the portfolio asset quality of the Group is mitigated by:

- Regular and also additional portfolio's analysis
- Ex-ante, ongoing and ex-post evaluation of client's risk profiles including standard and non-standard reviews and additional checks of unlikeliness to pay (hereinafter "UTP") as regulated by The European Banking Authority (hereinafter "EBA")
- Update of corporate underwriting principles and rules connected especially to risky industries clusters, clients' liquidity situation, unutilized frames management and prudent new clients onboarding
- Update of retail underwriting principles and rules with strong concentration on support of current clients and several short-term new restrictions to avoid credit risk increase

- Acquisitions of public guarantee schemes
- Update of monitoring principles and monitoring reporting especially (but not only) related to "under moratoria" portfolio development
- Classification principles aligned with EBA/GL/2020/02 issued as of April 2nd, 2020 incl. follow-up updates as well as local prudent specifics, e.g. stage 2 classification for moratoria receivables fulfilling the interest rate local moratoria law limit (cap)

In order to mitigate the impact of the COVID-19, laws were passed in the Czech Republic and Slovakia that allowed for the postponement of loan repayments. The Group provided deferred payments in connection with the COVID-19 in accordance with the following laws:
- No. 177/2020 Coll., Act on Certain Measures in the Area of Loan Repayment in Connection with the COVID-19, which was approved in the Czech Republic; and
- No. 67/2020 Coll., As amended by Act No. 75/2020 Coll., The Act on Certain Extraordinary Measures in the Financial Area in Relation to the Spread of Dangerous Infectious Human Disease COVID-19, which was approved in Slovakia.

Czech Republic
- With regard to the expiration of the deadline for the termination of moratoriums under the said Act, no new moratoriums were granted in 2021. The Group continues to voluntarily provide group-specific deferrals and relief to clients, but in a completely normal regime outside the said Act and in accordance with the established rules of regulation and classification of receivables.
- The Group intensively monitors the status, quality and development of the portfolio affected by the moratorium even after their termination.

Slovakia
- Due to the continuing validity of the said Act (with regard to the so-called pandemic period), clients who have not yet used the moratorium under this Act are still allowed to enter the moratorium at their request.
- The Group intensively monitors both the portfolio of receivables that were the subject of the moratorium and new cases.

Deferral of payments in connection with COVID 19 leads to a modification of contractual cash flows in accordance with IFRS 9. According to the Group's internal rules, this modification is not considered a significant modification and therefore does not lead to the derecognition of the asset of the original asset. The Group assessed the impact of the modifications due to the deferral of payments in connection with COVID-19 which was as of 31 December 2020 recognised in the income statement under the item „*Modification gains/ (losses)*". In subsequent accounting periods, the modification gains/losses are amortized to the maturity date of the financial asset. This amortization is recognised in the income statement under the item *"Interest income"*.

As of 31 December 2021, the identified impact of the modification due to the deferral of payments in connection with COVID-19 was not assessed as significant and was therefore not recognised.

Overview of loans subject to moratoria in the Czech Republic and Slovakia

31 Dec 2021	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair. losses – perform	Impair. losses – non perform	Impair. losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	10 886	9 563**	350	9 913	(177)	(129)	(306)	9 386	221	9 607
Corporate Customers*	3 068	22 282**	3 472	25 754	(218)	(2 106)	(2 324)	22 064	1 366	23 430
Total	**13 954**	**31 845**	**3 822**	**35 667**	**(395)**	**(2 235)**	**(2 630)**	**31 450**	**1 587**	**33 037**

*Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
**The balance also includes unamortized modification loss of MCZK 32.
***The balance also includes unamortized modification loss of MCZK 9.

31 Dec 2020	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair. losses – perform	Impair. losses – non perform	Impair. losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	13 151	12 345**	261	12 606	(183)	(96)	(279)	12 162	165	12 327
Corporate Customers*	3 387	30 617***	3 487	34 104	(527)	(1 271)	(1 798)	30 090	2 216	32 306
Total	**16 538**	**42 962**	**3 748**	**46 710**	**(715)**	**(1 367)**	**(2 082)**	**42 247**	**2 381**	**44 628**

*Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
**The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
***The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Overview of in the Group newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19

	Number of clients	Gross Carrying Amount
31 Dec 2021		
Total	817	8 213
31 Dec 2020		
Total	602	5 203

Regulators measures
As response to COVID-19 spread EBA issued several statements during 2020 (followed by standard monitoring and strategies updates during 2021), from credit risk point of view one of the most important and affecting Group's portfolio development Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of COVID-19 with application date as of 2 April 2020 followed by several amendments regarding clarification, prolongation and reactivation of moratoria period. In parallel with local law initiatives the statements provided clarity and reasonable uniformity in the classification and moratoria approach of the banks across the markets.

As reaction to COVID-19 CNB updated the recommendation regarding new mortgages financing. The limits were released to support the economy recovery.

The release was applied to Loan to Value ("LTV"), Debt Service to Income ("DSTI") and Debt to Income ("DTI") limits. Detailed description is available on CNB website, recommendations are valid as of 1.4.2020 and as of 8.7.2020.

CNB and National Bank of Slovakia (hereinafter "NBS") were updated by the Group representatives several times during the year on calls dedicated special to COVID-19 and related development and Group measures.

UniCredit Bank Czech Republic and Slovakia credit risk and underwriting measures
The reaction of the Group was immediate starting from February 2020 implementing measures in corporate underwriting process (analyzing and covering COVID-19 connected risks to defend asset quality position of the Group).

Parallel to appropriate additional loan loss provisions created at specific and portfolio level (see part Macroeconomic Multiscenario Overlay Factor in the section IV. Critical Accounting Judgements, Estimates and Assumptions) the Group implemented new criteria in retail financing segment and updated during the year based on economic development. In corporate segment, the Group implemented risk mitigation rules in underwriting process based e.g. on industry clusters.

The Group also implemented moratoria underwriting process covering all by law driven new legal requests and successfully managed to the process in line with client's requests and the related reporting activities, internally and externally.

On the top the Group update monitoring system covering the moratoria but also after moratoria period (exit from moratoria) was implemented, mainly:
- risk clusters of clients under Moratoria for better aim of other activities towards that clients,
- deep payment traffic analyses specifically designed for clients under moratoria to be able to detect and have information about impact of COVID-19 to client business and afterwards if recovery activities in client business activities are in line with expectations,
- new flags and warning signals connected to moratoria for better identification and filtering such clients
- monitoring of backlog in post moratoria review and their notification,
- detailed Post moratoria delinquency monitoring.

Regular reporting for management, other local purposes, relevant reporting to UniCredit Group and regulators was ensured. Based on partial economic lockdown and expected economic slowdown including follow-up negative effects on consumers the set of retail risk rules was updated already within first half of 2020.

Acceptable limits for LTV, Debt Ratio ("DR"), DTI, DSTI were updated with stricter approach to keep appropriate prudential approach and defend asset quality. The same applied for customer income recognition/acceptance rules following the evaluation of industry risk clustering. Follow-up rules updates were done during the year to ensure fast Group reaction incl. release of some of mentioned rules during the year, but still keeping prudent approach with not fully utilization of all limits used according to regulators recommendations.

Loan loss provisions
Considering the updated macro-scenarios there were also updates performed of the FLI component of expected credit loss calculation, according to IFRS 9. Such updates were implemented on the bank in the 2nd and 4th quarter 2021.

Asset quality impact
As shown in the migration tables bellow, the year 2021 is worse mainly in the higher migration from stage 1 to stage 2 in both segments. This is caused not only by the change of the methodology (the watchlist is newly triggering the stage 2) but also by real worsening of the portfolio. Direct migration from stage 1 to stage 3 (new defaults) decreased in 2021 compared to 2020 in both segments. Positive development can be seen also in the back transfers (i.e. from defaulted stage 3 to performing stage 2) and mainly in Corporate Customers of MCZK 1 142, which is however driven mainly by one significant exposure.

Migrations between stages

	Corporate Customers			Retail Customers		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
2021						
Transfer of Gross carrying amount from stage 1	(22 573)	19 453	3 120	(8 059)	7 758	301
Transfer of Gross carrying amount from stage 2	7 503	(9 428)	1 925	2 219	(2 486)	267
Transfer of Gross carrying amount from stage 3	98	1 142	(1 240)	113	161	(274)
2020						
Transfer of Gross carrying amount from stage 1	(23 327)	17 997	5 330	(4 666)	4 221	445
Transfer of Gross carrying amount from stage 2	3 623	(5 799)	2 176	2 920	(3 242)	322
Transfer of Gross carrying amount from stage 3	148	117	(265)	162	90	(252)

(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 ("VaR") 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 Group 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 2021	Average for 2021	At 31 Dec 2020	Average for 2020
VaR of Financial assets at fair value through profit or loss Held for trading	16,74	13,27	30,49	31,21
VaR of Financial assets at fair value through other comprehensive income	98,85	70,93	101,02	77,89

COVID-19 impacts on Market Risk

As far as Market Risk is concerned, the abrupt market movements and the increased market volatility triggered at beginning of 2020 by the outbreak of COVID-19 resulted in a general increase in both managerial and regulatory risk measurement metrics. Loss Warning Limit was hit in the first COVID-19 wave. The evolution of the crisis and the related risk metrics development is under strict monitoring by both risk and business functions. Positions in the Trading Book were significantly reduced.

During 2020 market parameters were more volatile and interest rates dropped back to its minimum levels. However, since the beginning of 2021, interest rates have been rising again, mainly in connection with the improving situation with COVID-19, rising inflation and positive economic news.

Value at Risk

Starting from March 2020, the VaR sharply increased, due to the massive increase of volatility in the markets in different asset classes in the course of uncertainty around the Coronavirus crisis. Later when positions were reduced VaR limit utilization dropped and stayed at low levels for the rest of the year. Due to the used VaR calculation method using the historical window of 250 days, the initial volatility of the market caused by COVID situation has begun to vanish in from Q2 2021 (VaR declined) and trading is not anymore restricted in any way.

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 overall interest rate position of the Group is measured primarily by calculating the sensitivity of the change in the fair value of the portfolio to a shift in interest rates by one basis point (BP01). Interest rate sensitivity is measured with a breakdown by time period and individually by currency. Different interest rate risks related to individual currencies are offset within individual time buckets and aggregate short and long positions. The main positions are represented by CZK and EUR.

The utilization of the base point value (BP01) remained generally stable during the period considered.

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 monthly following stress scenarios:

- Group calculates simulated impact to Economic Value of Equity ("EVE") under stress scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.
- Group calculates the impact to Net Interest Income ("NII") under stress scenarios of significant movements in financial markets

Both stress tests are on a monthly basis compared to set of RAF Limits. 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.

EVE stress test

EVE, ie the economic value of equity, is calculated as the present value of all cash flows of assets decreased by the present value of all cash flows of liabilities. In other words, it is the net present value ("NPV") of all the Group's future cash flows.

The stress test aims to express the increase / decrease of this net NPV depending on the shock change of market factors and to compare the decrease of NPV with the set limits (internal and regulatory).

The standard stress scenario corresponds to a various shifts in the interest yield curve required by regulators including:

- EBA +200/–200 basis points shift,
- Supervisory outlier test ("SOT"): Parallel Up, Parallel Down, Flattening, Steepening, Rates Up or Down

The following table shows the impact of the stress scenarios on the Bank's EVE results. The Bank uses the euro as the base currency for stress testing results.

	Stress test based on EBA (% impact on Equity) 2021		**SOT test (% impact on Tier 1) 2021**					
	EV+200	EV–200	Parallel up	Parallel down	Flattening	Steepening	Rates up	Rates down
Economic Value of Equity 2021								
Maximal impact of the stress test	–6,80%	5,40%	–6,80%	5,40%	–0,90%	2,40%	–3,00%	2,60%
Minimal impact of the stress test	–11,70%	2,30%	–11,70%	2,40%	–3,80%	–0,20%	–5,90%	1,90%
Average impact of the stress test	–9,70%	3,90%	–9,80%	4,00%	–2,10%	1,10%	–4,50%	2,20%
RAF Limit (31/12/2021)	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%
Economic Value of Equity 2020								
Maximal impact of the stress test	–3,70%	5,60%	–3,70%	5,60%	0,00%	0,10%	–0,50%	2,40%
Minimal impact of the stress test	–8,70%	2,40%	–8,70%	2,40%	–1,70%	–1,60%	–4,10%	0,60%
Average impact of the stress test	–6,30%	4,10%	–6,30%	4,10%	–0,60%	–0,70%	–1,80%	1,70%
RAF Limit (31/12/2020)	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%

NII stress test

The two main stress scenarios correspond to a parallel shift in the yield curve UP by 100 basis points and DOWN by –100 (or –30 for currencies with already negative rates) basis points for all currencies (CZK, EUR, USD).

Additional stress scenarios represent various market changes, for example parallel shifts +200/–200 basis points.

The following table shows the impact of these two main scenarios on the bank NII as a percentage portion against the Budgeted NII.

	RAF Parallel Up	RAF Parallel Down	NII +200bps	NII –200bps
Net interest income (% impact on NII budget) 2021				
Maximal impact of the stress test	18,50%	17,20%	5,80%	6,20%
Minimal impact of the stress test	10,80%	–8,40%	3,70%	–3,40%
Average impact of the stress test	14,50%	1,90%	4,80%	2,10%
RAF Limit	–9,00%	–9,00%	–	–
Net interest income (% impact on NII budget) 2020				
Maximal impact of the stress test	12,60%	12,70%	–	–
Minimal impact of the stress test	4,60%	–10,60%	–	–
Average impact of the stress test	9,20%	2,40%	–	–
RAF Limit	–9,00%	–9,00%	–	–

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 Group 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.

	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
31 Dec 2021				
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	34 776	4 911	1 426	(58)
Portfolio fair value hedges				
Interest rate risk – see “B” below	10 572	99 564	(5 652)	623
31 Dec 2020				
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	29 796	–	1	–
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(81 711)	–	(1 636)

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

- Loans presented in the line *“Financial assets at amortised cost, of which: Loans and advances to customers”* and
- Current 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:

	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
31 Dec 2021			
Fair Value Hedge			
Micro fair value hedges	(1 529)	1 529	–
Interest rate risk			
Portfolio fair value hedges			
Interest rate risk	6 624	(6 624)	–
31 Dec 2020			
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(46)	46	–
Portfolio fair value hedges			
Interest rate risk	(527)	527	–

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 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 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 2021					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(7 476)	(65)	(8 247)	(8 247)	–
31 Dec 2020					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	592	121	767	767	–

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.

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") has taken 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.

The Group's main contract with variable interest rates based on interest rate benchmarks other than PRIBOR or EURIBOR were indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Although US dollar LIBOR was planned to be discontinued by the end of 2021, in March 2021 the ICE Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, announced that certain USD LIBOR settings (i.e., the overnight and the one-, three-, six- and 12-month settings) will cease to be published after 30 June 2023. Other LIBOR settings (i.e. all GBP, EUR, CHF and JPY LIBOR settings and the one-week and two-month USD LIBOR settings) will cease to be published after 31 December 2021.

Nevertheless, the Group had finished the process of implementing appropriate fallback provisions (i.e. definition of the steps that should be taken to agree a new reference rate if the reference rate in the transaction is no longer available) for all LIBOR indexed exposures by the end of 2021.

Impact of the Interest Rate Benchmark Reform on the Group's hedge relationships

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 Group 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.

On 13 January 2021 the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 ("the Phase 2 Amendment") have been endorsed by the European Commission for use in EU. The EU effective start date for the Phase 2 Amendment is the annual period beginning on or after 1 January 2021. The Phase 2 Amendment address issues arising during interest rate benchmark reform, including specifying when the Amendment will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The Group applied the Phase 2 Amendment retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as of 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

The Phase 2 Amendment provides following hedge accounting reliefs:

- Hedge designation:

When the phase 1 amendments cease to apply, the Group will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:

a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
c) amending the description of the hedging instrument.

The Group will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.

The Group has not made any amendments to its hedge documentation in the reporting period relating to IBOR reform.

- Hedges of groups of items:

When amending hedges for groups of items (such as the fair value hedge of interest rate risk within the mortgage portfolio) for IBOR reform, hedged items are allocated to sub-groups within that hedge designation, based on the benchmark rate being hedged for that sub-group. The benchmark rate for each sub-group is designated as the hedged risk.

The Group has not needed to amend hedges for groups of items during the reporting period.

- Retrospective effectiveness test:

When the Amendment retrospective effectiveness relief ceases to apply, on a hedge-by-hedge basis, the Group could reset to zero the cumulative fair value changes of the hedged item and hedging instrument for the purposes of the 80–125% 'pass / fail' hedge effectiveness test. However, this does not affect the amounts of hedge ineffectiveness reported in the income statement.

During the period, the Group has not reset to zero the cumulative fair value changes of the hedged item and hedging instrument in any of its hedges.

- Risk components:

The Group is permitted to designate an alternative benchmark rate as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the Group reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the Group might designate.

During the period, the Group has not designated any risk components of alternative benchmark rates in any hedge relationships.

Group's contract involving other IBORs are represented by those with USD LIBOR settings that will cease to be published after 30 June 2023 (i.e., the overnight and the one-, three-, six- and 12-month settings) and therefore there is no impact for the fiscal year ended 31 December 2021 as there are no hedge transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2021.

The Group's hedge relationships with interest rate benchmark affected by IBOR reform (i.e. USD LIBOR settings as mentioned above) whose

- notional value represents 2,4% of total notional value and
- fair value represents 1,9% of total positive and negative fair value of all hedging instruments as of 31 December 2021 and thus insignificant.

Details of the Group'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.

Impact of the Interest Rate Benchmark Reform on the Group's Financial instruments measured at amortised cost and lease liabilities

The Phase 2 Amendment requires that, for financial instruments measured at amortised cost, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. A similar practical expedient exists for lease liabilities (see below). These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain / loss recognised immediately in the income statement where the instrument is not derecognised).

For lease liabilities where there is a change to the basis for determining the contractual cash flows, the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform. If lease modifications are made in addition to those required by IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification.

The Group's contract with interest rate benchmark affected by IBOR reform (i.e. USD LIBOR settings as mentioned above) are in following accountings portfolio with stated carrying amount as of 31 December 2021:

- Financial assets at amortised cost – loans and advances to customers and banks of MCZK 1 085
- Financial liabilities at amortised cost – deposits from customers and banks of MCZK 4 637

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 2021						
Cash and cash balances	1 845	2 842	568	44	473	5 772
Financial assets at fair value through profit or loss, *of which:*	34 020	626	544	–	–	35 190
Held for trading	34 020	626	–	–	–	34 646
Mandatorily at fair value	–	–	544	–	–	544
Financial assets at fair value through other comprehensive income	10 236	11 566	–	–	–	21 802
Financial assets at amortised cost *of which*	327 304	275 555	2 218	7	108	605 192
Loans and advances to banks	103 409	18 238	196	0	0	121 843
Loans and advances to customers	223 895	257 317	2 022	7	108	483 349
Positive fair value of hedging derivatives	12 342	(1)	–	–	–	12 341
Changes in fair value of the portfolio of hedged instruments	(366)	–	–	–	–	(366)
Equity investments	365	–	–	–	–	365
Property, equipment and right of use assets	4 424	2 087	–	–	–	6 511
Investment property	–	–	–	–	–	–
Intangible assets	2 222	654	–	–	–	2 876
Tax receivables	1 880	673	–	–	–	2 553
Non-current assets held for sale	–	8	–	–	–	8
Other assets	737	452	17	–	14	1 220
Total assets	**395 009**	**294 462**	**3 347**	**51**	**595**	**693 464**
Financial liabilities at fair value through profit or loss, *of which:*	35 134	1	–	–	–	35 135
Held for trading	35 134	1	–	–	–	35 135
Financial liabilities at amortised cost *of which:*	312 533	221 478	12 571	602	3 714	550 898
Deposits from banks	6 027	50 827	20	–	–	56 874
Deposits from customers	298 974	154 317	12 551	602	3 714	470 158
Debt securities issued	6 031	17 835	–	–	–	23 866
Negative fair value of hedging derivatives	21 761	(6)	–	–	–	21 755
Changes in fair value of the portfolio of hedged instruments	(5 652)	257	–	–	–	–5 395
Tax liabilities	919	79	–	–	–	998
Other liabilities	2 754	3 475	416	4	178	6 827
Provisions for risks and charges	607	695	29	9	25	1 365
Equity	67 366	14 223	106	–	186	81 881
Total liabilities and equity	433 921	241 703	13 122	615	4 103	693 464
Gap	(38 912)	52 759	(9 775)	(564)	(3 508)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2020						
Cash and cash balances	2 364	2 978	563	250	1 052	7 207
Financial assets at fair value through profit or loss, *of which:*	15 896	646	540	–	–	17 082
Held for trading	15 896	646	–	–	–	16 542
Mandatorily at fair value	–	–	540	–	–	540
Financial assets at fair value through other comprehensive income	11 434	9 084	–	–	–	20 518
Financial assets at amortised cost *of which*	338 828	254 459	1 411	7	591	595 296
Loans and advances to banks	124 547	9 070	203	0	0	133 820
Loans and advances to customers	214 281	245 389	1 208	7	591	461 476
Positive fair value of hedging derivatives	10 391	(6)	–	–	–	10 385
Equity investments	359	–	–	–	–	359
Property, equipment and right of use assets	4 640	2 239	–	–	–	6 879
Investment property	360	–	–	–	–	360
Intangible assets	2 070	538	–	–	–	2 608
Tax receivables	794	752	–	–	–	1 546
Non-current assets held for sale	–	40	–	–	–	40
Other assets	687	1 362	13	–	10	2 072
Total assets	**387 823**	**272 092**	**2 527**	**257**	**1 653**	**664 352**
Financial liabilities at fair value through profit or loss, *of which:*	16 808	4	–	–	–	16 812
Held for trading	16 808	4	–	–	–	16 812
Financial liabilities at amortised cost *of which:*	278 245	245 490	13 405	624	3 375	541 139
Deposits from banks	2 359	103 104	53	–	3	105 519
Deposits from customers	268 386	139 413	13 352	624	3 372	425 147
Debt securities issued	7 500	2 973	–	–	–	10 473
Negative fair value of hedging derivatives	7 455	–	–	–	–	7 455
Changes in fair value of the portfolio of hedged instruments	855	781	–	–	–	1 636
Tax liabilities	864	41	–	–	–	905
Other liabilities	5 363	3 315	562	1	71	9 312
Provisions for risks and charges	498	939	29	9	26	1 501
Equity	67 685	17 464	257	–	186	85 592
Total liabilities and equity	377 773	268 034	14 253	634	3 658	664 352
Gap	10 050	4 058	(11 726)	(377)	(2 005)	–

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 monthly or weekly basis respectively (based on the development of liquidity indicators or in the case of "liquidity attention phase" activation). 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.

COVID-19 impacts on Liquidity Risk
The Group responded to the outbreak of the pandemic with strengthening of the liquidity buffer, to be able to balance potentially higher liquidity outflows through higher utilization of undrawn credit facilities, deposits outflow and reduced liquidity inflows caused by the various moratoria. At the same time the business continuity management plans were activated in order to ensure the regular execution of Treasury activities and the proper information flows to the senior management and the Supervisors. Utilization of the ECB facilities helped the Group to reduce the reliance on intragroup funding.

Even though the Group has not so far experienced any extraordinary outflow on deposits or undrawn credit facilities and the liquidity flows in financial markets normalized, the Group keeps its liquidity buffer at a higher level compared to the pre-pandemic period because the continuous uncertainty regarding the future evolution of the pandemic might quickly resume higher volatility in financial markets.

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 2021							
Cash and cash balances	5 772	5 772	5 558	–	–	211	3
Financial assets at fair value through profit or loss, *of which:*	35 190	35 255	2 788	3 137	14 029	15 301	–
– held for trading debt and equity instruments	1 005	1 070	3	28	416	623	–
– held for trading derivatives	33 641	33 641	2 785	3 109	13 613	14 134	–
– mandatorily at fair value	544	544	–	–	–	544	–
Financial assets at fair value through other comprehensive income	21 802	23 227	73	2 120	7 739	13 295	–
Financial assets at amortised cost *of which:*	605 192	648 359	170 641	72 488	198 438	203 809	2 983
Loans and advances to banks	121 843	121 918	118 048	105	3 765	–	–
Loans and advances to customers	483 349	526 441	52 593	72 383	194 673	203 809	2 983
Positive fair value of hedging derivatives	12 341	12 341	148	541	4 855	6 797	–
Changes in fair value of the portfolio of hedged instruments	(366)	(366)	(366)	–	–	–	–
Equity investments	365	365	–	–	–	3 979	(3 614)
Property, equipment and right of use assets	6 511	6 511	–	–	–	3 437	3 074
Investment property	–	–	–	–	–	–	–
Intangible assets	2 876	2 876	–	–	–	2 629	247
Tax receivables	2 553	2 553	341	–	2 138	–	74
Non-current assets held for sale	8	8	8	–	–	–	–
Other assets	1 220	1 220	216	1 004	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	35 135	35 135	4 145	3 344	13 580	14 066	–
– held for trading debt instruments	1 065	1 065	1 065	–	–	–	–
– held for trading derivatives	34 070	34 070	3 080	3 344	13 580	14 066	–
Financial liabilities at amortised cost *of which:*	550 898	552 237	465 139	17 112	50 922	18 920	144
Deposits from banks	56 874	56 413	9 822	2 742	42 522	1 184	143
Deposits from customers, *of which:*	470 158	470 327	455 012	12 966	1 283	1 065	1
Lease liabilities	2 385	2 568	165	261	1 123	1 019	–
Other than lease liabilities	467 773	467 759	454 847	12 705	160	46	1
Debt securities issued	23 866	25 497	305	1 404	7 117	16 671	–
Negative fair value of hedging derivatives	21 755	21 755	61	803	9 077	11 814	–
Changes in fair value of the portfolio of hedged instruments	(5 395)	(5 395)	(5 395)	–	–	–	–
Tax liabilities	998	998	28	953	–	–	17
Other liabilities	6 827	6 827	5 079	1 748	–	–	–
Provisions for risks and charges	1 365	1 365	117	169	584	377	118
Equity	81 881	81 881	(34)	6 760	1	71 879	3 275
Undrawn loan facilities	47 833	47 833	5 612	10 938	27 055	4 213	15
Bank guarantees	165 928	165 928	5 277	23 122	39 426	93 797	4 306

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspecified.
At 31 Dec 2020							
Cash and cash balances	7 207	7 207	7 207	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	17 082	17 117	1 244	2 741	7 903	5 117	112
– held for trading debt and equity instruments	1 034	1 069	20	74	111	864	–
– held for trading derivatives	15 508	15 508	1 224	2 667	7 792	3 713	112
– mandatorily at fair value	540	540	–	–	–	540	–
Financial assets at fair value through other comprehensive income	20 518	21 583	590	2 925	10 582	7 486	–
Financial assets at amortised cost *of which:*	595 296	633 367	183 761	67 411	197 370	181 123	3 702
Loans and advances to banks	133 820	137 624	129 596	686	6 640	680	22
Loans and advances to customers	461 476	495 743	54 165	66 725	190 730	180 443	3 680
Positive fair value of hedging derivatives	10 385	10 385	81	156	3 989	6 159	–
Equity investments	359	359	–	–	–	–	359
Property, equipment and right of use assets	6 879	6 879	–	–	–	–	6 879
Investment property	360	360	–	–	–	–	360
Intangible assets	2 608	2 608	–	–	–	–	2 608
Tax receivables	1 546	1 546	756	–	785	–	5
Non-current assets held for sale	40	40	–	–	–	40	–
Other assets	2 072	2 072	1 496	568	8	–	–
Financial liabilities at fair value through profit or loss, *of which:*	16 812	16 812	3 714	2 285	6 649	4 053	111
– held for trading debt instruments	2 115	2 115	2 115	–	–	–	–
– held for trading derivatives	14 697	14 697	1 599	2 285	6 649	4 053	111
Financial liabilities at amortised cost *of which:*	541 139	542 447	466 431	17 445	55 225	3 211	135
Deposits from banks	105 519	105 751	47 688	11 065	45 045	1 819	134
Deposits from customers, *of which:*	425 147	424 920	418 086	4 034	1 662	1 137	1
Lease liabilities	2 646	2 694	99	287	1 142	1 167	–
Other than lease liabilities	422 501	422 226	417 987	3 747	520	(30)	1
Debt securities issued	10 473	11 776	657	2 346	8 518	255	–
Negative fair value of hedging derivatives	7 455	7 455	451	419	3 246	3 339	–
Changes in fair value of the portfolio of hedged instruments	1 636	1 636	1 636	–	–	–	–
Tax liabilities	905	905	–	905	–	–	–
Other liabilities	9 312	9 312	7 572	1 735	–	–	5
Provisions for risks and charges	1 501	1 501	291	220	386	498	106
Equity	85 592	85 592	(3)	5 210	1	77 349	3 035
Undrawn loan facilities	46 573	46 573	3 995	13 054	25 466	4 053	5
Bank guarantees	145 954	145 954	4 647	26 055	31 514	78 636	5 102

(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. Non-Financial Risks and Control 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 2021 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. 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 2021, 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.

COVID-19 impacts on Operational Risk

In terms of risk management in 2021, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of the COVID-19. Analysis were carried out in order to identify risks arising from process changes adopted time by time to protect the health of employees and customers.

(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 Group'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.

In 2021, the Group has received from the Czech National Bank the decision on intermediate and "fully loaded" target amounts of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), implemented through Act No. 374/2015 Coll.

- The levels of MREL are expressed based on risk-weighted assets and the leverage ratio (higher levels calculated using the two approaches will represent a limiting factor).

The Group successfully issued its first MREL instruments in 2021 to be compliant with an intermediate target from 1 January 2022 as set by the Czech National Bank. MREL will become a "fully loaded" requirement as of 1 January 2024. Further details are provided in section V. Other Notes, point 24.

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 2021 and as of 31 December 2020 is stated in the Annual Report, part "Consolidated financial highlights".

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 2021	31 Dec 2020	
Assets		
Cash and cash balances	522	893
Loans and advances to banks	9 315	972
Financial assets held for trading	18 592	4 576
Positive fair value of hedging derivatives	4 768	2 450
Total	**33 197**	**8 891**

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Group adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*". In prior year these balances were reported in line *"Loans and advances to banks"* in total amount of MCZK 893.

	31 Dec 2021	31 Dec 2020
Liabilities		
Deposits from banks	1 557	48 926
Debt instruments	16 418	–
Financial liabilities held for trading	18 584	4 390
Negative fair value of hedging derivatives	12 560	1 774
Total	**49 119**	**55 090**
Off-balance sheet items		
Issued guarantees	564	570
Irrevocable credit facilities	1 107	788
Total	**1 671**	**1 358**

	2021	2020
Interest income	641	277
Interest expense	(4)	(19)
Fee and commission income	1	1
Fee and commission expenses	(2)	(4)
Net profit/loss from financial assets and liabilities held for trading	(1 044)	202
Net profit/loss from hedging of the risk of change in fair values	(3 257)	(260)
Administrative expenses	(62)	(65)
Total	**(3 727)**	**132**

(b) Transactions with key management members

	31 Dec 2021	31 Dec 2020
Assets		
Loans and advances to customers	174	147
of which:		
Board of Directors	33	20
Other management members	141	127
Total	**174**	**147**
Liabilities		
Payables to customers	117	133
of which:		
Board of Directors	26	47
Other management members	91	86
Total	**117**	**133**
Off-balance sheet items		
Irrevocable credit facilities	4	3
of which:		
Board of Directors	1	1
Other management members	3	2
Total	**3**	**3**

(c) Transactions with other related parties

	31 Dec 2021	31 Dec 2020
Assets		
Cash and cash balances	334	843
of which:		
UniCredit Bank Austria AG	291	651
AO UniCredit Bank	12	50
Financial assets held for trading	5 279	2 888
of which:		
UniCredit Bank AG	5 279	2 888
Loans and advances to banks	54	44
of which:		
UniCredit Bank Austria AG	–	44
AO UniCredit Bank	54	–
Loans and advances to customers	397	707
of which:		
UCTAM Czech Republic s.r.o.	–	288
UCTAM SVK, s.r.o	397	419
Positive fair value of hedging derivatives	5 691	5 706
of which:		
UniCredit Bank AG	5 691	5 706
Total	**11 755**	**10 188**

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Group adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*". In prior year these balances were reported in line *"Loans and advances to banks"* in total amount of MCZK 843.

	31 Dec 2021	31 Dec 2020
Liabilities		
Deposits from banks	5 896	3 286
of which:		
UniCredit Bank Austria AG	3 017	2 183
UniCredit Bank AG	2 795	995
UniCredit Bank Hungary Zrt.	28	41
Deposits from customers	168	304
of which:		
UniCredit Services S.C.p.A.	67	91
Financial liabilities held for trading	3 920	3 792
of which:		
UniCredit Bank AG	3 920	3 792
Negative fair value of hedging derivatives	5 005	4 191
of which:		
UniCredit Bank AG	5 005	4 191
Total	**14 989**	**11 573**

	31 Dec 2021	31 Dec 2020
Off-balance sheet items		
Issued guarantees	3 457	1 537
of which:		
UniCredit Bank AG	3 065	1 336
UniCredit Bank Austria AG	163	113
UniCredit Bank Hungary Zrt.	11	5
AO UniCredit Bank	109	36
Irrevocable credit facilities	4 459	992
of which:		
UniCredit Bank AG	3 342	517
UniCredit Bank Austria AG	1 070	–
Total	**7 916**	**2 529**

	2021	2020
Interest income	516	33
of which:		
UniCredit Bank AG	503	4
UniCredit Bank Austria AG	3	12
Interest expense	(71)	(279)
of which:		
UniCredit Bank AG	(3)	(188)
UniCredit Bank Austria AG	(62)	(83)
Fee and commission income	63	64
of which:		
UniCredit Bank AG	43	13
UniCredit Bank Hungary Zrt.	2	2
UniCredit Bank Austria AG	15	47
Fee and commission expenses	(10)	(10)
of which:		
UniCredit Bank Austria AG	(5)	(5)
Net profit/loss from financial assets and liabilities held for trading	1 203	46
of which:		
UniCredit Bank AG	1 203	46
Net profit/loss from hedging against risk of changes in fair value	(578)	421
of which:		
UniCredit Bank AG	(578)	421
Administrative expenses	(942)	(914)
of which:		
UniCredit Services S.C.p.A.	(922)	(888)
Total	**181**	**(639)**

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 2021				
Debt securities	756	248	1	1 005
Derivatives	34	33 360	247	33 641
Total	**790**	**33 608**	**248**	**34 646**
31 Dec 2020				
Debt securities	518	516	–	1 034
Derivatives	32	15 259	217	15 508
Total	**550**	**15 775**	**217**	**16 542**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Shares and Other debt securities	–	277	267	544
Total	**–**	**277**	**267**	**544**
31 Dec 2020				
Shares and Other debt securities	–	277	263	540
Total	**–**	**277**	**263**	**540**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Debt securities	16 974	4 747	61	21 782
Shares	–	–	20	20
Total	**16 974**	**4 747**	**81**	**21 802**
31 Dec 2020				
Debt securities	18 006	2 441	64	20 511
Shares	–	–	7	7
Total	**18 006**	**2 441**	**71**	**20 518**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Fair value hedging	–	2 370	–	2 370
Cash flow hedging	–	9 971	–	9 971
Total	**–**	**12 341**	**–**	**12 341**
31 Dec 2020				
Fair value hedging	–	2 425	–	2 425
Cash flow hedging	–	7 960	–	7 960
Total	**–**	**10 385**	**–**	**10 385**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Liabilities from short sales	1 065	–	–	1 065
Derivatives	–	33 818	252	34 070
Total	**1 065**	**33 818**	**252**	**35 135**
31 Dec 2020				
Liabilities from short sales	2 115	–	–	2 115
Derivatives	–	14 473	224	14 697
Total	**2 115**	**14 473**	**224**	**16 812**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Fair value hedging	–	5 855	–	5 855
Cash flow hedging	–	15 900	–	15 900
Total	**–**	**21 755**	**–**	**21 755**
31 Dec 2020				
Fair value hedging	–	745	–	745
Cash flow hedging	–	6 710	–	6 710
Total	**–**	**7 455**	**–**	**7 455**

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 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 customers are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2021					
Financial assets					
Loans and advances to banks	121 843	121 838	–	98 792	23 046
Loans and advances to customers	483 349	463 911	1 455	191 270	271 186
Financial liabilities					
Deposits from banks	56 874	57 348	–	42 503	14 845
Deposits from customers	470 158	470 133	–	528	469 605
Debt securities issued	23 866	23 292	–	23 292	–

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2020					
Financial assets					
Loans and advances to banks	133 820	133 895	–	117 693	16 202
Loans and advances to customers	461 476	456 970	–	96 067	360 903
Financial liabilities					
Deposits from banks	105 519	105 311	–	50 717	54 594
Deposits from customers	425 147	424 922	–	590	424 332
Debt securities issued	10 473	10 777	–	10 362	415

For the year ended 31 December 2021 and 31 December 2020, no financial assets reported at fair value were transferred between Levels 1 and 2. For the years ended 31 December 2021 and 31 December 2020, 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				
Opening balance at 1 Jan 2020	**112**	**487**	**71**	**–**	**1 220**	**1 890**
Revaluation gains and losses						
In the income statement	–	53	–	–	(12)	41
In other comprehensive income	–	–	–	–	(12)	(12)
Purchases	81	–	–	–	43	124
Sales/maturity	–	–	–	–	–	–
Transfers from/to other levels	63	(277)	–	–	–	(214)
Depreciation	n/a	n/a	n/a	n/a	(31)	(31)
Other	(39)	–	–	–	12	(27)
Closing balance at 31 Dec 2020	**217**	**263**	**71**	**–**	**1 220**	**1 771**
Total revaluation gains and losses included in the income statement for the period:						41
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						41

	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 2021	**217**	**263**	**71**	**–**	**1 220**	**1 771**
Revaluation gains and losses						
In the income statement	–	(12)	–	–	2	(10)
In other comprehensive income	–	–	1	–	(37)	(36)
Purchases	132	–	13	–	78	223
Sales/maturity	(49)	–	–	–	(360)	(409)
Transfers from/to other levels	(115)	–	–	–	–	(115)
Depreciation	n/a	n/a	n/a	n/a	(33)	(33)
Other	63	16	(4)	–	(44)	31
Closing balance at 31 Dec 2021	**248**	**267**	**81**	**–**	**826**	**1 422**
Total revaluation gains and losses included in the income statement for the period:						(10)
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						(10)

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 2020	**85**	**–**	**85**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	87	–	87
Sales/maturity	–	–	–
Transfers from/to other levels	75	–	75
Other	(23)	–	(23)
Closing balance at 31 Dec 2020	**224**	**–**	**224**
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 2021	**224**	**–**	**224**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	131	–	131
Sales/maturity	(49)	–	(49)
Transfers from/to other levels	(115)	–	(115)
Other	61	–	61
Closing balance at 31 Dec 2021	**252**	**–**	**252**
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 2021						
Derivatives	45 900	–	45 900	33 258	–	12 642
31 Dec 2020						
Derivatives	19 640	–	19 640	17 172	–	2 468

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 2021						
Derivatives	35 342	–	35 342	33 258	–	2 084
31 Dec 2020						
Derivatives	21 250	–	21 250	17 172	–	4 078

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.

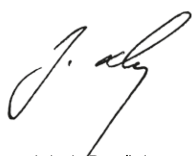
The Group is carefully monitoring current COVID-19 development and taking all necessary precautions in line with current development and government measures.

The ongoing evolvement of current geopolitical situation in Eastern Europe and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Group have been closely monitoring the events that have been playing out over the past weeks. For the Group and for UniCredit as a Group, we continue to thoroughly assess the developments, in full cooperation with regulators, with dedicated cross expert teams who have defined robust and tested contingency plans. The Group will carefully evaluate further developments.

The Group has reviewed its portfolios to identify assets with direct exposure to Ukraine and/or Russia and concluded that direct exposure is limited. However, the impact on general economic situation may require revision of certain assumptions and estimates and may lead to certain adjustments to the carrying value of some assets and liabilities within the next financial year magnitude of which is currently impossible to assess as events are unfolding day by day. In particular, the management expects the assumptions and estimates used in determining expected credit losses to be affected as the Group's portfolio of Loans to customers is exposed in various degrees to direct impacts as well as indirect impacts such as increased energy prices and supply chain disruptions.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 15 March 2022.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 16 March 2021.



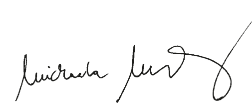
Jakub Dusílek
Chairman of the Board of Directors

Massimo Francese
Member of the Board of Directors

Individual in charge of the accounting records

Lea Branecká

Individual in charge of the financial statements



Michaela Mrštíková

Separate financial statements

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021 MCZK	2020 MCZK
Interest income, *of which:*		13 863	13 007
– interest income calculated using the effective interest method		11 828	12 217
Interest expense		(2 280)	(2 302)
Net interest income	(1)	**11 583**	**10 705**
Fee and commission income		4 494	4 350
Fee and commission expenses		(1 296)	(1 209)
Net fee and commission income	(2)	**3 198**	**3 141**
Dividend income	(3)	4	335
Net income/(loss) from trading	(4)	2 108	1 860
Net income/(loss) from hedging against risk of changes in fair value	(5)	(1)	–
Net income/(loss) from the sale or repurchase of:	(6)	423	497
Financial assets at amortised cost		345	86
Financial assets at fair value through other comprehensive income		94	412
Financial liabilities		(16)	(1)
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, *of which:*	(7)	(12)	82
Mandatorily at fair value		(12)	82
Operating income		**17 303**	**16 620**
Impairment losses on:	(8)	(1 870)	(2 157)
Financial assets at amortised cost		(1 871)	(2 159)
Financial assets at fair value through other comprehensive income		1	2
Modification gain/(loss)		–	(57)
Administrative expenses	(9)	(6 737)	(6 592)
Net provisions for risks and charges:	(27)	53	(654)
Loan commitments and financial guarantees given		23	(572)
Other net provisions		30	(82)
Depreciation and impairment of property, equipment and right of use assets	(18)	(523)	(446)
Amortisation and impairment of intangible assets	(19)	(623)	(494)
Other operating income and expenses	(10)	73	167
Operating expenses		**(7 757)**	**(8 019)**
Net income/(loss) on property measured at fair value	(18)	2	(1)
Profit/(loss) from the sale of non-financial assets		27	–
Profit before income tax		**7 705**	**6 386**
Income tax	(28)	(1 591)	(1 224)
Profit after tax		**6 114**	**5 162**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property measured at fair value, *of which:*		(53)	(11)
Change in fair value		(51)	(3)
Transfers to other net equity items		(15)	(11)
Deferred tax		13	3
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, *of which:*		(6 682)	1 371
Change in fair value		(8 255)	1 697
Revaluation reclassified to profit or loss		–	–
Deferred tax		1 573	(326)
Reserve from revaluation of financial assets at fair value through other comprehensive income, *of which:*		29	(211)
Change in fair value		89	64
Revaluation reclassified to profit or loss		(53)	(326)
Deferred tax		(7)	51
Foreign exchange rate gains from the consolidation of a foreign branch		(709)	424
Other comprehensive income, net of tax		**(7 415)**	**1 573**
Total comprehensive income, net of tax		**(1 301)**	**6 735**

The notes on pages 127–205 form a part of these financial statements.

Statement of financial position as of 31 December 2021

	Note	2021 MCZK	2020 MCZK
Assets			
Cash and cash balances*	(11)	5 747	7 180
Financial assets at fair value through profit or loss, *of which:*	(12)	35 190	17 082
Held for trading		34 646	16 542
Mandatorily at fair value		544	540
Financial assets at fair value through other comprehensive income	(13)	21 802	20 518
Financial assets at amortised cost, of which:		592 156	579 986
Loans and advances to banks*	(14)	121 838	133 822
Loans and advances to customers	(15)	470 318	446 164
Positive fair value of hedging derivatives	(16)	12 502	10 398
Changes in fair value of the portfolio of hedged instruments		(366)	–
Equity investments	(17)	3 979	3 979
Property, equipment and right of use assets	(18)	3 437	3 591
Intangible assets	(19)	2 629	2 352
Tax receivables, *of which:*	(28)	2 399	1 332
Current income tax		341	761
Deferred tax		2 058	571
Non-current assets held for sale		8	40
Other assets	(20)	913	2 132
Total assets		**680 396**	**648 590**
Liabilities			
Financial liabilities at fair value through profit or loss, *of which:*		35 135	16 812
Held for trading	(21)	35 135	16 812
Financial liabilities at amortised cost, *of which:*		543 316	529 930
Deposits from banks	(22)	49 902	94 950
Deposits from customers	(23)	469 876	424 922
Debt securities issued	(24)	23 538	10 058
Negative fair value of hedging derivatives	(25)	22 065	7 465
Changes in fair value of the portfolio of hedged instruments		(5 395)	1 636
Tax liabilities, *of which:*	(28)	45	–
Current income tax		45	–
Deferred tax		–	–
Other liabilities	(26)	5 937	8 738
Provisions for risks and charges	(27)	1 332	1 470
Total liabilities		**602 435**	**566 051**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		(6 103)	1 312
Retained earnings and reserve funds	(31)	65 700	63 815
Profit for the period		6 114	5 162
Total shareholder‘s equity		**77 961**	**82 539**
Total liabilities and shareholder‘s equity		**680 396**	**648 590**

* Balances as of 31 December 2020 have been restated. Further details are provided in the Section III. Significant Accounting Policies (point 8) and in Section V. Other Notes (points 11 and 14).

The notes on pages 127–205 form a part of these financial statements.

Statement of cash flows for the year ended 31 December 2021

	2021 MCZK	2020 MCZK
Profit after tax	**6 114**	**5 162**
Adjustments for non-monetary items:		
Impairment losses of:	1 870	2 214
Financial assets at amortised costs	1 871	2 216
Financial assets at fair value through other comprehensive income	(1)	(2)
Revaluation of financial instruments	1 357	252
Net provisions for risks and charges:	(55)	654
Loan commitments and financial guarantees given	(23)	572
Other net provisions	(32)	82
Depreciation and impairment of property, equipment and right of use assets	523	446
Amortisation and impairment of intangible assets	623	494
Net income/(loss) from the sale or repurchase of:	(94)	113
Financial assets at fair value through other comprehensive income	(94)	113
Profit/(loss) from the sale of non-financial assets	(27)	–
Taxes	1 591	1 224
Unrealised foreign currency gains/(losses)	(709)	424
Other non-monetary adjustments (FX revaluation, Accruals and Others)	(2 727)	(3 178)
Operating profit before change in operating assets and liabilities	**8 466**	**7 805**
Financial assets at fair value through profit or loss, *of which:*	(19 481)	(6 108)
Held for trading	(19 465)	(6 133)
Mandatorily at fair value	(16)	25
Financial assets at amortised cost, *of which:*	(11 639)	33 412
Loans and advances to banks	12 045	52 048
Loans and advances to customers	(23 684)	(18 636)
Other assets	1 215	(115)
Financial liabilities at fair value through profit or loss, *of which:*	18 336	6 188
Held for Trading	18 336	6 188
Financial liabilities at amortised cost, *of which:*	174	(27 047)
Deposits from banks	(44 775)	(36 960)
Deposits from customers	44 949	9 913
Other liabilities	(2 780)	756
Income tax paid	(1 067)	(2 306)
Net cash flows from operating activities	**(6 776)**	**12 585**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	(3 665)	1 023
Cash proceeds from the sale of property and equipment and intangible assets	68	4
(Acquisition) of property and equipment and intangible assets	(895)	(649)
Dividends received	4	5
Net cash flows from investment activities	**(4 488)**	**383**
Dividends paid	(3 299)	–
Financial liabilities at amortised cost – debt securities issued and repaid	13 488	(10 035)
(Payment) of Lease liabilities	(358)	(386)
Net cash flows from financial activities	**9 831**	**(10 421)**
Cash and cash balances at the beginning of the period	**7 180**	**4 633**
Cash and cash balances at the end of the period	**5 747**	**7 180**
Interest received	13 905	14 010
Interest paid	(2 581)	(3 426)

The notes on pages 127–205 form a part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021

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
Balance as of 1 January 2020	**8 755**	**3 495**	**(796)**	**564**	**261**	**(290)**	**3 372**	**13 240**	**37 732**	**9 433**	**75 766**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit								1 231	8 202	(9 433)	–
Dividend payment											
Other									38		38
Total comprehensive income for the current period											
Net profit for the current period										5 162	5 162
Other comprehensive			1 371	(211)	(11)	424					1 573
Balance as of 31 December 2020	**8 755**	**3 495**	**575**	**353**	**250**	**134**	**3 372**	**14 471**	**45 972**	**5 162**	**82 539**
Balance as of 1 January 2021	**8 755**	**3 495**	**575**	**353**	**250**	**134**	**3 372**	**14 471**	**45 972**	**5 162**	**82 539**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit									5 162	(5 162)	–
Dividend payment								(2 069)	(1 230)		(3 299)
Other									22		22
Total comprehensive income for the current period											
Net profit for the current period										6 114	6 114
Other comprehensive			(6 682)	29	(53)	(709)					(7 415)
Balance as of 31 December 2021	**8 755**	**3 495**	**(6 107)**	**382**	**197**	**(575)**	**3 372**	**12 402**	**49 926**	**6 114**	**77 961**

The notes on pages 127–205 form a part of these financial statements.

Notes to the financial statements (separate)

Year ended 31 December 2021

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. 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.

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 option contracts, 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 2021 and comparatives for 2020 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.

After assessing all potential effects of the COVID-19 on business activities, the Bank assessed that there is no effect that would

significantly affect the Bank's ability to continue its operations in the foreseeable future. The Bank achieved a positive economic result for 2021. The Bank will continue to monitor the potential impact of COVID-19 and will take all necessary steps to mitigate the negative impacts on the Bank, its employees and clients.

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 2020 were approved by the Shareholder of the Bank on 14 April 2021. The profit distribution for 2020 was approved by the Shareholder of the Bank on 24 November 2021.

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, 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. 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 income statement 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. Non-monetary items that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was measured. Foreign exchange differences arising on translation are recognised in the income statement as "Net income/(loss) from trading".

III. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the item *"Cash and cash balances"*. For more details see point 8. Cash and cash balances in this section.

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 terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 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 Bank's accounting books from the moment of settlement. Foreign exchange gains and losses and impairment losses are recognised in the Bank's income statement 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 amortised cost of the 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 financial asset at amortised cost. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest 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 additional significant financing, net of collaterals, is granted to a credit-impaired borrower. The Bank identified no POCI assets during 2021, or in 2020.

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 applied to the amortised cost of financial asset.

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 the income statement 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 transferred to 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 the income statement 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 the income statement 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.

Gains and losses from *"Financial assets at fair value through profit or loss: Mandatorily at fair value"*, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss: Mandatorily at fair value* ". 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 2021 and in 2020 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 rights to contractual cash flows from an asset expire 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.

This difference is recognised in the income statement under the item "*Modification gains/ (losses)*". In subsequent accounting periods, the modification gains/losses are amortized till the maturity date of the financial asset. This amortization is recognised in the income statement under the item *"Interest income"*.

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"*.

The receivable is written-off when:

- The expected costs of recovery of the receivable are higher than its expected recovery;
- All collaterals have been realized and no further performance can be expected;
- Defaulted unsecured receivable for which no performance has been accepted in the last 36 months and no legal action has been initiated during this period;
- Termination of bankruptcy against the debtor due to lack of assets or after meeting the schedule resolution;
- Dissolution of a legal entity without a legal successor (eg liquidation) or death of a natural person, when partial satisfaction has already occurred or cannot be satisfied at all.

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 rate method. Such interest is recognised in the item *"Interest expense".*

"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 expense".*

"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 on each reporting date subsequent to the initial recognition 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 related to changes in credit risk of these financial liabilities (so-called own credit risk). In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to other comprehensive income. 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 credit risk 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 2021 and in 2020 the Bank held no such liabilities.

The Bank derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

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 key management personnel 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 and financial assets at fair value through profit or loss that are designated as at FVTPL may not be reclassified, as a decision to designation 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 with Day 1 Profit/Loss.

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 credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition. 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 impaired credit exposures. 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, transfer to Watchlist 2 process or client PD exceeding 14,7%).

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" from which the bank take a loss);
- 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.

From 1 January 2021, the new definition of default / client failure is valid and as regulated by Final Report Guidelines on the application of the definition of default (EBA/GL/2016/07) the impact of definition of default was analyzed and based on the prudent approach the expected impact was reflected in 2020 financial figures (within loan loss provisions without reassigning specific clients to Stage 3) including the default detection and process changes effect including impact within bank's subsidiaries.

Main changes implemented within above mentioned regulation:
- New thresholds applied, absolute and relative,
- DPD counter start and end rules update,
- Probation rules update,
- Overdue aggregation and joint obligation rules update,
- Distressed restructuring rules update.

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 carrying amount 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.

For COVID-19 impacts on credit risk and impairment see section V. Other Notes, point 35 b).

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 (FVA)

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 Funding 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, e.g. 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 forecast 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 firm 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 expense"*.

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

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.

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Bank adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*".

"Cash and cash balances" includes cash balances, cash advances and other on-demand deposits with the Czech National Bank, National Bank of Slovakia and commercial banks.

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.

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 in the income statement, 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 the same income statement 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

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 land used in the business (ruled by IAS 16 "Property, plant and equipment") are measured according to the fair value model for the measurement subsequent to initial recognition;
- Tangible assets used in the business, other than buildings and land, are measured according to cost model.

<u>Buildings and land used in the business</u>

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.

The differences between current fair value and the previous fair value are recognised:

- If negative,
  - in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"* to the extent it reverses a previous positive revaluation, or otherwise
  - in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value"*,
- If positive,
  - in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value"* to the extent it reverses a previous negative revaluation, or otherwise
  - in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation"*.

The "*Reserve funds from revaluation"* is 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.

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

Fair value was determined through the use of external independent expert valuations on semi-annually basis (as of 30 June and 31 December).

<u>Tangible assets used in the business</u>

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

<u>Depreciation, Impairment and Gains and losses on disposal</u>

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 insignificant costs of repair, maintenance and technical improvement are expensed as they are incurred. Vice versa, major repairs and technical improvements 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"*.

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

Leases accounting policies are based on the standard IFRS 16 "Leases".

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 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 (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

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*".

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*".

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.

Details related to determining of lease term see part Determining lease term in the section IV. Critical Accounting Judgements, Estimates and Assumptions.

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 expense calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expense is reported in the item "*Interest expense*".

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 2021 and 31 December 2020 is presented in the following tables:

Statement of Comprehensive Income	Point in the section V. Other Notes	2021	2020
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(385)	(328)
Interest expense	1. Net interest income	(12)	(17)
Statement of Financial Position	Point in the section V. Other Notes	31 Dec 2021	31 Dec 2020
Right of use assets	18. Property, equipment and right of use assets	2 187	2 361
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	2 254	2 436

Lease modifications are changes in the term or condition of a lease contract that change the scope of the lease contract (e.g. by adding or decreasing assets under lease); the consideration to be paid; or the contractual lease term.

Lease modifications are accounted for as a separate lease contract which is additional to the original lease contract being modified if both of the following conditions are satisfied:

- the modification increase the scope of the lease by adding additional asset, and
- the lease payments are also increased so to reflect the market value of such increase in scope (possibly adjusted to take into account the specific feature of the specific lease contract).

On the contrary if the modification doesn't fulfill the condition above, modifications are accounted for by re-measuring the liability through discounting the revised lease payments for the revised lease term and applying the revised discount rate. The resulting adjustment to the lease liability is recognized by increasing/decreasing the right of use asset.

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 Incentives

The Bank accounts for deferred incentives 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 a nd 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% (more likely than not), the Bank recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100% (virtually certain), the Bank recognises an asset and revenue.

15. Contingent Assets and Liabilities

Interest income and interest expense 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, financial assets measured at FVTOCI. Interest expense is 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 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 expense and negative interest expense is presented in interest income.

Net interest income comprises interest income and interest expense 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 522 as of 31 December 2021 (as of 31 December 2020 MCZK 586).

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:

- **Amendments to IFRS 4 Insurance Contracts** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases** – Interest Rate Benchmark Reform — Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 Leases** – COVID-19-Related Rent Concessions beyond 30 June 2021 – adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

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:

- **IFRS 17 Insurance Contracts** including amendments to IFRS 17 – adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 Business Combinations** – Reference to the Conceptual Framework with amendments to IFRS 3 – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 16 Property, Plant and Equipment** – Proceeds before Intended Use – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Onerous Contracts — Cost of Fulfilling a Contract – adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018–2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Bank has elected not to adopt new standard and amendments to existing standard in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

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):

- **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),
- **Amendments to IFRS 17 Insurance contracts** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 Presentation of Financial Statements** – Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 Presentation of Financial Statements** – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 Income Taxes** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).

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.

Impact of COVID-19

In 2020, the COVID-19 affected the Czech Republic and Slovakia and continued in 2021. Related measures introduced by governments to limit its spread affected economic activity and, as a result, the group's profitability.

This requires a careful evaluation of certain items in the financial statements as at 31 December 2021, the recoverability of which depends on future cash flow projections, by reassessing cash flows to reflect assumptions about the impact of the COVID-19.

While these assessments were made on the basis of information considered adequate and substantiated as at 31 December 2021, the current scenario is affected by high uncertainty, the outcome of which is currently unpredictable and which may require an assessment of changes made to the pandemic and economic recovery.

The slowdown in economic activity resulting from the COVID-19 and related measures also affected the assessment of the return on credit exposures and the calculation of related loan impairment losses. In this context, it should be noted that in accordance with IFRS 9, their assessment depends on forecasts of future developments and on the development of the macroeconomic scenarios used to calculate these losses. With regard to COVID-19 and related measures, the group updated the macroeconomic scenario used in line with that approach.

Further details are provided in section V. Other Notes, point 35 b).

Impact of climate-related matters

Climate change is impacting both society and companies alike. The Bank is considering the impact of climate change on its business model, risk strategy, and also the effect on its financial statements.

Climate-related matters may affect the Bank´s exposure to credit losses due to environmental disasters, regulatory change or a borrower's ability to meet its obligations to the Bank. Subsequently, these may have impact on ECL and/or collateral valuation. Management carefully reviews these risks.

Climate-related matters may affect also the classification and measurement of loans as lenders may include terms linking contractual cash flows to an entity's achievement of climate-related targets. In this respect, the Bank assesses whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial 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 under ECL model. 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 financial guarantee contracts and loan commitments 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 2021 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"*.

<u>Inclusion of Forward Looking Information (hereinafter "FLI")</u>

1. Macroeconomic Multiscenario Overlay Factor

The IFRS 9 impairment requirements set out that expected credit loss must be assessed based on past, current and forward-looking information. In this regard, the Bank usually updates macroeconomic scenarios on a half year basis and account for the related effects in half year and year-end financial reports. In line with this usual practice, an update has been made also before year-end 2021.

The degree of uncertainty of macroeconomic forecasts reduces the so-called multiscenario overlay factor. Through this component sensitivity of Expected Credit Loss ("ECL") evolution to different scenarios is incorporated into the calculation. The process defined to include multiple macroeconomic scenarios is fully consistent with forecast processes used by the Bank for additional risk management purposes (for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and Internal Capital Adequacy Assessment Process ("ICAAP") Framework) and also takes advantage of independent UniCredit Research function. Specifically, the Bank h as selected three macroeconomic scenarios to determine the forward-looking component: a baseline scenario, one positive scenario and one adverse scenario. The baseline scenario is the reference central scenario and therefore is the most probable realization. Positive and adverse scenarios represent possible alternative realizations, respectively a better and a worst one compared to the baseline in terms of evolution of the economy.

So called 'baseline' scenario expects in terms of macro-economic conditions that the recovery in the economic activity continues, showing resilience to any renewed intensification of the pandemic. This is consistent with the view that the economic damage of new waves of COVID-19 tends to become progressively smaller. Fiscal policy gradually normalizes while remaining supportive and households can count on high savings accumulated during the pandemic. Overall, both Czech and Slovak economies would be on track for solid expansion in 2022, followed by a slowdown in growth rates in 2023–24 similarly to Western Europe Countries. The growth rates will be supported also by EU funding.

Negative scenario reflects the assumption that virus mutation will cause Europe to face a new severe wave of the pandemic. This will force governments to reintroduce restrictions to mobility and business activity. It is also assumed that some sort of herd immunity is only reached towards the end of the forecasting horizon. Given these assumptions, the COVID-19 crisis dampens private demand by more than assumed in the baseline scenario, and scarring effects are larger. Governments will keep expansionary policies in place to mitigate the effects of the pandemic and to preserve social stability. After expanding by 3.2% in 2021, Czech Gross Domestic Product ("GDP") would: (i) increase by 2.3% in 2022 (–1.8pp compared to baseline), (ii) followed by an expansion of only 1.3% in 2023 (–1.8pp) and 1.5% in 2024 (–1.0pp). Similarly for Slovak GDP it is expected in negative scenario to (i) increase by 2.3% in 2022 (–1.7pp compared to baseline), (ii) followed by an expansion of only 2.2% in 2023 (–1.8pp) and 2.5% in 2024 (–1.5pp). Then (iii) GDP for both countries by the end of 2024 remain well below its pre-crisis trend line.

The positive scenario assumes that roll-out of new vaccines and other medical treatments boosts confidence and GDP by more than in baseline scenario. A materially stronger pace of recovery driven by households significantly reducing precautionary savings, and firms forcefully resuming investment plans put on hold. Driven by pent-up demand, eurozone GDP is back to its pre-pandemic trend line by the end of 2022. Governments progressively scale back their support measures. In this scenario, Czech and Slovak GDP grows both by 5.6% in 2022 (+1.5, resp. +1.6pp compared to baseline); but Slovak GDP will grow similarly also in 2023 by 5.5% (+1.5pp) and by 3.4% in 2024 (+0.4pp). Where Czech GDP growth will slow down moderately to 4.6% (+1.5pp) in 2023 and 3.3% (+0.8pp) in 2024.

Considering the persisting uncertainty and in continuity with the approach used since 4Q2020, the baseline scenario was weighted 55% (probability of occurrence), while the positive and negative scenarios were respectively weighted 5% and 40%. Where in current situation the negative scenario is still more probable.

In case of Stage 1, Stage 2 and Stage 3 – collective final expected credit loss is calculated using weighted average of ECLs under above mentioned scenarios.

See below overview of mentioned scenarios and its cumulative impact.

				Baseline (55%)	
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**	**2024**
Czech Rep.	Real GDP, yoy % change	3,2	4,1	3,1	2,5
Czech Rep.	Monthly Wage, nominal EUR	1 478,8	1 595,5	1 687,4	1 770,4
Czech Rep.	Unemployment rate, %	3,9	3,6	3,4	3,3
Czech Rep.	Short term rate,average	0,8	2,3	2,5	2,5
Czech Rep.	House Price Index, yoy % change	8,0	3,5	2,0	3,0
Slovakia	Real GDP, yoy % change	3,7	4,0	4,0	3,0
Slovakia	Monthly Wage, nominal EUR	1 194,1	1 267,8	1 345,4	1 414,1
Slovakia	Unemployment rate, %	6,9	6,1	5,3	4,9
Slovakia	House Price Index, yoy % change	4,5	4,0	3,3	3,3
Slovakia	Euribor 3m (avg)	(0,55)	(0,55)	(0,55)	(0,53)
				Negative (40%)	
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**	**2024**
Czech Rep.	Real GDP, yoy % change	3,2	2,3	1,3	1,5
Czech Rep.	Monthly Wage, nominal EUR	1 478,8	1 560,4	1 623,7	1 716,2
Czech Rep.	Unemployment rate, %	3,9	4,2	4,7	4,8
Czech Rep.	Short term rate,average	0,8	2,0	2,0	1,6
Czech Rep.	House Price Index, yoy % change	8,0	2,5	(0,2)	1,3
Slovakia	Real GDP, yoy % change	3,7	2,3	2,2	2,5
Slovakia	Monthly Wage, nominal EUR	1 194,1	1 254,7	1 293,5	1 351,2
Slovakia	Unemployment rate, %	6,9	6,2	5,6	5,2
Slovakia	House Price Index, yoy % change	4,5	3,2	1,4	1,8
Slovakia	Euribor 3m (avg)	(0,55)	(0,54)	(0,55)	(0,53)
				Positive (5%)	
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**	**2024**
Czech Rep.	Real GDP, yoy % change	3,2	5,6	4,6	3,3
Czech Rep.	Monthly Wage, nominal EUR	1 478,8	1 630,8	1 746,5	1 821,2
Czech Rep.	Unemployment rate, %	3,9	3,3	2,8	2,7
Czech Rep.	Short term rate,average	0,8	2,1	2,6	2,7
Czech Rep.	House Price Index, yoy % change	8,0	4,0	3,4	4,1
Slovakia	Real GDP, yoy % change	3,7	5,6	5,5	3,4
Slovakia	Monthly Wage, nominal EUR	1 194,1	1 295,2	1 386,9	1 454,3
Slovakia	Unemployment rate, %	6,9	5,5	4,1	3,6
Slovakia	House Price Index, yoy % change	4,5	5,1	4,3	3,7
Slovakia	Euribor 3m (avg)	(0,55)	(0,54)	(0,55)	(0,53)
Country	**Cumulative GDP change between 2021 and 2024**		**Baseline**	**Negative**	**Positive**
Czech Rep.	Real GDP, 3y % change		10,0	5,0	14,1
Slovakia	Real GDP, 3y % change		11,4	7,2	15,1

a. Sensitivity analysis

Since GDP forecast stated in the above-mentioned scenarios is assumed not to be linearly correlated to the ECL, it was agreed to provide two sensitivities based on opposite GDP assumptions:

- ECL sensitivity considering an upside scenario (i.e. the positive IFRS9 scenario), and
- ECL sensitivity considering based on a downside scenario (i.e. the negative IFRS9 scenario).

In both cases the sensitivity is calculated as ratio between:
- the difference of ECL between the baseline and alternative scenario
- the difference of GDP in basis point between the baseline and alternative scenario.

The 3 years cumulated GDP growth (country specific) is used in all calculations further.

The ECL under each of the three scenarios (baseline, negative and positive) were calculated considering the latest portfolio available.

2. Inclusion of Specific Factors
Considering actual and expected factors with realization date shortly after the beginning of 2022 financial year, the Bank decided already for 2021 to reassess its models for impairment losses on receivables and recognize this impact in the income statement of 2021, specifically:

a) Expected **material changes of IRB models**, which serve as an input for LLP calculation. This is relevant for PD model for Corporate and Private Individuals. The total increase of provision amounts to MCZK 548 (split on MCZK 65 on Corporate and MCZK 483 on Private individuals). The Bank assumes that the revised model provides higher accuracy of expected credit losses estimation, and therefore the impact was recognized already in the income statement for 2021.

b) In order to address so called "**Electronic Chip Shortage Risk**" and on a wider perspective the "supply chain risk", dedicated adjustment factor was derived. The need to cover additional risk stemming from overall difficult macroeconomic situation of the country (affected also by an energy crisis primarily driven by unprecedented rise in energy prices as well as a default of major energy supplier) has been also underlined in the CNB letter on expectations regarding institutions' approach to determining the level of allowances and provisions for credit exposures. Following industries were identified as relevant for additional increase of provision due to above specified reasons: Automotive, Electronics, Machinery and Metals. The provisions increase amounts to MCZK 140.

c) **Increase of CZK interest rate** in the second half-year 2021 on the market can cause some loans to be endangered by increase of interest rate during next refixation at years 2022 and 2023. Impacts was simulated using adjusted increase of expenses within the retail mortgage portfolio. Finally, 891 loans with exposure of MCZK 1 253 is considered as base and all simulations are considering only delta of this group as endangered loans. Final additional provision steaming from this event amounts to MCZK 74.

d) Based on the recommendation from ECB following **adjustments in the transfer logic** (classification/staging) were introduced:
   – new 3-months' probation period for stage 2 rule forces to continue assignment of stage 2 to exposure for additional 3 months after the possibility to being returned to stage 1.
   – threefold increase in lifetime PD means that exposures which's current PD is more than 3x higher than the PD at the inception are to be transferred to stage 2.

The actual provisions increase resulting from this methodological change amounts to MCZK 106. The Bank assumes that the methodological change provides higher accuracy of expected credit losses estimation, and therefore the impact was recognized already in the income statement for 2021.

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
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

	2021	2020
Interest income		
Financial assets at amortised cost:	11 524	11 821
Loans and advances to central banks	2 086	2 312
Loans and advances to banks	306	366
Loans and advances to customers	9 132	9 143
Financial assets at fair value through other comprehensive income	304	396
Financial assets at fair value through profit or loss:	9	32
Held for trading	9	25
Mandatorily at fair value	–	7
Hedging derivatives	1 953	758
Other assets	73	–
Interest income	**13 863**	**13 007**
Interest expense		
Financial liabilities at amortised cost:	(1 484)	(1 612)
Deposits from central banks	–	(9)
Deposits from banks	(153)	(131)
Deposits from customers	(1 187)	(1 275)
Debt securities issued	(144)	(197)
Financial liabilities at fair value through profit or loss:	(21)	(19)
Held for trading	(21)	(19)
Lease liabilities	(12)	(17)
Hedging derivatives	(763)	(654)
Interest expense	**(2 280)**	**(2 302)**
Net interest income	**11 583**	**10 705**

Negative interest expense from liabilities is reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2021 MCZK 334 (as of 31 December 2020 MCZK 190)
- Loans and advances to banks – as of 31 December 2021 MCZK 224 (as of 31 December 2020 MCZK 276)
- Loans and advances to customers– as of 31 December 2021 MCZK 171 (as of 31 December 2020 MCZK 8)

Negative interest income from assets is reported in interest expense in the following lines:
- Deposits from the central banks – as of 31 December 2021 MCZK (14) (as of 31 December 2020 MCZK (13))
- Deposits from banks – as of 31 December 2021 MCZK (32) (as of 31 December 2020 MCZK (22))
- Deposits from customers – as of 31 December 2021 MCZK (39) (as of 31 December 2020 MCZK (–))

2. Net fee and commission income

	2021	2020
Fee and commission income from		
Securities transactions	14	15
Management, administration, deposit and custody services	849	721
Loans	1 319	1 227
Payment services	676	687
Account administration	514	622
Payment cards	934	957
Other	188	121
Fee and commission income	**4 494**	**4 350**
Fee and commission expenses from		
Securities transactions	(13)	(13)
Management, administration, deposit and custody services	(115)	(104)
Loans	(339)	(223)
Payment services	(39)	(39)
Payment cards	(739)	(800)
Other	(51)	(30)
Fee and commission expenses	**(1 296)**	**(1 209)**
Net fee and commission income	**3 198**	**3 141**

3. Dividend income

	2021	2020
Dividend income		
Ownership interests	–	330
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	2	4
Financial assets at fair value through other comprehensive income	2	1
Total	**4**	**335**

4. Net income/(loss) from trading

	2021	2020
Net realised and unrealised gain/(loss) from debt instruments held for trading	163	77
Net realised and unrealised gain/(loss) from derivatives held for trading	(409)	17
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	2 354	1 766
Net income/loss from trading	**2 108**	**1 860**

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

	2021	2020
Hedging instruments	(5 109)	561
Hedged instruments	5 108	(561)
Net income/loss from hedging against risk of changes in fair value	**(1)**	**–**

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

	2021	2020
Financial assets at amortised cost: Loans and advances to customers	345	86
Financial assets at fair value through other comprehensive income	94	412
Financial liabilities: Debt securities issued	(16)	(1)
Net income/loss from the sale or repurchase	**423**	**497**

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

	2021	2020
Shares	(12)	79
Debt securities	0	3
Net income/loss from financial assets and liabilities at fair value through profit or loss	**(12)**	**82**

8. Impairment losses

	2021	2020
Financial assets at amortised cost, *of which:*	**(1 871)**	**(2 159)**
Loans and advances to banks	**(1)**	**(4)**
Stage 1	(3)	(2)
Stage 2	2	(2)
Loans and advances to customers	**(1 870)**	**(2 155)**
Corporate Customers	**(1 198)**	**(2 078)**
Stage 1	(404)	(348)
Stage 2	(844)	(366)
Stage 3	49	(1 364)
Retail Customers	**(672)**	**(77)**
Stage 1	(478)	16
Stage 2	(220)	8
Stage 3	27	(101)
Financial assets at fair value through other comprehensive income	**1**	**2**
Stage 1	1	2
Total	**(1 870)**	**(2 157)**

9. Administrative expenses

	2021	2020
Personnel expenses		
Wages and salaries paid to employees	(2 291)	(2 220)
Social costs	(888)	(843)
Other	(213)	(265)
	(3 392)	**(3 328)**
Other administrative expenses		
Rent and building maintenance	(266)	(256)
Information technologies	(1 533)	(1 477)
Promotion and marketing	(207)	(150)
Consumables used	(54)	(72)
Audit, legal and advisory services	(142)	(119)
Administrative and logistic services	(160)	(163)
Deposits and transactions insurance	(743)	(539)
Other services	(205)	(206)
Other	(35)	(282)
	(3 345)	**(3 264)**
Total	**(6 737)**	**(6 592)**

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

	2021	2020
Short-term employee benefits	186	176
Post-employment benefits	1	11
Other long-term employee benefits	31	13
Total	**218**	**200**

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:

	2021		2020	
	Czech Republic	Slovakia	Czech Republic	Slovakia
Employees	2 024	889	2 048	971
Members of the Board of Directors	8	1	6	1
Members of the Supervisory Board	2	1	2	1
Other executives directly reporting to the Board of Directors	39	3	32	2

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.

10. Other operating income and expenses

	2021	2020
Income from rent	45	36
Other income	47	153
Total other operating income	**92**	**189**
Other taxes	(13)	(9)
Fines and penalties	(1)	(10)
Other	(5)	(3)
Total other operating expenses	**(19)**	**(22)**
Total	**73**	**167**

11. Cash and cash balances

	31 Dec 2021	31 Dec 2020
Cash in hand	3 612	3 891
Balances with central banks	250	181
Other on-demand deposits	1 885	3 108
Total	**5 747**	**7 180**

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

Item *"Other on-demand deposits"* includes current accounts and sight deposits toward banks.

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Bank adjusted the presentation of current accounts and sight deposits toward banks within item *"Current accounts"* and *"Loans"* as of 31 December 2020 in total amount of MCZK 3 108 from line *"Financial assets at amortised cost: Loans and advances to banks"* to line *"Cash and cash balances"* item *"Other on-demand deposits"*.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2021	31 Dec 2020
Debt securities	1 005	1 034
Derivatives	33 641	15 508
Total	**34 646**	**16 542**

From debt securities, no securities are provided as collateral as of 31 December 2021 and 31 December 2020.

(ii) Based on the Type of Issuer

	31 Dec 2021	31 Dec 2020
Debt securities		
Public administration	1 004	1 034
Other	1	–
Total	**1 005**	**1 034**

(b) Mandatorily at fair value

	31 Dec 2021	31 Dec 2020
Shares and Other debt securities	544	540
Total	**544**	**540**

(ii) Based on the Type of Issuer

	31 Dec 2021	31 Dec 2020
Shares and Other debt securities		
Other financial institutions	544	540
Total	**544**	**540**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2021	31 Dec 2020
Debt securities	21 782	20 511
Shares	20	7
Total	**21 802**	**20 518**

From debt securities, MCZK 6 234 are provided as collateral (as of 31 December 2020: MCZK 4 990).

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 2021	31 Dec 2020
Debt securities		
Financial institutions	2 493	–
Government institutions	15 463	15 078
Other	3 826	5 433
Shares		
Other	20	7
Total	**21 802**	**20 518**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2021 are classified by credit quality in stage 1 with the total allowance of MCZK 2 (as of 31 December 2020: MCZK 3).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2021	Net book value 2020	Share of the Bank at 31 Dec 2021	Share of the Bank at 31 Dec 2020
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 2021	31 Dec 2020
Current accounts	–	–
Term deposits	24 022	16 753
Loans	–	–
Reverse repurchase commitments (see section V, point 32)	84 661	116 186
Obligatory minimum reserves with central banks	13 155	883
Total	**121 838**	**133 822**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2021 are classified by credit quality at stage 1 with the total allowance of MCZK 7 (as of 31 December 2020: MCZK 4).

Only MCZK 0 of financial assets at amortised cost – loans and advances to banks as of 31 December 2021 are classified by credit quality at stage 2 with the total allowance of MCZK 0 (as of 31 December 2020 MCZK 64 of financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2 with the total allowance of MCZK 2).

In 2021, to closer represent the substance of items included in the line *“Cash and cash balances”* the Bank adjusted the presentation of current accounts and sight deposits toward banks within item *“Current accounts”* as of 31 December 2020 in total amount of MCZK 3 and *“Loans”* as of 31 December 2020 in total amount of MCZK 3 105 from line *“Financial assets at amortised cost: Loans and advances to banks”* to line *“Cash and cash balances”* item *“Other on-demand deposits”*.

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

	31 Dec 2021	31 Dec 2020
Czech Republic	100 041	128 445
Slovakia	11 854	3 889
Other EU countries	9 682	1 086
Other	261	402
Total	**121 838**	**133 822**

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 incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2021												
Current accounts (overdrafts)	25 559	(176)	25 383	6 930	(120)	6 810	2 419	(1 990)	429	34 908	(2 286)	32 622
Mortgage loans	97 174	(271)	96 903	12 393	(229)	12 164	3 778	(2 445)	1 333	113 345	(2 945)	110 400
Credit cards	7	–	7	1	–	1	1	(1)	–	9	(1)	8
Factoring	3 139	(6)	3 133	1 197	(3)	1 194	8	(2)	6	4 344	(11)	4 333
Other loans	143 777	(385)	143 392	10 401	(204)	10 197	2 903	(1 644)	1 259	157 081	(2 233)	154 848
Debt securities	13 354	(1)	13 353	–	–	–	–	–	–	13 354	(1)	13 353
Total	**283 010***	**(839)**	**282 171**	**30 922**	**(556)**	**30 366**	**9 109**	**(6 082)**	**3 027**	**323 041**	**(7 477)**	**315 564**

* The balance also includes unamortized modification loss of MCZK 9.

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 2020												
Current accounts (overdrafts)	24 815	(165)	24 650	6 603	(181)	6 422	3 104	(2 482)	622	34 522	(2 828)	31 694
Mortgage loans	102 785	(375)	102 410	10 983	(290)	10 693	4 354	(2 288)	2 066	118 122	(2 953)	115 169
Credit cards	4	–	4	3	–	3	2	(1)	1	9	(1)	8
Factoring	5 264	(21)	5 243	59	(4)	55	–	–	–	5 323	(25)	5 298
Other loans	144 902	(383)	144 519	7 514	(249)	7 265	3 032	(1 023)	2 009	155 448	(1 655)	153 793
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Total	**277 770***	**(944)**	**276 826**	**25 162**	**(724)**	**24 438**	**10 492**	**(5 794)**	**4 698**	**313 424**	**(7 462)**	**305 962**

* The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2021												
Current accounts (overdrafts)	1 086	(10)	1 076	252	(26)	226	156	(132)	24	1 494	(168)	1 326
Mortgage loans	135 073*	(208)	134 865	7 684	(346)	7 338	585	(184)	401	143 342	(738)	142 604
Credit cards and consumer loans	7 436**	(199)	7 237	1 632	(415)	1 217	240	(169)	71	9 308	(783)	8 525
Other loans	2 144	(7)	2 137	158	(7)	151	49	(38)	11	2 351	(52)	2 299
Total	**145 739**	**(424)**	**145 315**	**9 726**	**(794)**	**8 932**	**1 030**	**(523)**	**507**	**156 495**	**(1 741)**	**154 754**

* The balance also includes unamortized modification loss of MCZK 29.
** The balance also includes unamortized modification loss of MCZK 3.

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 2020												
Current accounts (overdrafts)	1 030	(7)	1 023	251	(13)	238	291	(251)	40	1 572	(271)	1 301
Mortgage loans	122 621*	(132)	122 489	3 561	(133)	3 428	799	(272)	527	126 981	(537)	126 444
Credit cards and consumer loans	7 459**	(84)	7 375	1 356	(177)	1 179	412	(294)	118	9 227	(555)	8 672
Other loans	3 646	(13)	3 633	150	(11)	139	65	(52)	13	3 861	(76)	3 785
Total	**134 756**	**(236)**	**134 520**	**5 318**	**(334)**	**4 984**	**1 567**	**(869)**	**698**	**141 641**	**(1 439)**	**140 202**

* The balance also includes modification loss of MCZK 36 recorded as of 31 December 2020.
** The balance also includes modification loss of MCZK 5 recorded as of 31 December 2020.

From financial assets at amortised cost – Loans and advances to customers MCZK 150 734 are provided as collateral (as of 31 December 2020: MCZK 134 047).

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

	31 Dec 2021	31 Dec 2020
Performing receivables – stage 1 and 2		
Internal rating 1	16 277	14 989
Internal rating 2	29 368	28 716
Internal rating 3	56 847	59 261
Internal rating 4	177 351	155 958
Internal rating 5	95 164	97 244
Internal rating 6	71 783	67 817
Other internal rating	22 479	18 852
Receivables without internal rating	128	169
Total	**469 397**	**443 006**
Non-performing receivables – stage 3	10 139	12 059
Total	**479 536**	**455 065**

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

	31 Dec 2021	31 Dec 2020
Financial institutions	67 553	63 365
Non-financial institutions	235 716	229 698
Government sector	12 295	12 899
Individuals and others	154 754	140 202
Total	**470 318**	**446 164**

(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 2021							
Stage 1	**427 486**	2 758	116 597	10 079	4 762	134 196	**293 290**
Stage 2	**39 298**	227	10 404	2 300	1 644	14 575	**24 723**
Stage 3	**3 534**	73	2 172	996	199	3 440	**94**
Total	**470 318**	**3 058**	**129 173**	**13 375**	**6 605**	**152 211**	**318 107**
31 Dec 2020							
Stage 1	**411 346**	3 272	108 091	6 361	5 221	122 945	**288 401**
Stage 2	**29 422**	184	7 866	571	651	9 272	**20 150**
Stage 3	**5 396**	38	2 340	26	1 527	3 931	**1 465**
Total	**446 164**	**3 494**	**118 297**	**6 958**	**7 399**	**136 148**	**310 016**

The item “Net exposure” includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 41 307 (as of 31 December 2020: MCZK 43 345). 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 2021	31 Dec 2020
Czech Republic	316 567	290 720
Slovakia	138 613	134 761
Other EU countries	12 390	17 395
Other	2 748	3 288
Total	**470 318**	**446 164**

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

	31 Dec 2021	31 Dec 2020
Real estate services	75 180	80 116
Financial services	55 546	61 421
Wholesale	21 591	20 482
Households (individuals)	150 701	136 082
Retail (entrepreneurs)	11 757	12 123
Leasing and rental	15 119	3 542
Automotive industry	11 885	12 131
Power industry	22 957	20 488
Other	105 582	99 779
Total receivables from customers	**470 318**	**446 164**

(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 2021							
Non-financial institutions	19 140	2 975	22 115	(282)	(2 136)	(2 418)	19 697
Other financial corporations	8	–	8	–	–	–	8
Individuals and others	445	181	626	(57)	(67)	(124)	502
Total	**19 593**	**3 156**	**22 749**	**(339)**	**(2 203)**	**(2 542)**	**20 207**

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 2020							
Non-financial institutions	15 293	2 591	17 884	(329)	(1 769)	(2 098)	15 786
Other financial corporations	19	–	19	–	–	–	19
Individuals and others	523	86	609	(57)	(37)	(94)	515
Total	**15 835**	**2 677**	**18 512**	**(386)**	**(1 806)**	**(2 192)**	**16 320**

Net balance of forborne receivables represented 4.30% of the total net receivables from customers as of 31 December 2021 (2020: 3.66%).

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 2021			
Performing receivables			
Before due	18 451	(300)	18 151
Past due	1 142	(39)	1 103
Total forborne performing receivables	**19 593**	**(339)**	**19 254**
Non-performing receivables			
Up to 90 days past due	2 687	(1 765)	922
91 to 180 days past due	202	(191)	11
181 days to 1 year past due	29	(21)	8
Over 1 year past due	238	(226)	12
Total forborne non-performing receivables	**3 156**	**(2 203)**	**953**
Total	**22 749**	**(2 542)**	**20 207**
31 December 2020			
Performing receivables			
Before due	14 881	(360)	14 521
Past due	954	(26)	928
Total forborne performing receivables	**15 835**	**(386)**	**15 449**
Non-performing receivables			
Up to 90 days past due	1 958	(1 211)	747
91 to 180 days past due	130	(80)	50
181 days to 1 year past due	25	(20)	5
Over 1 year past due	564	(495)	69
Total forborne non-performing receivables	**2 677**	**(1 806)**	**871**
Total	**18 512**	**(2 192)**	**16 320**

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

Balance as of 1 January 2020	15 563
Transfer to forborne receivables balance	8 101
Additions	305
Settled	(2 265)
Transfer from forborne receivables balance	(3 192)
Other	–
Total gross balance of forborne receivables as of 31 December 2020	**18 512**
Balance as of 1 January 2021	18 512
Transfer to forborne receivables balance	12 479
Additions	703
Settled	(2 095)
Transfer from forborne receivables balance	(6 849)
Other	(1)
Total gross balance of forborne receivables as of 31 December 2021	**22 749**

The table below shows movements in the impairment of forborne receivables:

Balance as of 1 January 2020	(1 937)
Transfer to forborne receivables balance	(1 504)
Charge during the current year	(169)
Release during the current year	202
Receivables written off – use	0
Transfer from forborne receivables balance	1 216
Other decreases	(1 937)
Total impairment of forborne receivables as of 31 December 2020	**(2 192)**
Balance as of 1 January 2021	(2 192)
Transfer to forborne receivables balance	(1 024)
Charge during the current year	(334)
Release during the current year	182
Receivables written off – use	–
Transfer from forborne receivables balance	824
Other decreases	2
Total impairment of forborne receivables as of 31 December 2021	**(2 542)**

(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 2020	(595)	(357)	(5 685)	(6 637)
Charge during the current year	(727)	(663)	(2 860)	(4 250)
Release during the current year	379	297	1 496	2 172
Receivables written off – use	–	–	1 253	1 253
FX differences	(1)	(1)	2	–
Total impairment of receivables from customers as of 31 December 2020	**(944)**	**(724)**	**(5 794)**	**(7 462)**
Balance as of 1 January 2021	(944)	(724)	(5 794)	(7 462)
Charge during the current year	(625)	(453)	(3 053)	(4 131)
Release during the current year	730	621	2 035	3 386
Receivables written off – use	–	–	730	730
FX differences	–	–	–	–
Total impairment of receivables from customers as of 31 December 2021	**(839)**	**(556)**	**(6 082)**	**(7 477)**

Retail Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2020	(253)	(344)	(890)	(1 487)
Charge during the current year	(314)	(281)	(279)	(874)
Release during the current year	330	289	178	797
Receivables written off – use	–	1	121	122
FX differences	1	1	1	3
Total impairment of receivables from customers as of 31 December 2020	**(236)**	**(334)**	**(869)**	**(1 439)**
Balance as of 1 January 2021	(236)	(334)	(869)	(1 439)
Charge during the current year	(406)	(702)	(166)	(1 274)
Release during the current year	218	242	268	728
Receivables written off – use	–	1	245	246
FX differences	–	(1)	(1)	(2)
Total impairment of receivables from customers as of 31 December 2021	**(424)**	**(794)**	**(523)**	**(1 741)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2021				
Transfer of the gross amount of receivables from Stage 1	(20 688)	18 320	2 368	–
Transfer of the gross amount of receivables from Stage 2	5 212	(6 622)	1 410	–
Transfer of the gross amount of receivables from Stage 3	1	1 120	(1 121)	–

The balance of the movement of gross amount of receivables from the stage 1 to the stage 3 largely includes existing exposures to defaulting clients that have been reposted between different accounts / loans of the given client. Due to the change in the identification of these individual receivables, they are reported as new exposures (derecognition accounting), which are added from the movement point of view to existing exposures migrating from the stage 1. The same procedure is applied in all categories of the migration matrix.

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2020				
Transfer of the gross amount of receivables from Stage 1	(19 974)	15 147	4 827	–
Transfer of the gross amount of receivables from Stage 2	1 796	(3 539)	1 743	–
Transfer of the gross amount of receivables from Stage 3	27	74	(101)	–

Retail Customers	Stage 1	Stage 2	Stage 3	Total
2021				
Transfer of the gross amount of receivables from Stage 1	(7 793)	7 600	193	–
Transfer of the gross amount of receivables from Stage 2	1 973	(2 156)	183	–
Transfer of the gross amount of receivables from Stage 3	76	160	(236)	–
2020				
Transfer of the gross amount of receivables from Stage 1	(4 245)	3 938	307	–
Transfer of the gross amount of receivables from Stage 2	2 814	(3 073)	259	–
Transfer of the gross amount of receivables from Stage 3	135	85	(220)	–

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 2021 was MCZK 2 013 (as of 31 December 2020: MCZK 3 073).

k) Impact of COVID-19

Details of COVID-19 Impact on Financial assets at amortised cost – loans and advances to customers are included in section V. Other Notes, point 35. Financial Risk management, part b) Credit Risk, sub-point (vi) COVID-19 impacts on Credit Risk.

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2021	31 Dec 2020
Fair value hedging	2 370	2 425
Cash flow hedging	10 132	7 973
Total	**12 502**	**10 398**

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

17. Equity investments

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2021	Net book value 2020	Share of the Bank at 31 Dec 2021	Share of the Bank at 31 Dec 2020
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 2021	31 Dec 2020
Property and equipment for operations		
Buildings and land	826	860
Leasehold improvements of rent buildings	216	189
Fixtures and fittings	27	24
IT equipment	58	59
Other	123	98
Right of use assets		
Buildings and land	2 139	2 313
Other	48	48
Total	**3 437**	**3 591**

(a) Movements in Property and Equipment Held for Operations

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Fair Value (Buildings and land) / Cost at 1 January 2020	2 587	991	154	529	236	4 497
Accumulated depreciation and impairment at 1 January 2020	(1 738)	(827)	(138)	(502)	(188)	(3 393)
Net Book Value at 1 January 2020	**849**	**164**	**16**	**27**	**48**	**1 104**
Increases in fair value	39	–	–	–	–	39
Reductions in fair value	(52)	–	–	–	–	(52)
Additions	43	74	12	32	57	218
Depreciation charges	(31)	(41)	(3)	(10)	(6)	(91)
Transfer to the item "*Non-current assets held for sale*"	(7)	–	–	–	–	(7)
Other and FX rate gains or losses	19	(8)	(1)	10	(1)	19
Net Book Value at 31 December 2020	**860**	**189**	**24**	**59**	**98**	**1 230**
Fair Value (Buildings and land) / Cost at 31 December 2020	2 682	1 019	155	549	288	4 693
Accumulated depreciation and impairment at 31 December 2020	(1 822)	(830)	(131)	(490)	(190)	(3 463)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Fair Value (Buildings and land) / Cost at 1 January 2021	2 682	1 019	155	549	288	4 693
Accumulated depreciation and impairment at 1 January 2021	(1 822)	(830)	(131)	(490)	(190)	(3 463)
Net Book Value at 1 January 2021	**860**	**189**	**24**	**59**	**98**	**1 230**
Increases in fair value	21	–	–	–	–	21
Reductions in fair value	(56)	–	–	–	–	(56)
Additions	78	64	11	26	40	219
Depreciation charges	(33)	(36)	(4)	(27)	(12)	(112)
Transfer to the item "*Non-current assets held for sale*"	(8)	–	–	–	–	(8)
Other and FX rate gains or losses	(36)	(1)	(4)	–	(3)	(44)
Net Book Value at 31 December 2021	**826**	**216**	**27**	**58**	**123**	**1 250**
Fair Value (Buildings and land) / Cost at 31 December 2021	2 542	1 049	132	532	297	4 552
Accumulated depreciation and impairment at 31 December 2021	(1 716)	(833)	(105)	(474)	(174)	(3 302)

(b) Movements in Right of Use Assets

	Buildings and land	Other	Total
Net Book Value at 1 January 2020	**1 811**	**40**	**1 851**
Additions	854	35	889
Disposals	(24)	(1)	(25)
Depreciation	(328)	(27)	(355)
Other and FX rate gains or losses	–	–	–
Net Book Value at 31 December 2020	**2 313**	**48**	**2 361**
Cost at 31 December 2020	2 963	88	3 051
Accumulated depreciation and impairment at 31 December 2020	(650)	(40)	(690)
Net Book Value at 1 January 2021	**2 313**	**48**	**2 361**
Additions	270	26	**296**
Disposals	(59)		(59)
Depreciation	(385)	(26)	(411)
Other and FX rate gains or losses	–		
Net Book Value at 31 December 2021	**2 139**	**48**	**2 187**
Cost at 31 December 2021	3 138	100	3 238
Accumulated depreciation and impairment at 31 December 2021	(999)	(52)	(1 051)

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2020	3 698	3 698
Accumulated amortisation and impairment at 1 January 2020	(1 601)	(1 601)
Net Book Value at 1 January 2020	**2 097**	**2 097**
Additions	646	646
Amortisation charges	(494)	(494)
Other	103	103
Net Book Value at 31 December 2020	**2 352**	**2 352**
Cost at 31 December 2020	4 266	4 266
Accumulated amortisation and impairment at 31 December 2020	(1 914)	(1 914)
Cost at 1 January 2021	4 266	4 266
Accumulated amortisation and impairment at 1 January 2021	(1 914)	(1 914)
Net Book Value at 1 January 2021	**2 352**	**2 352**
Additions	796	796
Amortisation charges	(623)	(623)
Other	104	104
Net Book Value at 31 December 2021	**2 629**	**2 629**
Cost at 31 December 2021	4 895	4 895
Accumulated amortisation and impairment at 31 December 2021	(2 266)	(2 266)

20. Other assets

	31 Dec 2021	31 Dec 2020
Deferred expenses and accrued income	321	237
Trade receivables	190	291
Receivables from securities	7	12
Clearing and settlement accounts	357	1 268
Dividend prepayment	–	330
Other	47	11
Total	**922**	**2 149**
Impairment losses on other assets	(9)	(17)
Net other assets	**913**	**2 132**

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 2021	31 Dec 2020
Liabilities from short sales	1 065	2 115
Derivatives	34 070	14 697
Total	**35 135**	**16 812**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2021	31 Dec 2020
Deposits from central banks	39 223	39 378
Current accounts	9 495	6 180
Loans	839	1 596
Term deposits	345	31 569
Sale and repurchase agreements (see section V, point 32)	–	16 062
Other	–	165
Total	**49 902**	**94 950**

Item "Deposits from central banks" includes as of 31 December 2021 MCZK 39 708 of funding from Targeted Longer-Term Refinancing Operations (hereinafter "TLTRO"), namely TLTRO III.4 which was drawn by the Bank in June 2020 and TLTRO III.7 drawn in March 2021 (as of 31 December 2020: TLTRO III of MCZK 39 551). Outstanding TLTRO II borrowings was repaid in June 2020 (original maturity in March 2021).

The TLTRO liabilities are banking book funding instruments to be subsequently measured at amortised cost according to IFRS 9, 4.2.1. Financial conditions incorporated into TLTROs are reflecting The European Central Bank (hereinafter "ECB") monetary policy initiatives to prospectively reduce market cost of funding for banking institutions by using non-conventional tools and reflected in money market operations. In addition to the more favourable conditions already introduced in March 2020 (to be applied in the period from 24 June 2020 to 23 June 2021), the Governing Council of ECB on 10 December 2020 decided to extend similar favourable conditions for the period from 24 June 2021 to 23 June 2022.

For banks that reach the lending performance threshold during the predefined reference periods the borrowing rates can be as low as 50 basis points below the average interest rate on the Deposit Facility Rate (hereinafter "DFR") during the periods from 24 June 2020 to 23 June 2021 and from 24 June 2021 to 23 June 2022, and as low as DFR during the rest of the life of the respective TLTRO III transaction.

Referencing EIR rules for markets-driven remunerations, changes in market index (e.g. base rate and spread) will be reflected by adjusting instruments' carrying amount calculated by referencing the evolution of the "TLTRO index" and limited to the accrued (to-date) portion. As a result, TLTRO III EIR for a 3year funding drawn in June 2020 and March 2021 ranges between –0.33% and –0.83% in 2021 as well in 2020, coherently with (i) benchmark achievements for Cumulative Net Lending (hereinafter "CNL") as at March 2021 and December 2021 and (ii) current Main Refinancing Operation and DFR levels.

In 2021 Bank recognized, a Net Interest Income contribution equal to MCZK 334 from TLTRO III applying interest rates from –0.5% to –0.83% (2020: MCZK 190 – hereof, interest from TLTRO II of MCZK 14 and interest from TLTRO III applying –0.83% of MCZK 176), based on Bank´s CNL threshold achievements as supported by actual eligible business volumes development.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2021	31 Dec 2020
Current accounts	430 994	404 238
Term deposits	34 204	15 873
Lease Liabilities	2 254	2 436
Other	2 424	2 375
Total	**469 876**	**424 922**

Lease liability	2021	2020
As at 1 January	**2 436**	**1 911**
Additions	237	864
Accretion of interest	12	17
Lease payments	(358)	(386)
Other and FX rate gains or losses	(73)	30
Total at 31 December	**2 254**	**2 436**

The Bank had total cash outflows for leases of MCZK 389 in 2021 incl. those leases that are not in-scope of IFRS 16 (in 2020: MCZK 416).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2021	31 Dec 2020
Mortgage bonds	5 860	7 772
Structured bonds	1 246	2 271
Other issued debt securities	16 432	15
Total	**23 538**	**10 058**

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 1 205 (at 31 December 2020: MCZK 2 420). The positive fair value of these derivatives of MCZK 23 is reported under "Financial assets held for trading" (at 31 December 2020: MCZK 5); the negative fair value of these derivatives of MCZK 204 is recognised under "Financial liabilities held for trading" (at 31 December 2020: MCZK 97).

Other issued debt securities includes as well MREL instrument (MREL = The Minimum Requirement for Own Funds and Eligible Liabilities) in the form of EUR Senior Non-Preferred Bond issued for purpose of fulfilment of the capital requirements under the EU law (BRRD2 Directive and Czech Recovery and Resolution Crisis Act) as a part of the Single Point of Entry model ("SPE") applied within UC Group. The MREL instruments was issued as of 23 November 2021 with total nominal value of MCZK 16 408 and maturity date as of 23 November 2027 with option to call the bond after 5 years. The only investor is UniCredit S.p.A. The total value as of 31 December 2021 is MCZK 16 418.

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2021	31 Dec 2020
Fair value hedging	5 855	745
Cash flow hedging	16 210	6 720
Total	**22 065**	**7 465**

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

26. Other liabilities

	31 Dec 2021	31 Dec 2020
Deferred income and accrued expenses	1 234	1 476
Trade payables	456	613
Payables to employees	443	274
Unsettled security transactions	2	172
Clearing and settlement accounts	3 640	6 006
Other	162	197
Total	**5 937**	**8 738**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2021	31 Dec 2020
Provisions for off-balance sheet credit exposures	**1 228**	**1 295**
a. Stage 1	201	183
b. Stage 2	135	344
c. Stage 3	892	768
Legal disputes	104	66
Provision for restructuring	64	66
Other	9	43
Total	**1 332**	**1 470**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	113	98	508	719
Charge during the year	173	267	646	1 086
Release during the year	(105)	(22)	(387)	(514)
Other – FX rate gains or losses	2	1	1	4
Total provisions for off-balance sheet credit items at 31 December 2020	**183**	**344**	**768**	**1 295**
Balance at 1 January 2021	183	344	768	1 295
Charge during the year	185	186	577	948
Release during the year	(160)	(386)	(425)	(971)
Other – FX rate gains or losses	(7)	(9)	(28)	(44)
Total provisions for off-balance sheet credit items at 31 December 2021	**201**	**135**	**892**	**1 228**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2020	30	60	60	150
Charge during the year	38	45	5	88
Usage during the year	(4)	(30)	(23)	(57)
Release of redundant provisions and other	2	(9)	1	(6)
Total other provisions at 31 December 2020	**66**	**66**	**43**	**175**
Balance at 1 January 2021	66	66	43	175
Charge during the year	4	–	6	**10**
Usage during the year	(3)	(21)	(17)	**(41)**
Release of redundant provisions and other	(3)	(36)	(1)	**(40)**
Total other provisions at 31 December 2021	**64**	**9**	**31**	**104**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2021	31 Dec 2020
Current tax payable	(1 533)	(1 218)
Prior year tax	(1)	25
Deferred tax	(57)	(31)
Total income tax	**(1 591)**	**(1 224)**

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 2021	31 Dec 2020
Profit/loss for the year before tax	7 705	6 386
Tax calculated using the tax rate of 19%	(1 464)	(1 213)
Impact of prior years on the current tax payable	(1)	24
Non-taxable income	9	78
Tax non-deductible expenses	(48)	(42)
Impact of prior years on the deferred tax	4	(20)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(56)	(44)
Unrecognised temporary differences in deferred tax	–	(11)
Other	(35)	4
Total income tax	**(1 591)**	**(1 224)**

The effective tax rate of the Bank is 20.6% (2020: 19.2%).

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1 750 (2020: MCZK 1 978), received an tax overpayment of MCZK 683 (at 31 December 2020: the Bank made an additional payment of MCZK 552) and reports an income tax receivable of MCZK 341 to the tax authority in the Czech Republic (at 31 December 2020: a receivable of MCZK 691) and a liability of MCZK 45 to the tax authority in the Slovak Republic (at 31 December 2020: a receivable of MCZK 57).

(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 2021 based on the current and anticipated future level of taxable profits.

Net Deferred Tax Asset

	31 Dec 2021		31 Dec 2020	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	120	–	125	–
Impairment of loans and off-balance sheet items	630	–	716	–
Differences arising from the net book values of tangible assets	30	–	60	–
Differences arising from the net book values of intangible assets	–	(148)	–	(146)
Reserve from revaluation of hedging instruments*	1 435	–	–	(138)
Reserve from revaluation of financial assets at fair value through other comprehensive income*	4	(93)	–	(83)
Reserve from revaluation of property measured at fair value*	–	(53)	–	(65)
Other	133	–	102	–
Deferred tax liability/asset	**2 352**	**(294)**	**1 003**	**(432)**
Net deferred tax asset	**2 058**		**571**	

* Change in deferred tax from these items is posted via Other Comprehensive Income.

The Bank additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions of MCZK 11.

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 2020 and 2021.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2021				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2020				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2021 Number of shares	31 Dec 2021 MCZK	31 Dec 2020 Number of shares	31 Dec 2020 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 2021 and 31 December 2020, 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 2021	31 Dec 2020
Reserve funds	3 372	3 372
Special-purpose reserve fund	12 402	14 471
Retained earnings	49 926	45 972
Total	**65 700**	**63 815**

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 part of the Special-purpose reserve fund in total amount of MCZK 11 611 from cross-border merger can only be used to settle the loss of the Bank.

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

(a) Reverse Repurchase Transactions

	31 Dec 2021	31 Dec 2020
Loans and advances to banks	84 661	116 185
Fair value of securities received	(84 661)	116 185

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2021 and as of 31 December 2020.

(b) Repurchase Transactions

	31 Dec 2021	31 Dec 2020
Deposits from banks	–	16 062
Fair value of securities provided	–	16 086

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 2021, 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.

Loan Commitments, financial guarantees and other commitments given

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.

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 2021, the aggregate provisions amounted to MCZK 1 228 (as of 31 December 2020: MCZK 1 295), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2021			
Letters of credit and financial guarantees	47 833	(656)	47 177
– Stage 1	45 263	(103)	45 160
– Stage 2	1 936	(82)	1 854
– Stage 3	634	(471)	163
Other contingent liabilities (undrawn credit facilities)	161 622	(572)	161 050
– Stage 1	152 445	(98)	152 347
– Stage 2	8 513	(53)	8 460
– Stage 3	664	(421)	243
Total	**209 455**	**(1 228)**	**208 227**
31 Dec 2020			
Letters of credit and financial guarantees	46 575	(700)	45 875
– Stage 1	43 059	(95)	42 964
– Stage 2	2 981	(164)	2 817
– Stage 3	535	(441)	94
Other contingent liabilities (undrawn credit facilities)	140 852	(595)	140 257
– Stage 1	131 659	(88)	131 571
– Stage 2	8 726	(180)	8 546
– Stage 3	467	(327)	140
Total	**187 427**	**(1 295)**	**186 132**

(b) Contingent Assets

The Bank has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 219.5 (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 2021			
Trading instruments – interbank market (OTC)			
Options	110 800	1 504	1 514
Interest rate swap contracts	780 444	24 801	25 539
Forward rate agreements (FRA)	6 820	–	17
Cross currency swap contracts	184 672	3 966	3 161
Foreign exchange forwards and swaps	47 979	273	798
Other instruments	5 037	3 063	3 041
Total	**1 135 752**	**33 607**	**34 070**
Trading instruments – stock exchange			
Futures	505	34	–
Total trading instruments	**1 136 257**	**33 641**	**34 070**
Hedging instruments			
Interest rate swap contracts	672 730	10 405	21 178
Cross currency swap contracts	121 925	2 097	887
Total hedging instruments	**794 655**	**12 502**	**22 065**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2020			
Trading instruments – interbank market (OTC)			
Options	84 938	886	909
Interest rate swap contracts	682 521	8 560	8 270
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	169 210	3 472	2 752
Foreign exchange forwards and swaps	35 394	268	507
Other instruments	8 402	2 290	2 259
Total	**980 465**	**15 476**	**14 697**
Trading instruments – stock exchange			
Futures	1 496	32	–
Total trading instruments	**981 961**	**15 508**	**14 697**
Hedging instruments			
Interest rate swap contracts	613 990	9 353	6 518
Cross currency swap contracts	136 572	1 045	947
Total hedging instruments	**750 562**	**10 398**	**7 465**

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

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2021				
Trading instruments				
Interest rate instruments	119 128	440 970	250 733	810 831
Equity instruments	1 329	1 202	–	2 531
Currency instruments	213 468	95 609	8 276	317 353
Other	4 149	888	–	5 037
Total	**338 074**	**538 669**	**259 009**	**1 135 752**
Hedging instruments				
Interest rate instruments	120 211	343 061	209 458	672 730
Currency instruments	33 760	25 774	62 391	121 925
Total	**153 971**	**368 835**	**271 849**	**794 655**
31 Dec 2020				
Trading instruments				
Interest rate instruments	63 160	390 849	254 039	708 048
Equity instruments	2 713	2 341	–	5 054
Currency instruments	177 865	81 096	–	258 961
Other	6 824	1 578	–	8 402
Total	**250 562**	**475 864**	**254 039**	**980 465**
Hedging instruments				
Interest rate instruments	91 139	318 808	204 043	613 990
Currency instruments	49 566	56 549	30 457	136 572
Total	**140 705**	**375 357**	**234 500**	**750 562**

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 2021				
Net interest and dividend income	3 163	7 278	1 146	**11 587**
Other net income	1 519	4 412	(140)	**5 791**
Depreciation/impairment of property and equipment and intangible assets	(555)	(243)	(348)	**(1 146)**
Impairment loss	(839)	(1 045)	14	**(1 870)**
Segment expenses	(3 379)	(3 660)	382	**(6 657)**
Profit before tax	(91)	6 742	1 054	**7 705**
Income tax			(1 591)	(1 591)
Result of segment	**(91)**	**6 742**	**(537)**	**6 114**
Segment assets	157 780	505 796	16 820	**680 396**
Segment liabilities	206 736	370 475	25 224	**602 435**
31 Dec 2020				
Net interest and dividend income	3 061	6 714	1 265	**11 040**
Other net income	1 352	3 933	461	**5 746**
Depreciation/impairment of property and equipment and intangible assets	(450)	(206)	(284)	**(940)**
Impairment loss	(127)	(2 117)	30	**(2 214)**
Segment expenses	(3 755)	(3 951)	460	**(7 246)**
Profit before tax	81	4 373	1 932	**6 386**
Income tax			(1 224)	(1 224)
Result of segment	**81**	**4 373**	**708**	**5 162**
Segment assets	147 617	485 869	15 104	**648 590**
Segment liabilities	189 482	364 076	12 493	**566 051**

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 2021			
Net interest and dividend income	9 712	2 520	**12 232**
Other net income	4 407	1 384	**5 791**
Depreciation/impairment of property and equipment and intangible assets	(910)	(236)	**(1 146)**
Impairment loss	(1 382)	(488)	**(1 870)**
Segment expenses	(4 774)	(1 883)	**(6 657)**
Profit before tax	7 053	1 297	**8 350**
Income tax	(1 262)	(329)	(1 591)
Result of segment	**5 791**	**968**	**6 759**
Segment assets	533 370	147 671	681 041
Segment liabilities	464 136	138 299	602 435

	Czech Republic	Slovakia	Total
31 Dec 2020			
Net interest and dividend income	8 482	2 558	**11 040**
Other net income	3 814	1 932	**5 746**
Depreciation/impairment of property and equipment and intangible assets	(727)	(213)	**(940)**
Impairment loss	(2 062)	(152)	**(2 214)**
Segment expenses	(5 185)	(2 061)	**(7 246)**
Profit before tax	4 322	2 064	**6 386**
Income tax	(866)	(358)	(1 224)
Result of segment	**3 456**	**1 706**	**5 162**
Segment assets	512 940	135 650	**648 590**
Segment liabilities	428 410	137 641	**566 051**

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:

	2021	2020
Cash and cash balances	5 747	7 180
Financial assets at fair value through profit or loss, *of which:*	35 190	17 082
Held for trading	34 646	16 542
Mandatorily at fair value	544	540
Financial assets at fair value through other comprehensive income	21 802	20 518
Financial assets at amortised cost, *of which:*	592 156	579 986
Loans and advances to banks	121 838	133 822
Loans and advances to customers	470 318	446 164
Positive fair value of hedging derivatives	12 502	10 398
Changes in fair value of the portfolio of hedged instruments	(366)	–
Other assets	1 558	2 132
Total	**668 589**	**637 296**

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

	2021	2020
Letters of credit and financial guarantees	47 177	45 875
Other contingent liabilities (undrawn credit facilities)	161 050	140 257
Total	**208 227**	**186 132**

(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 behavioral 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 behavioral scoring method. A client's final rating combines both application and behavioral 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 receivable's gross carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate ; (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 portion of lifetime expected credit losses (ECL) that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (1-year expected credit 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).

Credit exposures included in stage 1 due to "low credit risk exemption" amount to MCZK 0 as of 31 December 2021 (31 December 2020: MCZK 0).

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.

Impact of ESG Topics on Impairment Losses
In relation of the ESG topics currently no impact to provisions was identified. In coordination with the UniCredit Group´s activities data collection and delivery for stress testing (e.g. regarding physical risks and energy performance certificate) were carried out.

No result or impact is known yet as of 31. December 2021. The Bank is aware of the importance of ESG topic for the future and makes steps to be prepared to cover the upcoming requirements. The bank is active to promote the ESG topic in communication with clients, also to support them to provide necessary information using implemented questionnaires. Data collection and assessment from ESG questionnaire process is mandatory part of approval process for high-end exposure part of portfolio with further future extension of the process to next group of clients. On the market the Bank is participating within the Czech Banking Association on the regular ESG committee as a standard member of the committee, supporting and cooperating on activities targeting future smooth data collection and processing and relieving the data collection and delivery for the clients. Internal implementation project regarding data storage and processing is in progress.

(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) COVID-19 impacts on Credit Risk

The Bank faced during 2020 and 2021 significant macroeconomic changes and "COVID-19 waves" resulting in increase of risk in several risk categories including credit risk. The spread of the virus passed across European countries during first quarter 2020 followed by partial economy lockdowns resulting in significant economic recession.

The most affected sectors were retail trade, transport, tourism and in general services.

Local governments introduced several local government-guaranteed programs supporting bank lending continuation and to support local companies to overcome potential liquidity crisis.

Gradually there were introduced also government programs covering partial direct costs of companies hit by lockdown to prevent high unemployment rate growth and to stabilize the labor market short term. Across countries in Europe as well as in Czech Republic and Slovakia there were local public moratoriums presented and issued by law enabling postponement of repayments to the debtors, in particular in Czech Republic and Slovakia both in so called "opt-in" option.

Concessions on the Bank's side are defined to support the drawback deriving from a temporary slow-down of the economy and support client's liquidity fully in line with law and regulator's regulation rules. The impact on the portfolio asset quality of the Bank is mitigated by:

- Regular and also additional portfolio's analysis
- Ex-ante, ongoing and ex-post evaluation of client's risk profiles including standard and non-standard reviews and additional checks of unlikeliness to pay (hereinafter "UTP") as regulated by The European Banking Authority (hereinafter "EBA")
- Update of corporate underwriting principles and rules connected especially to risky industries clusters, clients' liquidity situation, unutilized frames management and prudent new clients onboarding
- Update of retail underwriting principles and rules with strong concentration on support of current clients and several short-term new restrictions to avoid credit risk increase
- Acquisitions of public guarantee schemes
- Update of monitoring principles and monitoring reporting especially (but not only) related to "under moratoria" portfolio development
- Classification principles aligned with EBA/GL/2020/02 issued as of April 2nd, 2020 incl. follow-up updates as well as local prudent specifics, e.g. stage 2 classification for moratoria receivables fulfilling the interest rate local moratoria law limit (cap)

In order to mitigate the impact of the COVID-19, laws were passed in the Czech Republic and Slovakia that allowed for the postponement of loan repayments. The Bank provided deferred payments in connection with the COVID-19 in accordance with the following laws:

- No. 177/2020 Coll., Act on Certain Measures in the Area of Loan Repayment in Connection with the COVID-19, which was approved in the Czech Republic; and
- No. 67/2020 Coll., As amended by Act No. 75/2020 Coll., The Act on Certain Extraordinary Measures in the Financial Area in Relation to the Spread of Dangerous Infectious Human Disease COVID-19, which was approved in Slovakia.

Czech Republic

- With regard to the expiration of the deadline for the termination of moratoriums under the said Act, no new moratoriums were granted in 2021. The Bank continues to voluntarily provide bank-specific deferrals and relief to clients, but in a completely normal regime outside the said Act and in accordance with the established rules of regulation and classification of receivables.
- The Bank intensively monitors the status, quality and development of the portfolio affected by the moratorium even after their termination.

Slovakia

- Due to the continuing validity of the said Act (with regard to the so-called pandemic period), clients who have not yet used the moratorium under this Act are still allowed to enter the moratorium at their request.
- The Bank intensively monitors both the portfolio of receivables that were the subject of the moratorium and new cases.

Deferral of payments in connection with COVID-19 leads to a modification of contractual cash flows in accordance with IFRS 9. According to the Bank's internal rules, this modification is not considered a significant modification and therefore does not lead to the derecognition of the asset of the original asset. The Bank assessed the impact of the modifications due to the deferral of payments in connection with COVID-19 which was as of 31 December 2020 recognised in the income statement under the item „*Modification gains/ (losses)*". In subsequent accounting periods, the modification gains/losses are amortized to the maturity date of the financial asset. This amortization is recognised in the income statement under the item *"Interest income"*.

As of 31 December 2021, the identified impact of the modification due to the deferral of payments in connection with COVID-19 was not assessed as significant and was therefore not recognised.

Overview of loans subject to moratoria in the Czech Republic and Slovakia

31 Dec 2021	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair. losses – perform	Impair. losses – non perform	Impair. losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	9 866	9 262**	281	9 543	(173)	(98)	(271)	9 089	183	9 272
Corporate Customers*	916	19 187***	2 982	22 169	(168)	(1 797)	(1 965)	19 019	1 185	20 204
Total	**10 782**	**28 449**	**3 263**	**31 712**	**(341)**	**(1 895)**	**(2 236)**	**28 108**	**1 368**	**29 476**

*Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
**The balance also includes unamortized modification loss of MCZK 32.
***The balance also includes unamortized modification loss of MCZK 9.

31 Dec 2020	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair. losses – perform	Impair. losses – non perform	Impair. losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	12 038	11 682**	204	11 886	(165)	(73)	(238)	11 517	131	11 648
Corporate Customers*	1 080	25 359***	3 139	28 498	(358)	(1 119)	(1 477)	25 001	2 020	27 021
Total	**13 118**	**37 041**	**3 343**	**40 384**	**(523)**	**(1 192)**	**(1 715)**	**36 518**	**2 151**	**38 669**

*Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
**The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
***The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Overview of in the Bank newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19

	Number of clients	Gross Carrying Amount
31 Dec 2021		
Total	817	8 213
31 Dec 2020		
Total	602	5 203

Regulators measures
As response to COVID-19 spread EBA issued several statements during 2020 (followed by standard monitoring and strategies updates during 2021), from credit risk point of view one of the most important and affecting Bank's portfolio development Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of COVID-19 with application date as of 2 April 2020 followed by several amendments regarding clarification, prolongation and reactivation of moratoria period. In parallel with local law initiatives the statements provided clarity and reasonable uniformity in the classification and moratoria approach of the banks across the markets.

As reaction to COVID-19 CNB updated the recommendation regarding new mortgages financing. The limits were released to support the economy recovery.

The release was applied to Loan to Value ("LTV"), Debt Service to Income ("DSTI") and Debt to Income ("DTI") limits. Detailed description is available on CNB website, recommendations are valid as of 1.4.2020 and as of 8.7.2020.

CNB and National Bank of Slovakia (hereinafter "NBS") were updated by the Bank representatives several times during the year on calls dedicated special to COVID-19 and related development and Bank measures.

UniCredit Bank Czech Republic and Slovakia credit risk and underwriting measures
The reaction of the Bank was immediate starting from February 2020 implementing measures in corporate underwriting process (analyzing and covering COVID-19 connected risks to defend asset quality position of the Bank).

Parallel to appropriate additional loan loss provisions created at specific and portfolio level (see part Macroeconomic Multiscenario Overlay Factor in the section IV. Critical Accounting Judgements, Estimates and Assumptions) the Bank implemented new criteria in retail financing segment and updated during the year based on economic development. In corporate segment, the Bank implemented risk mitigation rules in underwriting process based e.g. on industry clusters.

The Bank also implemented moratoria underwriting process covering all by law driven new legal requests and successfully managed to the process in line with client's requests and the related reporting activities, internally and externally.

On the top the Bank update monitoring system covering the moratoria but also after moratoria period (exit from moratoria) was implemented, mainly:

- risk clusters of clients under Moratoria for better aim of other activities towards that clients,
- deep payment traffic analyses specifically designed for clients under moratoria to be able to detect and have information about impact of COVID-19 to client business and afterwards if recovery activities in client business activities are in line with expectations,
- new flags and warning signals connected to moratoria for better identification and filtering such clients
- monitoring of backlog in post moratoria review and their notification,
- detailed Post moratoria delinquency monitoring.

Regular reporting for management, other local purposes, relevant reporting to UniCredit Group and regulators was ensured. Based on partial economic lockdown and expected economic slowdown including follow-up negative effects on consumers the set of retail risk rules was updated already within first half of 2020.

Acceptable limits for LTV, Debt Ratio ("DR"), DTI, DSTI were updated with stricter approach to keep appropriate prudential approach and defend asset quality. The same applied for customer income recognition/acceptance rules following the evaluation of industry risk clustering. Follow-up rules updates were done during the year to ensure fast Bank reaction incl. release of some of mentioned rules during the year, but still keeping prudent approach with not fully utilization of all limits used according to regulators recommendations.

Loan loss provisions
Considering the updated macro-scenarios there were also updates performed of the FLI component of expected credit loss calculation, according to IFRS 9. Such updates were implemented on the bank in the 2nd and 4th quarter 2021.

Asset quality impact
As shown in the migration tables bellow, the year 2021 is worse mainly in the higher migration from stage 1 to stage 2 in both segments. This is caused not only by the change of the methodology (the watchlist is newly triggering the stage 2) but also by real worsening of the portfolio. Direct migration from stage 1 to stage 3 (new defaults) decreased in 2021 compared to 2020 in both segments. Positive development can be seen also in the back transfers (i.e. from defaulted stage 3 to performing stage 2) and mainly in Corporate Customers of MCZK 1 120, which is however driven mainly by one significant exposure.

Migrations between stages

	Corporate Customers			Retail Customers		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
2021						
Transfer of the gross amount of receivables from Stage 1	(20 688)	18 320	2 368	(7 793)	7 600	193
Transfer of the gross amount of receivables from Stage 2	5 212	(6 622)	1 410	1 973	(2 156)	183
Transfer of the gross amount of receivables from Stage 3	1	1 120	(1 121)	76	160	(236)
2020						
Transfer of the gross amount of receivables from Stage 1	(19 974)	15 147	4 827	(4 245)	3 938	307
Transfer of the gross amount of receivables from Stage 2	1 796	(3 539)	1 743	2 814	(3 073)	259
Transfer of the gross amount of receivables from Stage 3	27	74	(101)	135	85	(220)

(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 („VaR") 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 2021	Average for 2021	At 31 Dec 2020	Average for 2020
	Czech Republic		Czech Republic	
VaR of Financial assets at fair value through profit or loss Held for trading	16,99	13,16	30,52	30,72
VaR of Financial assets at fair value through other comprehensive income	98,85	70,93	101,02	77,41
	Slovakia		Slovakia	
VaR of Financial assets at fair value through profit or loss Held for trading	0,47	1,08	0,64	1,36
VaR of Financial assets at fair value through other comprehensive income	–	–	–	0,57

COVID-19 impacts on Market Risk

As far as Market Risk is concerned, the abrupt market movements and the increased market volatility triggered at beginning of 2020 by the outbreak of COVID-19 resulted in a general increase in both managerial and regulatory risk measurement metrics. Loss Warning Limit was hit in the first COVID-19 wave. The evolution of the crisis and the related risk metrics development is under strict monitoring by both risk and business functions. Positions in the Trading Book were significantly reduced.

During 2020 market parameters were more volatile and interest rates dropped back to its minimum levels. However, since the beginning of 2021, interest rates have been rising again, mainly in connection with the improving situation with COVID-19, rising inflation and positive economic news.

Value at Risk

Starting from March 2020, the VaR sharply increased, due to the massive increase of volatility in the markets in different asset classes in the course of uncertainty around the Coronavirus crisis. Later when positions were reduced VaR limit utilization dropped and stayed at low levels for the rest of the year. Due to the used VaR calculation method using the historical window of 250 days, the initial volatility of the market caused by COVID situation has begun to vanish in from Q2 2021 (VaR declined) and trading is not anymore restricted in any way.

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 overall interest rate position of the Bank is measured primarily by calculating the sensitivity of the change in the fair value of the portfolio to a shift in interest rates by one basis point (BP01). Interest rate sensitivity is measured with a breakdown by time period and individually by currency. Different interest rate risks related to individual currencies are offset within individual time buckets and aggregate short and long positions. The main positions are represented by CZK and EUR.

The utilization of the base point value (BP01) remained generally stable during the period considered.

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 monthly following stress scenarios:

- Bank calculates simulated impact to Economic Value of Equity ("EVE") under stress scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.
- Bank calculates the impact to Net Interest Income ("NII") under stress scenarios of significant movements in financial markets

Both stress tests are on a monthly basis compared to set of RAF Limits

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.

EVE stress test

EVE, ie the economic value of equity, is calculated as the present value of all cash flows of assets decreased by the present value of all cash flows of liabilities. In other words, it is the net present value ("NPV") of all the Bank's future cash flows.

The stress test aims to express the increase / decrease of this net NPV depending on the shock change of market factors and to compare the decrease of NPV with the set limits (internal and regulatory).

The standard stress scenario corresponds to a various shifts in the interest yield curve required by regulators including:

- EBA +200/–200 basis points shift,
- Supervisory outlier test ("SOT"): Parallel Up, Parallel Down, Flattening, Steepening, Rates Up or Down

The following table shows the impact of the stress scenarios on the Bank's EVE results. The Bank uses the euro as the base currency for stress testing results.

Economic Value of Equity 2021								
	Stress test based on EBA (% impact on Equity) 2021		**SOT test (% impact on Tier 1) 2021**					
	EV+200	EV–200	Parallel up	Parallel down	Flattening	Steepening	Rates up	Rates down
Maximal impact of the stress test	–6,80%	5,40%	–6,80%	5,40%	–0,90%	2,40%	–3,00%	2,60%
Minimal impact of the stress test	–11,70%	2,30%	–11,70%	2,40%	–3,80%	–0,20%	–5,90%	1,90%
Average impact of the stress test	–9,70%	3,90%	–9,80%	4,00%	–2,10%	1,10%	–4,50%	2,20%
RAF Limit (31/12/2021)	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%	–12,50%

Economic Value of Equity 2020								
	Stress test based on EBA (% impact on Equity) 2020		**SOT test (% impact on Tier 1) 2020**					
	EV+200	EV–200	Parallel up	Parallel down	Flattening	Steepening	Rates up	Rates down
Maximal impact of the stress test	–3,70%	5,60%	–3,70%	5,60%	0,00%	0,10%	–0,50%	2,40%
Minimal impact of the stress test	–8,70%	2,40%	–8,70%	2,40%	–1,70%	–1,60%	–4,10%	0,60%
Average impact of the stress test	–6,30%	4,10%	–6,30%	4,10%	–0,60%	–0,70%	–1,80%	1,70%
RAF Limit (31/12/2020)	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%	–10,50%

NII stress test
The two main stress scenarios correspond to a parallel shift in the yield curve UP by 100 basis points and DOWN by –100 (or –30 for currencies with already negative rates) basis points for all currencies (CZK, EUR, USD).

Additional stress scenarios represent various market changes, for example parallel shifts +200/–200 basis points.

The following table shows the impact of these two main scenarios on the bank NII as a percentage portion against the Budgeted NII.

	RAF Parallel Up	RAF Parallel Down	NII +200bps	NII –200bps
Net interest income (% impact on NII budget) 2021				
Maximal impact of the stress test	18,50%	17,20%	5,80%	6,20%
Minimal impact of the stress test	10,80%	–8,40%	3,70%	–3,40%
Average impact of the stress test	14,50%	1,90%	4,80%	2,10%
RAF Limit	–9,00%	–9,00%	–	–
Net interest income (% impact on NII budget) 2020				
Maximal impact of the stress test	12,60%	12,70%	–	–
Minimal impact of the stress test	4,60%	–10,60%	–	–
Average impact of the stress test	9,20%	2,40%	–	–
RAF Limit	–9,00%	–9,00%	–	–

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 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.

	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
31 Dec 2021				
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	34 776	4 911	1 426	(58)
Portfolio fair value hedges				
Interest rate risk – see “B” below	10 572	99 564	(5 652)	623
31 Dec 2020				
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	29 796	–	1	–
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(81 711)	–	(1 636)

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

- Loans presented in the line “*Financial assets at amortised cost, of which: Loans and advances to customers*” and
- 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:

	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
31 Dec 2021			
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(1 529)	1 529	–
Portfolio fair value hedges			
Interest rate risk	6 624	(6 624)	–
31 Dec 2020			
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(46)	46	–
Portfolio fair value hedges			
Interest rate risk	(527)	527	–

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:

	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 2021					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(7 476)	(65)	(8 247)	(8 247)	–
31 Dec 2020					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	592	121	767	767	–

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, point 33. Contingent liabilities, contingent assets and financial derivatives.

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") has taken 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.

The Bank's main contract with variable interest rates based on interest rate benchmarks other than PRIBOR or EURIBOR were indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Although US dollar LIBOR was planned to be discontinued by the end of 2021, in March 2021 the ICE Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, announced that certain USD LIBOR settings (i.e., the overnight and the one-, three-, six- and 12-month settings) will cease to be published after 30 June 2023. Other LIBOR settings (i.e. all GBP, EUR, CHF and JPY LIBOR settings and the one-week and two-month USD LIBOR settings) will cease to be published after 31 December 2021.

Nevertheless, the Bank had finished the process of implementing appropriate fallback provisions (i.e. definition of the steps that should be taken to agree a new reference rate if the reference rate in the transaction is no longer available) for all LIBOR indexed exposures by the end of 2021.

<u>Impact of the Interest Rate Benchmark Reform on the Bank's hedge relationships</u>

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.

On 13 January 2021 the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 ("the Phase 2 Amendment") have been endorsed by the European Commission for use in EU. The EU effective start date for the Phase 2 Amendment is the annual period beginning on or after 1 January 2021. The Phase 2 Amendment address issues arising during interest rate benchmark reform, including specifying when the Amendment will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The Bank applied the Phase 2 Amendment retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Bank had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as of 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

The Phase 2 Amendment provides following hedge accounting reliefs:

- Hedge designation: When the phase 1 amendments cease to apply, the Bank will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:

a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
c) amending the description of the hedging instrument.

The Bank will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Bank to discontinue its hedge relationships.

The Bank has not made any amendments to its hedge documentation in the reporting period relating to IBOR reform.

- Hedges of groups of items:

When amending hedges for groups of items (such as the fair value hedge of interest rate risk within the mortgage portfolio) for IBOR reform, hedged items are allocated to sub-groups within that hedge designation, based on the benchmark rate being hedged for that sub-group. The benchmark rate for each sub-group is designated as the hedged risk.

The Bank has not needed to amend hedges for groups of items during the reporting period.

- Retrospective effectiveness test:

When the Amendment retrospective effectiveness relief ceases to apply, on a hedge-by-hedge basis, the Bank could reset to zero the cumulative fair value changes of the hedged item and hedging instrument for the purposes of the 80–125% 'pass / fail' hedge effectiveness test. However, this does not affect the amounts of hedge ineffectiveness reported in the income statement.

During the period, the Bank has not reset to zero the cumulative fair value changes of the hedged item and hedging instrument in any of its hedges.

- Risk components:

The Bank is permitted to designate an alternative benchmark rate as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the Bank reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the Bank might designate.

During the period, the Bank has not designated any risk components of alternative benchmark rates in any hedge relationships.

Bank's contract involving other IBORs are represented by those with USD LIBOR settings that will cease to be published after 30 June 2023 (i.e., the overnight and the one-, three-, six- and 12-month settings) and therefore there is no impact for the fiscal year ended 31 December 2021 as there are no hedge transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2021.

The Bank's hedge relationships with interest rate benchmark affected by IBOR reform (i.e. USD LIBOR settings as mentioned above) whose

- notional value represents 2,4% of total notional value and
- fair value represents 1,9% of total positive and negative fair value of all hedging instruments as of 31 December 2021 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.

Impact of the Interest Rate Benchmark Reform on the Bank's Financial instruments measured at amortised cost and lease liabilities

The Phase 2 Amendment requires that, for financial instruments measured at amortised cost, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. A similar practical expedient exists for lease liabilities (see below). These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain / loss recognised immediately in the income statement where the instrument is not derecognised).

For lease liabilities where there is a change to the basis for determining the contractual cash flows, the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform. If lease modifications are made in addition to those required by IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification.

The Bank's contract with interest rate benchmark affected by IBOR reform (i.e. USD LIBOR settings as mentioned above) are in following

accountings portfolio with stated carrying amount as of 31 December 2021:

- Financial assets at amortised cost – loans and advances to customers and banks of MCZK 1 085
- Financial liabilities at amortised cost – deposits from customers and banks of MCZK 4 637

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 2021						
Cash and cash balances	1 826	2 836	568	44	473	5 747
Financial assets at fair value through profit or loss, *of which:*	34 020	626	544	–	–	35 190
Held for trading	34 020	626	–	–	–	34 646
Mandatorily at fair value	–	–	544	–	–	544
Financial assets at fair value through other comprehensive income	10 236	11 566	–	–	–	21 802
Financial assets at amortised cost *of which:*	324 908	264 915	2 218	7	108	592 156
Loans and advances to banks	103 409	18 233	196	–	–	121 838
Loans and advances to customers	221 499	246 682	2 022	7	108	470 318
Positive fair value of hedging derivatives	12 502	–	–	–	–	12 502
Changes in fair value of the portfolio of hedged instruments	(366)	–	–	–	–	(366)
Equity investments	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 466	971	–	–	–	3 437
Intangible assets	2 052	577	–	–	–	2 629
Tax receivables	1 853	546	–	–	–	2 399
Non-current assets held for sale	–	8	–	–	–	8
Other assets	556	326	17	–	14	913
Total assets	**394 032**	**282 371**	**3 347**	**51**	**595**	**680 396**
Financial liabilities at fair value through profit or loss, *of which:*	35 135	–	–	–	–	35 135
Held for trading	35 135	–	–	–	–	35 135
Financial liabilities at amortised cost *of which:*	308 179	218 250	12 571	602	3 714	543 316
Deposits from banks	3 713	46 169	20	–	–	49 902
Deposits from customers	298 763	154 246	12 551	602	3 714	469 876
Debt securities issued	5 703	17 835	–	–	–	23 538
Negative fair value of hedging derivatives	22 065	–	–	–	–	22 065
Changes in fair value of the portfolio of hedged instruments	(5 652)	257	–	–	–	(5 395)
Tax liabilities	–	45	–	–	–	45
Other liabilities	2 131	3 208	416	4	178	5 937
Provisions for risks and charges	598	671	29	9	25	1 332
Equity	64 072	13 597	106	–	186	77 961
Total liabilities and equity	426 528	236 028	13 122	615	4 103	680 396
Gap	(32 496)	46 343	(9 775)	(564)	(3 508)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2020						
Cash and cash balances	2 337	2 978	563	250	1 052	7 180
Financial assets at fair value through profit or loss, *of which:*	15 896	646	540	–	–	17 082
Held for trading	15 896	646	–	–	–	16 542
Mandatorily at fair value	–	–	540	–	–	540
Financial assets at fair value through other comprehensive income	11 434	9 084	–	–	–	20 518
Financial assets at amortised cost *of which:*	335 351	242 626	1 411	7	591	579 986
Loans and advances to banks	124 552	9 067	203	0	0	133 822
Loans and advances to customers	210 799	233 559	1 208	7	591	446 164
Positive fair value of hedging derivatives	10 398	–	–	–	–	10 398
Equity investments	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 587	1 004	–	–	–	3 591
Intangible assets	1 899	453	–	–	–	2 352
Tax receivables	737	595	–	–	–	1 332
Non-current assets held for sale	–	40	–	–	–	40
Other assets	857	1 252	13	–	10	2 132
Total assets	**385 475**	**258 678**	**2 527**	**257**	**1 653**	**648 590**
Financial liabilities at fair value through profit or loss, *of which:*	16 812	–	–	–	–	16 812
Held for trading	16 812	–	–	–	–	16 812
Financial liabilities at amortised cost *of which:*	278 441	234 085	13 405	624	3 375	529 930
Deposits from banks	3 411	91 483	53	–	3	94 950
Deposits from customers	267 945	139 629	13 352	624	3 372	424 922
Debt securities issued	7 085	2 973	–	–	–	10 058
Negative fair value of hedging derivatives	7 465	–	–	–	–	7 465
Changes in fair value of the portfolio of hedged instruments	855	781	–	–	–	1 636
Tax liabilities	–	–	–	–	–	–
Other liabilities	4 926	3 178	562	1	71	8 738
Provisions for risks and charges	489	917	29	9	26	1 470
Equity	65 028	17 068	257	–	186	82 539
Total liabilities and equity	374 016	256 029	14 253	634	3 658	648 590
Gap	11 459	2 649	(11 726)	(377)	(2 005)	–

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 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 monthly or a weekly basis respectively (based on the development of liquidity indicators or in the case of "liquidity attention phase" activation). 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.

COVID-19 impacts on Liquidity Risk
The bank responded to the outbreak of the pandemic with strengthening of the liquidity buffer, to be able to balance potentially higher liquidity outflows through higher utilization of undrawn credit facilities, deposits outflow and reduced liquidity inflows caused by the various moratoria. At the same time the business continuity management plans were activated in order to ensure the regular execution of Treasury activities and the proper information flows to the senior management and the Supervisors. Utilization of the ECB facilities helped the Bank to reduce the reliance on intragroup funding.

Even though the Bank has not so far experienced any extraordinary outflow on deposits or undrawn credit facilities and the liquidity flows in financial markets normalized, the Bank keeps its liquidity buffer at a higher level compared to the pre-pandemic period because the continuous uncertainty regarding the future evolution of the pandemic might quickly resume higher volatility in financial markets.

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 2021							
Cash and cash balances	5 747	5 747	5 533	–	–	211	3
Financial assets at fair value through profit or loss, *of which:*	35 190	35 255	2 788	3 137	14 029	15 301	–
– held for trading debt and equity instruments	1 005	1 070	3	28	416	623	–
– held for trading derivatives	33 641	33 641	2 785	3 109	13 613	14 134	–
– mandatorily at fair value	544	544	–	–	–	544	–
Financial assets at fair value through other comprehensive income	21 802	23 227	73	2 120	7 739	13 295	–
Financial assets at amortised cost *of which:*	592 156	635 383	167 866	69 581	191 467	203 486	2 983
Loans and advances to banks	121 838	121 913	118 043	105	3 765	–	–
Loans and advances to customers	470 318	513 470	49 823	69 476	187 702	203 486	2 983
Positive fair value of hedging derivatives	12 502	12 502	148	702	4 855	6 797	–
Changes in fair value of the portfolio of hedged instruments	(366)	(366)	(366)	–	–	–	–
Equity investments	3 979	3 979	–	–	–	3 979	–
Property, equipment and right of use assets	3 437	3 437	–	–	–	3 437	–
Intangible assets	2 629	2 629	–	–	–	2 629	–
Tax receivables	2 399	2 399	341	0	1 984	–	–
Non-current assets held for sale	8	8	8	–	–	–	–
Other assets	913	913	554	359	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	35 135	35 135	4 145	3 344	13 580	14 066	–
– held for trading debt instruments	1 065	1 065	1 065	–	–	–	–
– held for trading derivatives	34 070	34 070	3 080	3 344	13 580	14 066	–
Financial liabilities at amortised cost *of which:*	543 316	544 600	464 526	14 193	47 115	18 622	144
Deposits from banks	49 902	49 454	9 253	(168)	39 169	1 057	143
Deposits from customers, *of which:*	469 876	469 990	454 968	12 957	1 170	894	1
Lease liabilities	2 254	2 308	157	255	1 041	855	–
Other than lease liabilities	467 622	467 682	454 811	12 702	129	39	1
Debt securities issued	23 538	25 156	305	1 404	6 776	16 671	–
Negative fair value of hedging derivatives	22 065	22 065	371	803	9 077	11 814	–
Changes in fair value of the portfolio of hedged instruments	(5 395)	(5 395)	(5 395)	–	–	–	–
Tax liabilities	45	45	28	–	–	–	17
Other liabilities	5 937	5 937	4 189	1 748	–	–	–
Provisions for risks and charges	1 332	1 332	117	169	584	377	85
Equity	77 961	77 961	(34)	6 115	1	71 879	–
Undrawn loan facilities	47 833	47 833	5 612	10 938	27 055	4 213	15
Bank guarantees	161 622	161 622	5 277	23 122	39 426	93 797	–

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspecified.
At 31 Dec 2020							
Cash and cash balances	7 180	7 180	7 180	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	17 082	17 117	1 244	2 741	7 903	5 117	112
– held for trading debt and equity instruments	1 034	1 069	20	74	111	864	–
– held for trading derivatives	15 508	15 508	1 224	2 667	7 792	3 713	112
– mandatorily at fair value	540	540	–	–	–	540	–
Financial assets at fair value through other comprehensive income	20 518	21 583	590	2 925	10 582	7 486	–
Financial assets at amortised cost *of which:*	579 986	616 332	178 871	63 695	188 941	181 123	3 702
Loans and advances to banks	133 822	137 627	129 595	686	6 640	680	22
Loans and advances to customers	446 164	478 709	49 276	63 009	182 301	180 443	3 680
Positive fair value of hedging derivatives	10 398	10 398	94	156	3 989	6 159	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	3 591	3 591	–	–	–	–	3 591
Intangible assets	2 352	2 352	–	–	–	–	2 352
Tax receivables	1 332	1 332	756	–	571	–	5
Non-current assets held for sale	40	40	–	–	–	40	–
Other assets	2 132	2 132	1 556	568	8	–	–
Financial liabilities at fair value through profit or loss, *of which:*	16 812	16 812	3 714	2 285	6 649	4 053	111
– held for trading debt instruments	2 115	2 115	2 115	–	–	–	–
– held for trading derivatives	14 697	14 697	1 599	2 285	6 649	4 053	111
Financial liabilities at amortised cost *of which:*	529 930	531 094	462 915	15 793	49 493	2 758	135
Deposits from banks	94 950	95 025	44 287	9 420	39 795	1 389	134
Deposits from customers, *of which:*	424 922	424 708	417 971	4 027	1 595	1 114	1
Lease liabilities	2 436	2 480	91	264	1 051	1 074	–
Other than lease liabilities	422 486	422 228	417 880	3 763	544	40	1
Debt securities issued	10 058	11 361	657	2 346	8 103	255	–
Negative fair value of hedging derivatives	7 465	7 465	461	419	3 246	3 339	0
Changes in fair value of the portfolio of hedged instruments	1 636	1 636	1 636	–	–	–	–
Tax liabilities	–	–	–	–	–	–	–
Other liabilities	8 738	8 738	6 998	1 735	–	–	5
Provisions for risks and charges	1 470	1 470	291	220	386	498	75
Equity	82 539	82 539	(3)	5 210	1	77 349	(18)
Undrawn loan facilities	46 575	46 575	3 995	13 054	25 468	4 053	5
Bank guarantees	140 852	140 852	4 647	26 055	31 514	78 636	–

(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 Non-Financial Risks and Control 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 2021 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. 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 2021, 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.

COVID-19 impacts on Operational Risk

In terms of risk management in 2021, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of the COVID-19. Analysis were carried out in order to identify risks arising from process changes adopted time by time to protect the health of employees and customers.

(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.

In 2021, the Bank has received from the Czech National Bank the decision on intermediate and "fully loaded" target amounts of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), implemented through Act No. 374/2015 Coll.

- The levels of MREL are expressed based on risk-weighted assets and the leverage ratio (higher levels calculated using the two approaches will represent a limiting factor).

The Bank successfully issued its first MREL instruments in 2021 to be compliant with an intermediate target from 1 January 2022 as set by the Czech National Bank. MREL will become a "fully loaded" requirement as of 1 January 2024. Further details are provided in section V. Other Notes, point 24.

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 2021 and as of 31 December 2020 is stated in the Annual Report, part "Separate financial highlights".

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 2021	31 Dec 2020
Assets		
Cash and cash balances	522	893
Loans and advances to banks	9 315	972
Financial assets held for trading	18 592	4 576
Positive fair value of hedging derivatives	4 768	2 460
Total	**33 197**	**8 901**

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Bank adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*". In prior year these balances were reported in line *"Loans and advances to banks"* in total amount of MCZK 893.

	31 Dec 2021	31 Dec 2020
Liabilities		
Deposits from banks	1 557	48 926
Debt instruments	16 418	–
Financial liabilities held for trading	18 584	4 390
Negative fair value of hedging derivatives	12 560	1 774
Total	**49 119**	**55 090**
Off-balance sheet items		
Issued guarantees	564	570
Irrevocable credit facilities	1 107	789
Total	**1 671**	**1 359**

	2021	2020
Interest income	640	279
Interest expense	(4)	(19)
Fee and commission income	1	1
Fee and commission expenses	(2)	(4)
Net profit/loss from financial assets and liabilities held for trading	(1 044)	202
Net profit/loss from hedging of the risk of change in fair values	(3 257)	(260)
Administrative expenses	(59)	(62)
Total	**(3 725)**	**137**

(b) Transactions with subsidiaries

	31 Dec 2021	31 Dec 2020
Assets		
Loans and advances to customers	37 798	38 772
of which:		
UniCredit Leasing CZ, a.s.	24 855	24 527
UniCredit Leasing Slovakia, a.s.	10 036	10 827
UniCredit Fleet Management, s.r.o. (CZ)	38	61
UniCredit Factoring Czech Republic and Slovakia, a.s.	2 406	2 190
HVB Leasing Czech Republic s.r.o.	166	827
Positive fair value of hedging derivatives	160	–
of which:		
UniCredit Leasing CZ, a.s.	160	–
Total	**37 958**	**38 772**
Liabilities		
Deposits from customers	34	363
of which:		
UniCredit Leasing Slovakia, a.s.	3	339
UniCredit pojišťovací makléřská spol. s r.o.	15	18
Negative fair value of hedging derivatives	310	–
of which:		
UniCredit Leasing CZ, a.s.	304	–
Total	**344**	**363**

	31 Dec 2021	31 Dec 2020
Off-balance sheet items		
Issued guarantees	–	1
of which:		
UniCredit Factoring Czech Republic and Slovakia, a.s.	–	1
Irrevocable credit facilities	2 455	1 823
of which:		
UniCredit Leasing CZ, a.s.	1 344	307
UniCredit Fleet Management, s.r.o. (CZ)	37	14
UniCredit Factoring Czech Republic and Slovakia, a.s.	698	1 107
UniCredit Leasing Slovakia, a.s.	135	167
Total	**2 455**	**1 824**

	2021	2020
Interest income	319	373
of which:		
UniCredit Leasing CZ, a.s.	267	320
UniCredit Leasing Slovakia, a.s.	16	33
Interest expense	(30)	(8)
of which:		
UniCredit Leasing Slovakia, a.s.	(26)	(8)
Fee and commission income	31	29
of which:		
UniCredit Leasing CZ, a.s.	17	14
UniCredit Leasing Slovakia, a.s.	12	11
Fee and commission expense	–	(2)
of which:		
UniCredit Leasing CZ, a.s.	–	(2)
General administrative expenses	(1)	(1)
of which:		
UniCredit Fleet Management, s.r.o. (CZ)	(2)	(3)
UniCredit Fleet Management, s.r.o. (SK)	(1)	(1)
Total	**319**	**391**

(c) Transactions with key management members

	31 Dec 2021	31 Dec 2020
Assets		
Loans and advances to customers	174	147
of which:		
Board of Directors	33	20
Other management members	141	127
Total	**174**	**147**
Liabilities		
Deposits from customers	117	133
of which:		
Board of Directors	26	47
Other management members	91	86
Total	**117**	**133**
Off-balance sheet items		
Irrevocable credit facilities	4	3
of which:		
Board of Directors	1	1
Other management members	3	2
Total	**3**	**3**

(d) Transactions with other related parties

	31 Dec 2021	31 Dec 2020
Assets		
Cash and cash balances	320	829
of which:		
UniCredit Bank Austria AG	277	639
AO UniCredit Bank	12	50
Financial assets held for trading	5 279	2 888
of which:		
UniCredit Bank AG	5 279	2 888
Loans and advances to banks	54	46
of which:		
UniCredit Bank Austria AG	–	46
AO UniCredit Bank	54	–
Loans and advances to customers	397	707
of which:		
UCTAM Czech Republic s.r.o.	–	288
UCTAM SVK, s.r.o	397	419
Positive fair value of hedging derivatives	5 691	5 706
of which:		
UniCredit Bank AG	5 691	5 706
Total	**11 741**	**10 176**

In 2021, to closer represent the substance of items included in the line *"Cash and cash balances"* the Bank adjusted the presentation of current accounts and sight deposits toward banks from line "*Financial assets at amortised cost: Loans and advances to banks*" to line "*Cash and cash balances*". In prior year these balances were reported in line *"Loans and advances to banks"* in total amount of MCZK 829.

	31 Dec 2021	31 Dec 2020
Liabilities		
Deposits from banks	4 451	1 281
of which:		
UniCredit Bank Austria AG	1 572	178
UniCredit Bank AG	2 795	41
UniCredit Bank Hungary Zrt.	28	995
Deposits from customers	102	224
of which:		
UniCredit Services S.C.p.A.	67	91
Financial liabilities held for trading	3 920	3 792
of which:		
UniCredit Bank AG	3 920	3 792
Negative fair value of hedging derivatives	5 005	4 191
of which:		
UniCredit Bank AG	5 005	4 191
Total	**13 478**	**9 488**

	31 Dec 2021	31 Dec 2020
Off-balance sheet items		
Issued guarantees	3 457	1 537
of which:		
UniCredit Bank AG	3 065	1 336
UniCredit Bank Austria AG	163	113
UniCredit Bank Hungary Zrt.	11	5
AO UniCredit Bank	109	36
Irrevocable credit facilities	4 459	992
of which:		
UniCredit Bank AG	3 342	517
UniCredit Bank Austria AG	1 070	–
Total	**7 916**	**2 529**

	2021	2020
Interest income	516	32
of which:		
UniCredit Bank AG	503	4
UniCredit Bank Austria AG	3	12
Interest expense	(15)	(203)
of which:		
UniCredit Bank AG	(3)	(188)
UniCredit Bank Austria AG	(12)	(13)
Fee and commission income	63	64
of which:		
UniCredit Bank AG	43	47
UniCredit Bank Hungary Zrt.	2	2
UniCredit Bank Austria AG	15	13
Fee and commission expenses	(10)	(10)
of which:		
UniCredit Bank Austria AG	(5)	(5)
Net profit/loss from financial assets and liabilities held for trading	1 203	46
of which:		
UniCredit Bank AG	1 203	46
Net profit/loss from hedging against risk of changes in fair value	(578)	421
of which:		
UniCredit Bank AG	(578)	421
Administrative expenses	(896)	(909)
of which:		
UniCredit Services S.C.p.A.	(918)	(888)
Total	**283**	**(559)**

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 2021				
Debt securities	756	248	1	1 005
Derivatives	34	33 360	247	33 641
Total	**790**	**33 608**	**248**	**34 646**
31 Dec 2020				
Debt securities	518	516	–	1 034
Derivatives	32	15 259	217	15 508
Total	**550**	**15 775**	**217**	**16 542**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Shares and Other debt securities	–	277	267	544
Total	**–**	**277**	**267**	**544**
31 Dec 2020				
Shares and Other debt securities	–	277	263	540
Total	**–**	**277**	**263**	**540**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Debt securities	16 974	4 747	61	21 782
Shares	–	–	20	20
Total	**16 974**	**4 747**	**81**	**21 802**
31 Dec 2020				
Debt securities	18 006	2 441	64	20 511
Shares	–	–	7	7
Total	**18 006**	**2 441**	**71**	**20 518**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Fair value hedging	–	2 370	–	2 370
Cash flow hedging	–	10 132	–	10 132
Total	**–**	**12 502**	**–**	**12 502**
31 Dec 2020				
Fair value hedging	–	2 425	–	2 425
Cash flow hedging	–	7 973	–	7 973
Total	**–**	**10 398**	**–**	**10 398**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Liabilities from short sales	1 065	–	–	1 065
Derivatives	–	33 818	252	34 070
Total	**1 065**	**33 818**	**252**	**35 135**
31 Dec 2020				
Liabilities from short sales	2 115	–	–	2 115
Derivatives	–	14 473	224	14 697
Total	**2 115**	**14 473**	**224**	**16 812**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Fair value hedging	–	5 855	–	5 855
Cash flow hedging	–	16 210	–	16 210
Total	**–**	**22 065**	**–**	**22 065**
31 Dec 2020				
Fair value hedging	–	745	–	745
Cash flow hedging	–	6 720	–	6 720
Total	**–**	**7 465**	**–**	**7 465**

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 customers are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2021					
Financial assets					
Loans and advances to banks	121 838	121 838	–	98 792	23 046
Loans and advances to customers	470 318	450 975	1 455	225 624	223 896
Financial liabilities					
Deposits from banks	49 902	50 431	–	42 503	7 928
Deposits from customers	469 876	469 857	–	528	469 329
Debt securities issued	23 538	22 966	–	22 966	–

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2020					
Financial assets					
Loans and advances to banks	133 822	133 859	–	117 693	16 166
Loans and advances to customers	446 164	437 959	–	116 893	321 066
Financial liabilities					
Deposits from banks	94 950	94 676	–	50 717	43 959
Deposits from customers	424 922	424 879	–	590	424 289
Debt securities issued	10 058	10 362	–	10 362	–

For the year ended 31 December 2021 and 31 December 2020, no financial assets reported at fair value were transferred between Levels 1 and 2.

For the years ended 31 December 2021 and 31 December 2020, 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				
Opening balance at 1 Jan 2020	**112**	**487**	**71**	**–**	**849**	**1 519**
Revaluation gains and losses						
In the income statement	–	53	–	–	(1)	52
In other comprehensive income	–	–	–	–	(12)	(12)
Purchases	81	–	–	–	43	124
Sales/maturity	–	–	–	–	–	–
Transfers from/to other levels	63	(277)	–	–	–	(214)
Depreciation	n/a	n/a	n/a	n/a	(31)	(31)
Other	(39)	–	–	–	12	(27)
Closing balance at 31 Dec 2020	**217**	**263**	**71**	**–**	**860**	**1 411**
Total revaluation gains and losses included in the income statement for the period:						52
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						52

	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 2021	**217**	**263**	**71**	**–**	**860**	**1 411**
Revaluation gains and losses						
In the income statement	–	(12)	–	–	2	(10)
In other comprehensive income	–	–	1	–	(37)	(36)
Purchases	132	–	13	–	78	223
Sales/maturity	(49)	–	–	–	–	(49)
Transfers from/to other levels	(115)	–	–	–	–	(115)
Depreciation	n/a	n/a	n/a	n/a	(33)	(33)
Other	63	16	(4)	–	(44)	31
Closing balance at 31 Dec 2021	**248**	**267**	**81**	**–**	**826**	**1 422**
Total revaluation gains and losses included in the income statement for the period:						(10)
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						(10)

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 2020	**85**	**–**	**85**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	87	–	87
Sales/maturity	–	–	–
Transfers from/to other levels	75	–	75
Other	(23)	–	(23)
Closing balance at 31 Dec 2020	**224**	**–**	**224**
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 2021	**224**	**–**	**224**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	131	–	131
Sales/maturity	(49)	–	(49)
Transfers from/to other levels	(115)	–	(115)
Other	61	–	61
Closing balance at 31 Dec 2021	**252**	**–**	**252**
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	Potential amounts available for offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2021						
Derivatives	45 900	–	45 900	33 258	–	12 642
31 Dec 2020						
Derivatives	19 640	–	19 640	17 172	–	2 468

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 Financial instruments	Provided cash collateral	Net amount
31 Dec 2021						
Derivatives	35 342	–	35 342	33 258	–	2 084
31 Dec 2020						
Derivatives	21 250	–	21 250	17 172	–	4 078

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.

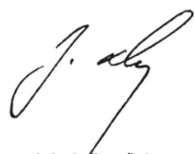
The Bank is carefully monitoring current COVID-19 development and taking all necessary precautions in line with current development and government measures.

The ongoing evolvement of current geopolitical situation in Eastern Europe and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Bank and its Group have been closely monitoring the events that have been playing out over the past weeks. For the Bank and for UniCredit as a Group, we continue to thoroughly assess the developments, in full cooperation with regulators, with dedicated cross expert teams who have defined robust and tested contingency plans. The Bank will carefully evaluate further developments.

The Bank has reviewed its portfolios to identify assets with direct exposure to Ukraine and/or Russia and concluded that direct exposure is limited. However, the impact on general economic situation may require revision of certain assumptions and estimates and may lead to certain adjustments to the carrying value of some assets and liabilities within the next financial year magnitude of which is currently impossible to assess as events are unfolding day by day. In particular, the management expects the assumptions and estimates used in determining expected credit losses to be affected as the Bank's portfolio of Loans to customers is exposed in various degrees to direct impacts as well as indirect impacts such as increased energy prices and supply chain disruptions.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 15 March 2022.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 16 March 2021.



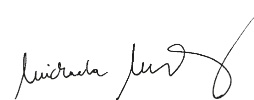
Jakub Dusílek
Chairman of the Board
of Directors

Massimo Francese
Member of the Board
of Directors

Individual in charge
of the accounting records

Lea Branecká

Individual in charge
of the financial statements



Michaela Mrštíková

CZECH GAS NETWORKS INVESTMENTS

Czech Gas Networks Investments S.à.r.l. (CGNI) is the parent company of the Czech Grid Holding a.s., the owner and operator of the **largest fully regulated natural gas distribution network** in the Czech Republic, which covers more than 80% of the country's energy market and is provided by two companies – GasNet and GasNet Služby.

Given its strong commitment to ESG and the adjustments needed to its network assets and renewal strategy to **reach net-zero by 2050**, CGNI was looking to optimise its debt capital structure using its Green Finance Framework, which is closely aligned to the EU's Taxonomy Regulation.

CGNI's aim was to find the best balance between debt capital markets and bank loans, and the financing of eligible green projects.
This led to the issuance of its inaugural **€500 million 8-year Green Bond in September 2021 with UniCredit as Joint Bookrunner**.

The debut Green Bond proceeds raised will be used for financing and refinancing purposes with a focus on the retrofit of the company's existing gas network to make it compatible for the distribution of hydrogen and other low-carbon gases.

A key feature in the retrofit of local networks, covering circa 49,000 km is the replacement of steel for polyethylene pipelines, to **enable the distribution of clean energy in more than 3,800 municipalities**. In addition, the proceeds will also be used for various energy efficiency improvements planned across CGNI's buildings.

Thomas Merker, **CFO Czech Gas Networks Investments S.à.r.l.** commented: "Sustainability and transformation to a low-carbon environment are key drivers for our future and our business strategies. It has been an honour and privilege to cooperate with the UniCredit Bank team on this strategic Green Bond transaction. Thank you for their professional knowledge and expertise to succeed".

Auditor's report on the annual report

The report below represents the auditor's report that relates solely and exclusively to the official annual report prepared in the XHTML format.

Deloitte.

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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 2021, 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 2021, 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 2021, 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 2021, 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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Key audit matter	Related audit procedures
Impairment of receivables from customers	
(Please refer to Note 15 to the Consolidated and Separate Financial Statements for the details)	
At 31 December 2021, gross receivables from customers (hereinafter "receivables") were CZK 494 412 million and CZK 479 536 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 11 063 million and CZK 9 218 million for the Group and the Company respectively were recorded. The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 3 084 million and CZK 2 613 million for the Group and for the Company respectively. The loan loss provision for impaired loans at Stage 3 represents CZK 7 979 million and CZK 6 605 million for the Group and for the Company respectively, out of the total recognised amount of CZK 11 063 million and CZK 9 218 million for the Group and for the Company respectively as at 31 December 2021	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 assessed the correctness of the classification and recognition of loan receivables with deferred payments related to government measures to mitigate the negative consequences of the COVID-19 pandemic in both Czech Republic and Slovakia. 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 both in relative and absolute sense and the relevant debtors and subjective judgments of the Bank. Loans classified as Stage 2 loans are deemed to have experienced significant increase in credit risk has occurred since their initial recognition determined based on assessment of: • 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 (i.e. 30 days past due), • Other factors with internal relevance for the Bank (e.g. new classifications as forbearance receivable and relative factors such as significant downgrade of internal rating since origination). Loans classified as Stage 3 loans are credit impaired receivables regarding which any of the following events have occurred: • The debtor is in default with payments for more than 90 days; • It is likely that the debtor will be unable to settle its payables on timely basis and in full without the Bank resorting to realising collateral.	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 relevant stages. 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 assessed the correctness of the classification of exposures to individual stages of impairment and 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 in Stage 3 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.

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 loans) based on past experience of probability of default and loss given default.

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;
   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 Bank reflects forward looking information in expected credit loss in two ways:
1) by adjusting historic value of probability of default and loss given default based on output of econometric model which takes into account multiple scenarios of future development of key macroeconomic variables such as GPD and unemployment growth
2) by incorporating impacts of specific risk factors to the portfolio such as impact of COVID-19 pandemic and resulting economic dislocation

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. High level of subjectivity and high degree of uncertainty regarding the Expected credit loss calculation result resulted in this matter being identified as a key audit matter.

Our credit risk experts assessed the amounts of provisions for Stage 1, Stage 2 and Stage 3 with exposure below EUR 1.0 million and Stage 1 and Stage 2 above 1 million EUR and reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default. On a sample of loans we verified correctness and appropriateness of input data used in the calculation models of the Bank.

As regards to incorporation of forward looking information into expected credit loss calculation we:

- assessed the macroeconomic scenarios used by the Bank in deriving forward looking adjustments to probability of default and loss given default (model inputs)
- assessed the appropriateness of the model
- assessed consistency of the outputs and their correct incorporation into expected credit loss
- Assessed adequacy of Bank's analysis of specific risk factors and subsequent adjustments made to the Expected Credit Loss Calculation

The overall conclusion was supported by an analysis performed at an overall portfolio level aimed to identify anomalies in:

a) Classification of loans to corresponding impairment stages, and
b) The provision amount calculated by the Bank.

Interest Income and Fee and Commission Income Recognition

(Please refer to Note 1 and Note 2 in Part V to the Consolidated and Separate Financial Statements for the details)

For the year ended 31 December 2021 the interest income represents CZK 15 305 million and CZK 13 863 million for the Group and for the Company respectively, and fee and commission income represents CZK 5 009 million and CZK 4 494 million for the Group and for the Company respectively, the main source being loans to customers, accounts administration and payment cards. These transactions are the main contributors to the operating income of the Bank affecting the Bank's profitability.

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.

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 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 2021 which is included in this annual report on pages 236 to 243. 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 2021 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:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the sole shareholder on 14 April 2021 and our total uninterrupted engagement including previous renewals has lasted for 9 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 March 2022 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.

Report on Compliance with the ESEF Regulation

We have conducted a reasonable assurance engagement on the verification of compliance of the financial statements included in the annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical

standards on the specification of a single electronic reporting format (the "ESEF Regulation") that apply to the financial statements.

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of the financial statements in compliance with the ESEF Regulation. Inter alia, the Company's Board of Directors is responsible for:

- The design, implementation and maintenance of the internal control relevant for the application of the requirements of the ESEF Regulation;
- The preparation of all financial statements included in the annual report in the valid XHTML format; and
- The selection and use of XBRL mark-ups in line with the requirements of the ESEF Regulation.

Auditor's Responsibilities

Our task is to express a conclusion whether the financial statements included in the annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation, based on the audit evidence obtained. Our reasonable assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and scope of the selected procedures depend on the auditor's judgment. A reasonable assurance is a high level of assurance; however, it is not a guarantee that the examination conducted in accordance with the above standard will always detect a potentially existing material non-compliance with the requirements of the ESEF Regulation.

As part of our work, we performed the following procedures:

- We obtained an understanding of the requirements of the ESEF Regulation;
- We obtained an understanding of the Company's internal control relevant for the application of the requirements of the ESEF Regulation;
- We identified and evaluated risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- Based on this, we designed and performed procedures responsive to those risks and aimed at obtaining a reasonable assurance for the purposes of expressing our conclusion.

The aim of our procedures was to assess whether
- The financial statements included in the annual report were prepared in the valid XHTML format;
- The disclosures in the consolidated financial statements were marked up where required by the ESEF Regulation and all mark-ups meet the following requirements:
  - XBRL mark-up language was used;
  - The elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
  - The mark-ups comply with the common rules for mark-ups pursuant to the ESEF Regulation.

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

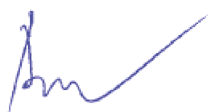
Conclusion

In our opinion, the Company's financial statements for the year ended 31 December 2021 included in the annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 15 March 2022

Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

David Batal
registration no. 2147

SUSTAINABLE APPROACH IN OUR PREMISES

At UniCredit, ESG is at the heart of everything that we do. Our sustainable approach to business ensures that our work has a positive impact on, and secures the future of, our communities and planet.

Our commitment to sustainability is reflected by our ongoing Green Real Estate initiative which focuses **on reducing our CO2 footprint to build a greener tomorrow**.

Over the past several years, we have run a series of **Energy Management** initiatives with the ambition of reducing energy consumption and waste across our premises. Across 1,100 branches in Italy and in Russia we have continued to modernise our buildings by installing remote HVAC and lighting management systems at our head offices.
We have also implemented lighting optimisation projects in Italy, Germany, Bulgaria, Bosnia, and Herzegovina, Romania, and Slovenia.

We are committed to using **green energy procurement** to guarantee that our total electricity consumption comes from a renewable source. We have already achieved this by 79% in Italy, Germany, and Austria. Additionally, we have and will continue to invest in making our data centres more energy efficient with a special focus on **Power Usage Efficiency**.

At UniCredit, we believe in the power of our industry and in the good it can do when functioning correctly.

This goes far beyond our offices and branches. We work in a way that will benefit all our stakeholders, including the world around us. That's why we enhanced our target to remove all **single-use plastic** items from our premises by the end of 2022 and we continue to educate our employees on **waste management**.

Finally, our ongoing **Mobility Initiatives** have also been adopted by our people across all of our European branches. In 2021, we installed bike stations in our buildings in Bulgaria, Russia, and Italy and recharging stations for electric vehicles were installed in Italy, Austria, and Germany.

We know that our commitment to sustainability and actions to support the environment expand well beyond our local communities. As a pan-European bank with over 15 million clients and 87,000 employees across the world, collectively, we truly believe that **our local impact can make a global difference**.

Supplementary information

published pursuant to Section 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended in the Czech Republic and to Section 34 of Act No. 429/2002 Coll., on the Stock Exchange, as amended in the Slovak Republic

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:	+420 955 911 111
Fax:	+420 221 112 132
LEI:	KR6LSKV3BTSJRD41IF75

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter referred to as "UniCredit Bank"), 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:	David Batal
License No.:	2147
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. (hereinafter also referred to as "Issuer"), 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 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 leading banks in the Czech and Slovak markets 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 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.

Our UniCredit Unlocked strategy means putting clients at the centre of everything we do. In every situation, we keep in mind the sustainability of our business, we follow a simple principle that helps us translate these values into everyday life: Do the right thing!

The Bank operates in all regional cities in both countries and currently has 104 branches and 421 ATMs. The merged Bank holds 9.8% of the market share with its balance sheet sum totalling more than CZK 693 billion (non-consolidated data) and is the fourth largest bank in the Czech Republic and the largest in Slovakia.

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 Publishing of the annual report

- https://www.unicreditbank.cz/cs/o-bance/vysledky/vyrocni-zpravy.html
- https://www.unicreditbank.sk/sk/o-banke/investori/vyrocne-spravy.html
- Announcement of the publication in the daily „Hospodářské noviny" published in the Slovak Republic

3.4 Profit distribution proposal

The Board of Directors will propose the issuer's profit 2021 distribution so that it will be paid out to the sole shareholder.

3.5 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.

Retail banking
- Accounts for individual clients: START account, OPEN account, TOP account, Children's account
- 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.

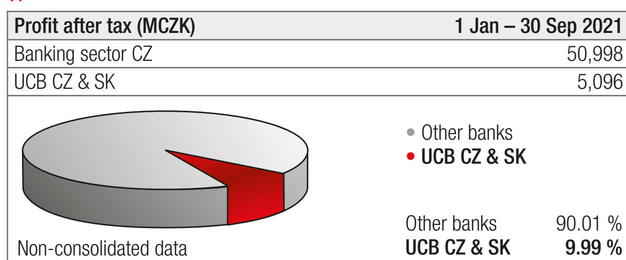
Information on newly introduced products and services can be found in the Corporate and Investment Banking and Retail and Private Banking chapters in the introductory part of this Annual Report.

4.3 Competitive position of the Issuer

All charts below provide non-consolidated data as at 30 September 2021 which were available during the preparation of this Annual Report.

(i) Profit after tax

Profit after tax (MCZK)	1 Jan – 30 Sep 2021
Banking sector CZ	50,998
UCB CZ & SK	5,096

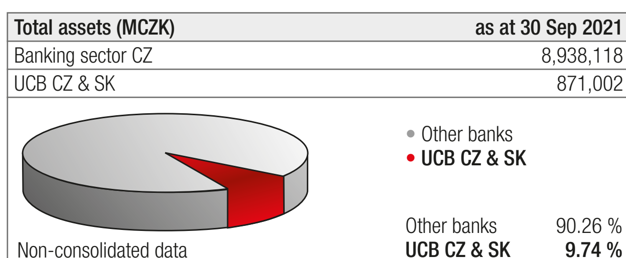


Non-consolidated data		
	Other banks	90.01 %
	UCB CZ & SK	**9.99 %**

- Other banks
- **UCB CZ & SK**

(ii) Total net assets

Total assets (MCZK)	as at 30 Sep 2021
Banking sector CZ	8,938,118
UCB CZ & SK	871,002

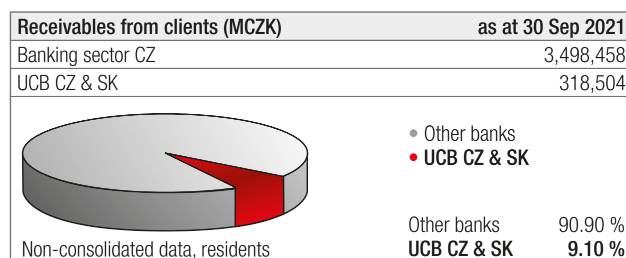


Non-consolidated data		
	Other banks	90.26 %
	UCB CZ & SK	**9.74 %**

- Other banks
- **UCB CZ & SK**

(iii) Gross receivables from clients in CZ*

Receivables from clients (MCZK)	as at 30 Sep 2021
Banking sector CZ	3,498,458
UCB CZ & SK	318,504

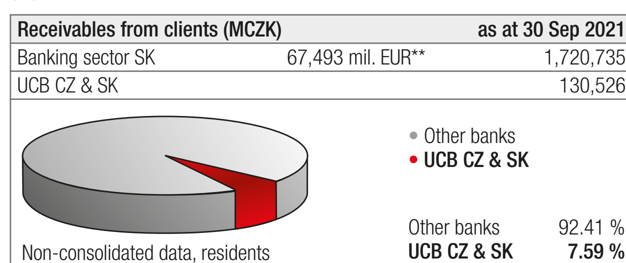


Non-consolidated data, residents		
	Other banks	90.90 %
	UCB CZ & SK	**9.10 %**

- Other banks
- **UCB CZ & SK**

(iv) Gross receivables from clients in SK***

Receivables from clients (MCZK)		as at 30 Sep 2021
Banking sector SK	67,493 mil. EUR**	1,720,735
UCB CZ & SK		130,526

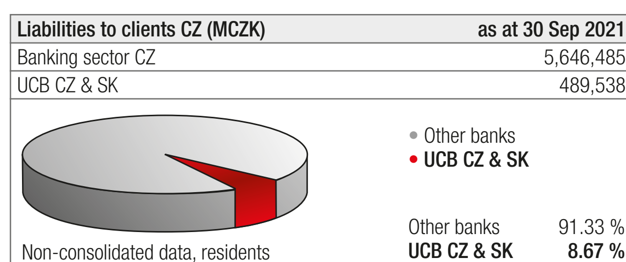


Non-consolidated data, residents		
	Other banks	92.41 %
	UCB CZ & SK	**7.59 %**

- Other banks
- **UCB CZ & SK**

(v) Liabilities to clients in CZ*

Liabilities to clients CZ (MCZK)	as at 30 Sep 2021
Banking sector CZ	5,646,485
UCB CZ & SK	489,538

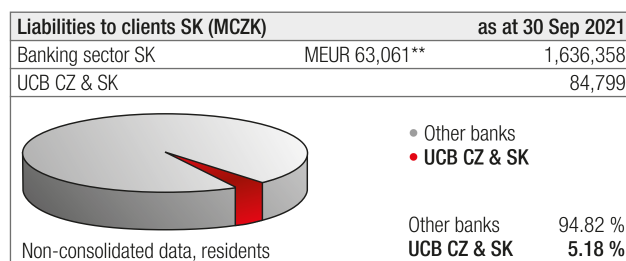


Non-consolidated data, residents		
	Other banks	91.33 %
	UCB CZ & SK	**8.67 %**

- Other banks
- **UCB CZ & SK**

(vi) Liabilities to clients in SK***

Liabilities to clients SK (MCZK)		as at 30 Sep 2021
Banking sector SK	MEUR 63,061**	1,636,358
UCB CZ & SK		84,799



Non-consolidated data, residents		
	Other banks	94.82 %
	UCB CZ & SK	**5.18 %**

- Other banks
- **UCB CZ & SK**

* 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 25.495 CZK/EUR as at 30 September 2021.
*** 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 successful Pan European commercial bank with a fully plugged in Corporate & Investment Banking, delivering its unique Western, Central and Eastern European network to its extensive 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 13 core markets as well as to additional 16 countries worldwide. UniCredit's European banking network includes Italy, Germany Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, and Serbia.

6. Competence of UniCredit Bank's bodies, composition of the Board of Directors, Supervisory Board, and Audit Committee, and description of their decision-making procedures

6.1 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 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 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 competence of the General Meeting, and
n) deciding that the amount of the variable remuneration component for members of the Board of Directors may be higher than the amount of the fixed remuneration component, but not more than twice the fixed remuneration component.

6.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of UniCredit Bank, with nine members as at 31 December 2021. The members of the Board of Directors exercise their powers and responsibilities within the office on their own. The 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 or otherwise participating (for example, via teleconference). 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.

The Board of Directors may pass resolutions at the company's registered office or outside the company's registered office or by using technical means enabling all participants to identify each other and intervene in real time in the discussion of the topics examined, as well as to receive, send and view documents. The compliance with these preconditions must be verified by the chairperson before the meeting begins. If all members so agree, members of the Board of Directors may pass resolutions via teleconference or in writing without holding a meeting (per rollam); in such case, the voting persons shall be regarded as present. Resolutions passed via teleconference or per rollam must then be recorded in the minutes of the immediately following regular meeting of the Board of Directors.

The powers and responsibilities of the Board of Directors particularly include:

a) organising the Bank's day-to-day activities and managing its business activities;
b) convening the General Meeting and implementing its decisions;
c) submitting 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 distribution of profits or settlement of loss, and processing these documents;
d) publishing 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 publishing, using the procedure applicable to convening a General Meeting, information as to where the financial statements are available on the Bank's website in accordance with Section 436(1), second sentence of the Act on Business Corporations;
e) deciding on the establishment and cancellation of the Bank's branches;
f) appointing and dismissing the Bank's managers;
g) exercising the rights of an employer;
h) issuing, 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 are subject to the prior approval by the Supervisory Board;
i) granting and withdrawing 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, establishing mandatory funds of the Bank in cooperation with the Supervisory Board and defining how such funds are to be created and used;
k) signing the contract on the statutory audit with the auditor appointed by the General Meeting;
l) establishing committees of the Bank and defining their tasks;
m) appointing and dismissing the Bank's proxies with the prior approval of the Supervisory Board; and
n) discharging other responsibilities stipulated by law or by the Articles of Association.

Mgr. JAKUB DUSÍLEK, MBA

Chairman of the Board of Directors and CEO, responsible for the Bank's overall results and for managing the General Manager and the Chief Risk Officer. He also reports to the Bank's Board of Directors for the management of finance and legal issues.
Work address: Želetavská 1521/1, Prague 4

Domicile: Měsíční 1366/10, Uhříněves, 104 00 Prague 10
Born on: 17 December 1974

MARCO IANNACCONE
Vice-Chairman of the Board of Directors and CEO responsible for human resources, 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: Nad Šárkou 1677/17, Dejvice, 160 00 Prague 6
Born on: 26 August 1970

ALEN DOBRIĆ
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: 11070 Bělehrad, Bulevar Arsenija Carnojevica no 41/30, Republic of Serbia
Born on: 17 June 1980

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 on: 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 on: 14 January 1978

MASSIMO FRANCESE
Member of the Board of Directors and Chief Financial Officer
Work address: Želetavská 1521/1, Prague 4
Domicile: Senovážné náměstí 1465/7, Nové Město, 110 00 Prague 1
Born on: 4 November 1965

Ing. JAROSLAV HABO
Member of the Board of Directors and Head of Branch Slovakia
Work address: Šancová 1/A, 813 33 Bratislava
Domicile: 85110 Bratislava, Keltská 760/7, Slovak Republic
Born on: 27 April 1976

Ing. HANA ČITBAJOVÁ
Member of the Board of Directors and Head of People and Culture
Work address: Želetavská 1521/1, Prague 4
Domicile: Bratislava, Josefa Cígera Hronského 1635/12, Slovak Republic
Born on: 30 March 1980

STEFANO GISON
Member of the Board of Directors and Director of Global Banking Services
Work address: Želetavská 1521/1, Prague 4
Domicile: Všehrdova 445/5, Malá Strana, 118 00 Prague 1
Born on: 9 March 1973

Changes in the Board of Directors in 2021
As at 1 January 2021, Hana Čitbajová and Stefano Gison joined the Board of Directors. As at 1 December 2021, Ing. Miroslav Štrokendl was replaced by Ing. Jaroslav Habo.

6.3 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. The members of the Supervisory Board exercise their powers and responsibilities within the office on their own. 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. The Supervisory Board may adopt resolutions at or outside the company's registered office or by way of technical devices which enable all participants at a meeting to identify each other and enter in real time the discussion on the topics examined, as well as receive, send and view documents. The compliance with these preconditions must be verified by the chairperson before the meeting begins. If all members so agree, the Supervisory Board members may also pass resolutions in writing without holding a meeting (per rollam); the voting persons shall be regarded as present. A resolution passed per rollam should be then included in the minutes of the next meeting of the Supervisory Board.

The Supervisory Board set up the Remuneration Committee which consists of three members of the Supervisory Board (Jiří Kunert, Andrea Vintani and Klára Čapková). The powers of the Remuneration Committee include 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, as well as the public interest.

The Remuneration Committee directly supervises the remuneration of managers responsible for risk management, internal audit and

compliance functions. Further, the Supervisory Board set up the Appointment Committee which consists of three members of the Supervisory Board (Jiří Kunert, Andrea Vintani and Goffredo Guizzardi). The powers of the Appointment Committee include the selection of candidates for vacancies in the Bank's Board of Directors and submitting them for approval to the Supervisory Board. Within this task, the Appointment Committee also assesses the proper proportion in competence, skills and diversity in composition of the body as a whole. The Appointment Committee drafts job descriptions including skills required for the position in question and estimated time schedule for meeting the goals related to exercise of the office. Additionally, the Appointment Committee also 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 once a year, evaluates the structure, size, composition and activities of the Board of Directors and submits recommendations to the Supervisory Board regarding any alterations;
b) regularly, at least once a year, 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 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.

Further, the Supervisory Board set up the Risk Management Committee which consists of three members of the Supervisory Board (Davide Bazzarello, Andrea Vintani, Goffredo Guizzardi). The Risk Management Committee performs particularly the following activities:

a) regularly, at least once a year, 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 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 and risk strategy of the Bank, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

The Supervisory Board is authorised to supervise the business activities performed by the Bank and the powers and responsibilities performed by the Board of Directors.

The Supervisory Board:

- reviews the specific directions of the Bank's activities and business policy and supervises its implementation;
- is authorised to verify any steps taken in the Bank's affairs;
- reviews the annual, extraordinary, consolidated or, as the case may be, even the interim financial statements and the profit distribution or loss settlement proposal, and presents its opinions to the General Meeting;
- is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities;
- 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;
- convenes the General Meeting if the Bank's interests so require and proposes necessary measures to be taken by the General Meeting;
- 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;
- issues, if it is deemed appropriate, rules of procedure for the Supervisory Board, which may not contradict the Articles of Association;
- approves the rules of procedure (if any) for the Board of Directors;
- 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;
- 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;
- approves board member 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(1) of the Act on Business Corporations;
- decides on remuneration of the members of the Board of Directors and stipulates rules for remunerating the Head of Internal Audit and Head of Compliance. If the General Meeting resolves, in accordance with point n) of Section 8(2) of the Articles of Association, that the variable component of the remuneration for the Board of Directors members may be higher than the fixed component, but no more than double the fixed component, the Supervisory Board will in each individual case set a ratio between the fixed and variable components of the remuneration;
- sets up committees of the Supervisory Board and defines their responsibilities;
- oversees the effectiveness and efficiency of the Bank's management and control system;
- may ask the Chairman of the Audit Committee to convene a meeting of the Audit Committee; and
- performs other 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 on: 31 January 1953

EVA MIKULKOVÁ
Domicile: Kladno, Kročehlavy, Dlouhá 512
Born on: 29 January 1957

Ing. JANA SZÁSZOVÁ
Domicile: Bratislava, Hany Meličkovej 2989/18, 84105, Slovak Republic
Born on: 17 January 1963

Mgr. KLÁRA ČAPKOVÁ
Domicile: Střimelická 2497/14, Prague 4, 141 00
Born on: 10 November 1983

GOFFREDO GUIZZARDI
Domicile: Via Ausonio 9/a, 20123 – Milan, Republic of Italy
Born on: 21 February 1972

ANDREA VINTANI
Domicile: 21013 Gallarate (Va), Via Col di Lana 8, Republic of Italy
Born on: 5 May 1979

DAVIDE BAZZARELLO
Domicile: Cormano (MI), Via JF Kennedy 27, Republic of Italy
Born on: 15 November 1973

Changes in the Supervisory Board in 2021
As at 23 July 2021, Niccolo' Ubertalli's term of office in the Supervisory Board expired. As at the same day, Davide Bazzarello was elected to fill the vacancy of Wolfgang Schilk. On 4 November 2021, Benedetta Navarra's term of office expired. The free seats were filled only after 31 December 2021.

6.4 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 3 (three) members appointed and dismissed by the General Meeting for a term of 3 (three) years from among the Supervisory Board members or third persons. Majority of the members of the Audit Committee must be independent and competent. At least one member of the Audit Committee must be a person who is, or was, a statutory auditor or a person whose knowledge or work experience in the area of accounting are a precondition for due exercise of the office of an Audit Committee member in view of the sector in which the Bank operates; such a member must at all times be independent.

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.

Without prejudice to the liability of the members of the Board of Directors or the Supervisory Board, the Audit Committee performs particularly the following activities:

- monitors the efficiency of internal control, risk management system;
- monitors the efficiency of internal audit and its functional independence;
- monitors the process of compilation of the financial statements and the consolidated financial statements, and submits to the Board of Directors or the Supervisory Board recommendations to ensure integrity of the accounting and financial reporting system;
- recommends an auditor to the Supervisory Board, providing due justification for such recommendation, unless otherwise provided under a directly applicable regulation of the European Union governing specific requirements for statutory audit of public interest entities;
- assesses independence of the statutory auditor and the audit company, and the provision of non-audit services to the Bank by the statutory auditor and audit company;
- discusses with the auditor the risks posing threat to his or her independence and the protective measures adopted by the auditor to mitigate such risks;
- monitors the statutory audit process, relying on the summary report treating the quality assurance system;
- gives opinion on termination of the obligation under the statutory audit contract or withdrawal from the statutory audit contract;
- examines whether to subject the audit contract to examination of audit contract quality management by other statutory auditor providing audit services in his or her name and on his or her own account or by audit company under Article 4(3), first sub-paragraph of Regulation (EU) No 537/2014 of the European Parliament and of the Council;
- informs the Supervisory Board of the statutory audit outcome and the knowledge obtained during monitoring the statutory audit process;
- informs the Supervisory Board of how the statutory audit helped ensure integrity of the accounting and financial reporting system;
- decides whether or not the auditor should continue to carry out the statutory audit in accordance with Article 4(3), second sub-paragraph of Regulation (EU) No 537/2014 of the European Parliament and of the Council;
- approves provision of other non-audit services;
- approves the selection procedure report resulting from the selection procedure in accordance with Article 16 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Meetings of the Audit Committee shall have a quorum if attended in person or via teleconference by the 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. A resolution passed per rollam should be then included in the minutes of the next meeting of the Audit Committee.

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. The chairman must be independent.

The auditor is obliged to submit, from time to time, reports to the Audit Committee of significant events arising out of the statutory audit, particularly of significant shortcomings found in the internal control system relating to the process of compilation of the financial statements or the consolidated financial statements.

MARCO RADICE
Chairman of the Audit Committee
Domicile: Via S. Simpliciano, 5 - 20121 Milan, Republic of Italy
Born on: 28 August 1957

DAVIDE BAZZARELLO
Domicile: Cormano (MI), Via JF Kennedy 27, Republic of Italy
Born on: 15 November 1973

Changes in the Audit Committee in 2021
As at 23 July 2021, Davide Bazzarello was elected to fill the vacancy of Wolfgang Schilk. On 4 November 2021, Benedetta Navarra's term of office expired. The free seat was filled only after 31 December 2021.

6.5 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.

6.6 Information on company management and administration codes

The Bank's parent company, UniCredit S.p.A., defined the overall corporate governance framework in accordance with Italian and European laws and the recommendations of the Italian Code of Corporate Governance of Listed Companies, which it adopted in 2001 (Codice di Corporate Governance). This code was created for companies with shares listed on the main Italian market (Mercato Telematico Azionario) managed by the Italian stock exchange (Borsa Italiana).

The management and administration of the Bank are governed by the relevant principles and recommendations contained in the said Code.

7. Legal and arbitration proceedings

As at 31 December 2021, 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.

8. Material change in the Issuer's financial situation

Since the publishing date of the audited financial statements for the year ended 31 December 2021, no significant change has occurred in the financial situation of the Issuer.

9. Received Loans from multilateral development banks and international organizations

Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 5,714
Interest rate:	3M EURIBOR + 0.03 %
Loan origination date:	16. 11. 2015
Due date:	16. 11. 2022
Collateral:	Bonds
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 2,083
Interest rate:	3M EURIBOR + 0.06 %
Loan origination date:	30. 6. 2017
Due date:	28. 6. 2024
Collateral:	Bill of exchange

Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 1,654
Interest rate:	3M EURIBOR + 0.25 %
Loan origination date:	31. 5. 2019
Due date:	28. 6. 2024
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 13,878
Interest rate:	0.80 %
Loan origination date:	31. 8. 2015
Due date:	31. 3. 2028
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 365
Interest rate:	0.80 %
Loan origination date:	31. 8. 2015
Due date:	31. 3. 2028
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 16,957
Interest rate:	0.90 %
Loan origination date:	30. 12. 2015
Due date:	29. 9. 2028
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 446
Interest rate:	0.90 %
Loan origination date:	30. 3. 2016
Due date:	29. 9. 2028
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 1,018
Interest rate:	0.686 %
Loan origination date:	31.10. 2018
Due date:	29. 6. 2029
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 27
Interest rate:	0.686 %
Loan origination date:	31. 10. 2018
Due date:	29. 6. 2029
Collateral:	Bill of exchange

Lender:	Oesterreichische Kontrollbank
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 8,244
Interest rate:	0.426 %
Loan origination date:	10. 4. 2017
Due date:	29. 6. 2029
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	TEUR 217
Interest rate:	0.426 %
Loan origination date:	10. 4. 2017
Due date:	29. 6. 2029
Collateral:	Bill of exchange
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TCZK 189,750
Interest rate:	2.47 %
Loan origination date:	2. 11. 2018
Due date:	2. 11. 2023
Collateral:	Letter of comfort
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TCZK 50,000
Interest rate:	2.25 %
Loan origination date:	29. 3. 2019
Due date:	29. 3. 2022
Collateral:	Letter of comfort
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TCZK 400,000
Interest rate:	2.60 %
Loan origination date:	1. 11. 2021
Due date:	2. 5. 2022
Collateral:	Letter of comfort
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TCZK 380,000
Interest rate:	2.75 %
Loan origination date:	8. 11. 2021
Due date:	9. 5. 2022
Collateral:	Letter of comfort
Lender:	**Raiffeisenbank, a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TCZK 600,000
Interest rate:	2.58 %
Loan origination date:	1. 11. 2021
Due date:	2. 5. 2022
Collateral:	Letter of comfort

Lender:	Council of Europe Development Bank
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TEUR 25,000
Interest rate:	0.000 %
Loan origination date:	14. 6. 2019
Due date:	14. 6. 2024
Collateral:	Bonds
Lender:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TEUR 35,000
Interest rate:	0.015 %
Loan origination date:	26. 5. 2020
Due date:	26. 5. 2025
Collateral:	Bonds
Lender:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	TEUR 17,500
Interest rate:	0.110 %
Loan origination date:	10. 9. 2018
Due date:	10. 9. 2023
Collateral:	Bonds
Lender:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	TEUR 35,000
Interest rate:	0.015 %
Loan origination date:	19. 5. 2020
Due date:	26. 5. 2025
Collateral:	Bonds
Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	TEUR 25,000
Interest rate:	0.000 %
Loan origination date:	6. 6. 2019
Due date:	14. 6. 2024
Collateral:	Bonds
Lender:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	TEUR 8,750
Interest rate:	0.123 %
Loan origination date:	26. 9. 2018
Due date:	2. 10. 2023
Collateral:	Bonds
Lender:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	TEUR 6,250
Interest rate:	0.036 %
Loan origination date:	30. 11. 2018
Due date:	30. 11. 2022
Collateral:	Bonds

Lender:	European Investment Bank, Luxembourg
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	TEUR 3,893
Interest rate:	3M EURIBOR + 0.559 %
Loan origination date:	30. 9. 2011
Due date:	29. 9. 2023
Collateral:	Bonds
Total loans as at 31 December 2021	**TCZK 11,293,106**

10. 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.

11. 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 2021: CZK 23,537,899,212.

12. 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.

13. Principles of remunerating the Issuer's managers

Compensation 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 2021, the Remuneration Committee consisted of Jiří Kunert, and other members included Andrea Vintani and Klára Čapková. Starting May 2014, in line with the new Civil Code, the Board of Directors members perform work based on the Board Member Agreement and receive remuneration that is set as a fixed amount paid monthly (for holding the office of a Board of Directors member), 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 holding the office; remuneration for the Bank's foreign executive managers is provided by the parent company. These costs are charged to the Bank by the parent company and are 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 competencies of executive managers 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 members of the Bank's Board of Directors, Head of Compliance, and Head of Internal Audit are approved by the Remuneration Committee based on supporting materials submitted by the Human Resources Department and prepared in cooperation with the UniCredit Group Human Resources Department.

Variable annual bonuses for the Bank's executive managers

The target variable bonus for the members of the Bank's Board of Directors is approved by the Remuneration Committee based on supporting materials submitted by the Human Resources Department and prepared in cooperation with the UniCredit Group Human Resources Department. 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 "2021 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee as a binding regulation for variable bonuses of executive managers.

The variable bonus, the amount and method of payment thereof 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.
The "Entry Conditions" indicator measures annual profitability, ability to lend and liquidity. 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 bonuses of 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.
Group and Local Risk Adjustments make the Bonus pool aligned with the overall performance and risk assessment. 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.

In 2021, Entry Conditions were defined using the following parameters:

Group	CEE Division	Local
Net Operating Profit	Net Operating Profit	Net Operating Profit
Net Profit (NP)	Net Profit	
Common Equity Tier 1 Ratio Transitional		
Liquidity Coverage Ratio		
Net Stable Funding Ratio		

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 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 2021 included, for example:

- RACE,
- Asset Quality (NPE ratio and New business EL %),
- OPEX,
- Underlying Net Profit.
- Gross Operating Profit.

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. The executive manager responsible for risk management has no business or financial performance objectives in his or her objectives, except for the level of operating costs.

Ad 5.
In accordance with the applicable regulations, the bonus cap has been set at the level of one annual fixed compensation, with the possibility

to increase it to double the annual fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. A more conservative approach applies to the Control Functions, providing for the bonus a cap set at 80% of the annual 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. The following is subject to such assessment: whether during the evaluated 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 assessment is carried out by the executive manager's direct superior and approved by the Remuneration Committee.

Likewise the assessment of individual performance objectives, also 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 2021. 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 has no automatic 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 2020 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 31 October 2021 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 is 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 mitigate the risks associated with their remuneration scheme. 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 "2021 Group Incentive System" rules, payment of the bonus for the given period (2021) is spread out over a multiple-year period:

<u>Senior Management with variable remuneration over EUR 226,625</u>

- The first part (2022) 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 (2024) 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 (2025) 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 (2026) 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 (2027) is payable in cash and comprises 12% of the bonus established for the given period.
- In 2022–2027, 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.

<u>Senior Management with variable remuneration below EUR 226,625</u>

- The first part (2022) 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 (2024) 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 (2025) 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 (2026) 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 (2027) is payable in cash and comprises 10 % of the bonus established for the given period.
– In 2022–2027, 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 based on 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 Board Member Agreement: 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 personal use.
– 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 holding their office.

Fixed contractual remuneration may only be agreed with those members of the Supervisory Board who concurrently do not hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire term of office of the Supervisory Board member, and is approved by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s. based on the Bank's Board of Directors proposal.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board from among the employees of the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code, one Supervisory Board member having been replaced throughout the year. At the same time, the Supervisory Board always included three representatives of the Bank employees, 1 foreign member of the Supervisory Board having a fixed remuneration in place agreed with the shareholder based on the above rules, who ceased to hold the office in the Supervisory Board throughout the year, and one local member of the Supervisory Board. The remaining members of the Supervisory Board are not remunerated by the Issuer.

The remuneration policy in the case of Supervisory Board members coming from among the employees of 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 in employment relationship to the Issuer 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 their holding 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 organisational 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 holding the office of an Audit Committee member.

The remuneration is valid for the entire term of office of the Audit Committee member, and is approved by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s. based on the Bank's Board of Directors proposal.

In 2021, the aforementioned fixed contractual remuneration was agreed with three members of the Audit Committee. The office of one Audit Committee member expired throughout the year, with the substitute of such a member serving without compensation. The aggregate amount thereof is stated in the remuneration summary.

14. Diversity policy – diversity and inclusion

Diversity is not just a concept. It is a call for concrete steps to implement our strategy in the area of diversity, equality and inclusion. UniCredit Group has long supported an open corporate culture and the principle of accountability and open communication. So-called "Accountability & Speak-up" allows each employee to not only feel better, but also to work better. Our sincere effort is to avoid empty concepts and gestures. The goal of each initiative is to bring about a specific change or improvement, which together will create an even better UniCredit and its working environment.

Strengthening gender diversity in managerial positions, especially in senior management, **remains a priority in the longer term**. We want to achieve full gender balance in the coming years through our strategic plan and concrete development steps.

Fair remuneration is an equally important principle. Besides regular wage increases to reflect market conditions and ensure competitiveness, we have long focused on equal remuneration of men and women in comparable positions in order to achieve zero differences.

In 2021, it was important for us to make DE&I visible, to point out various aspects, even the less obvious ones, and also to create a culture of diversity through a wider circle of people in the Bank who have something to say and something to contribute.

In addition to raising awareness as to the diversity issues, we have focused on recruiting, as well as on eliminating potential prejudices and strengthening age diversity through the Bank's young talent recruitment programme.

DE&I topics were visible internally and externally. Within the Bank, we focused on open dialogue, such as round tables or discussion panels. We have also opened the implementation of our DE&I strategy to a wider audience of employees. We addressed them through an internal campaign and gave them the opportunity to participate in individual initiatives that resonate with their opinions and feelings. We have opened our DE&I activities to the public.

The „Diversity talks" series with talented women managers has been a great success on social media. We like to highlight various DE&I aspects, such as the need for understanding for disabled people in relation to many „invisible" limitations that are difficult to recognise at first glance. On the occasion of the International Day of Persons with Disabilities, we published interesting interviews with our colleagues, for whom overcoming obstacles is an everyday reality and they manage it with ease and admirable grace.

Equality and inclusion have also become important in recruitment. In the first round of the interview, our recruitment chatbot gives the opportunity to all candidates without distinction – candidates who would not seem to be the most suitable according to their CV for the position also get the chance to succeed. The project brought a unique innovation that attracted people in UniCredit Group and the media and raised awareness of the Bank. To support age diversity, the first task for the chatbot was to find 20 talented juniors with high potential for a new trainee programme. They work in strategic structures and our managers thus educate future data analysts, digital innovators and business strategists.

An environment that helps a variety of employees fulfil their potential is generally proving increasingly important. The Covid-19 pandemic has been changing the way we work for two years, often revealing the diversity of challenges each of us faces during the hybrid regime. Surveys show that more invisible pandemic-related work (such as caring for children who cope with the new hybrid learning environment) falls on women. **We therefore continue all the more intensively to encourage the return of women to work**, for example after maternity leave. Work on changes in groups of employees with direct experience and interest in improving the area proved effective. This included parents, mostly mothers, who have gone through this process and know where they need a helping hand.

Continuous work beyond 2022 takes place via working groups and addresses many other topics such as flexibility and working conditions and support for women's development via the dedicated „Women for Women" mentoring programme.

DE&I only lives in the corporate culture if it truly lives in each of us, if each of us works in accordance with the DE&I principles and uses their degree of influence in their immediate surroundings. Such a culture is fully encouraged here, at UniCredit.

15. Information on remuneration to auditors recognised in the reporting period

(CZK thousand, excl. VAT)	Bank	Consolidated companies	Total consol. group
Audit	10,496	5,985	16,481
Tax advisory	–	–	–
Other advisory services	11,361	1,045	12,406
Total	**21,857**	**7,030**	**28,887**

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
62,762,944	**0**	**13,763,628**	**0**	**10,928,420**	**87,454,992**
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
2,658,925	**0**	**7,690,901**	**0**	**0**	**10,349,826**
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
630,990	**0**	**0**	**0**	**0**	**630,990**
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
110,410,193	**0**	**1,458,400**	**0**	**0**	**111,868,593**

Note: The above data contains amounts actually paid during 2021 as compared to the financial statement which contains information on costs concerning 2021.

17. Major future investments other than financial investments(planned for 2022)

Total investments of UniCredit Bank for 2022, excl. financial investments, are planned in the amount of CZK 2.6 billion, of which CZK 1.7 billion is for the planned purchase of assets for rent for UniCredit Leasing. Another major item is investment in information technologies (hardware and software) totalling CZK 0.7 billion, 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 part of IT investment is supplied in the form of services by third-party suppliers and recognised in operating costs. Investments in fixed capital, including rented buildings, in the amount of CZK 224 million are focused mostly on the development and renovation of the distribution network.

18. Guarantees provided by the Issuer

(CZK thousand)	31 Dec 2021	31 Dec 2020
Granted guarantees and collaterals	46,809,084	45,412,568
Guarantees granted under L/Cs	368,998	462,949
Total	**47,178,082**	**45,875,517**

19. 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 Bank Czech Republic and Slovakia Group including the risks associated 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 financial reporting, achieve broader awareness of the risks associated with compilation of financial reports and keep these risks under control and at an acceptable level.

The UniCredit Bank Czech Republic and Slovakia Group has internal regulations in place relating to particular areas of the Group's activities which 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 annex 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 three times a year (mid-year, third quarter and at year-end).

20. Information on regulated markets and rating of the Issuer or its debt securities

The Issuer was assigned rating A3 with a stable outlook by the rating agency Moody's Investors Service España, S.A. (hereinafter referred to as "Moody's"). Moody's also assigned the rating Aa3 to selected debt securities issued by the Issuer (referred to in the summary below).

Moody's is registered in line with Regulation (EC) No 1060/2009 of the European Parliament and of the Council amended by Regulation 462/2013 (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 site (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 2021.

Name of the issue	ISIN	Date of the issue	Due date	Currency	Volume	Nominal value per debt security	Coupon payment frequency	Coupon	Rating
HVB HZL 5,00/25	CZ0002000680	15. 11. 2005	15. 11. 2025	CZK	1 000 000	10 000	roční	5 %	–
HVB HZL 5.00/25	CZ0002000680	15 Nov 2005	15 Nov 2025	CZK	1,000,000	10,000	On an annual basis	5%	–
UCB HZL 10Y FLOAT/37	CZ0002001910	21 Dec 2007	21 Dec 2037	CZK	120,000	100,000	On an annual basis	10Y IRS + 2%	Aa3
UCB HZL 3.04/2028	CZ0002003114	7 June 2013	7 June 2028	EUR	100	100,000	On an annual basis	3.04%	Aa3

All the issues above are bearer´s book-entry (class/form) securities.
The above issues are without the possibility of early redemption, with the exception of the issue UCB HZL 10Y FLOAT/37, ISIN CZ0002001910, where early redemption by the Issuer as at 21 December 2027 is possible.

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 2021.

Name of the issue	ISIN	Date of the issue	Due date	Currency	Volume	Nominal value per debt security	Coupon payment frequency	Coupon	Rating
UCB HZL 3M FLOAT /24	XS2188797729	15 June 2020	15 June 2024	EUR	10,000	100,000	On a quarterly basis	3M EURIBOR +38 bps	Aa3
UCB HZL 3M FLOAT /25	XS2188802230	15 June 2020	15 June 2025	EUR	10,000	100,000	On a quarterly basis	3M EURIBOR +40 bps	Aa3
UCB HZL 3M FLOAT /26	XS2188802313	15 June 2020	15 June 2026	EUR	10,000	100,000	On a quarterly basis	3M EURIBOR +42 bps	Aa3
UCB HZL 3M FLOAT /27	XS2188802404	15 June 2020	15 June 2027	EUR	10,000	100,000	On a quarterly basis	3M EURIBOR +44 bps	Aa3
UCB HZL 0.01/25	XS2259866064	19 Nov 2020	19 Nov 2025	EUR	5,000	100,000	On an annual basis	0.01%	Aa3
UCB HZL 3M FLOAT II/26	XS2419387357	15 Dec 2021	15 Dec 2026	EUR	10,000	100,000	On a quarterly basis	3M EURIBOR +15 bps	Aa3

All the issues above are bearer´s book-entry (class/form) securities.
The above issues are without the possibility of early redemption by the Issuer.

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 2021.

Name of the issue	ISIN	Date of the issue	Due date	Currency	Volume	Nominal value per debt security	Coupon payment frequency	Coupon	Rating
UCB HZL 1.20/2022 (UCBHZL14H)	SK4120010752	25 May 2015	25 May 2022	EUR	30,000	1,000	On an annual basis	1.20%	Aa3
UCB HZL EUR 1.40/2024	SK4120011131	15 Oct 2015	15 Oct 2024	EUR	5,000,000	1	On an annual basis	1.40%	–
UCB HZL EUR 1.80/2025	SK4120011123	15 Oct 2015	15 Oct 2025	EUR	10,000,000	1	On an annual basis	1.80%	–

All the issues above are bearer´s book-entry (class/form) securities.
The above issues are without the possibility of early redemption by the Issuer.

21. 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 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

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 ("UCB CZ&SK"), for the **period from 1. 1. 2021 to 31. 12. 2021** (hereinafter referred to as the "Period") prepared a report on relations.

1. Structure of Relations between UCB CZ&SK and the Controlling Entity and Entities Controlled by the same Controlling Entity

Over this period, UCB CZ&SK was directly controlled by **UniCredit, S.p.A.** having its registered office at Piazza Gae Aulenti 3 – Tower A – 20154 Milan, Italy. UCB CZ&SK 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 (deleted from the Corporate Register on January 1st, 2021), **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. UCB CZ&SK's Role within UniCredit Group:

The Czech and the Slovak Republics are among the leading countries within the CEE division. UCB CZ&SK is at the same time one of the largest banks within the CEE region in terms of consolidated profits. UCB CZ&SK performs the role of a universal bank in Slovak and Czech markets; within the CEE region it often has a role of product innovator. UCB CZ&SK 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. UCB CZ&SK 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 UCB CZ&SK, on standard conditions.

3. Method and Means of Control

The general meeting is the supreme body of UCB CZ&SK. 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 UCB CZ&SK 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.

UCB CZ&SK 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. UCB CZ&SK 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 UCB CZ&SK and the controlling entity or between controlled entities

4.1. Between UCB CZ&SK and **UniCredit S.p.A.,** Piazza Gae Aulenti 3, Tower A – 20154 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Zmluva o správe CP v zaknihovanej forme	Správa a úschova cenných papierov	25. 6. 2003
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
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Slovak client.	20. 12. 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
Agreement	UniCredit SpA‘s commitment to provide UCB CZ&SK with KYC analysis of correspondent banking clients	16. 12. 2019
DPA – Data processing agreement	Data processing agreement	13. 1. 2020
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Czech client.	2. 11. 2020 (expired on 14. 7. 2021)
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Czech client.	14. 7. 2021 (expired on 1.9.2021)
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Czech client.	24. 8. 2021 (expired on 22.10.2021)
Subscription Agreement	Agreement on subscription of senior non-preffered notes by Unicredit S.p.A.	19. 11. 2021

4.2. Between UCB CZ&SK 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
Agreement on reporting to a trade repository in accordance with Art.9 EMIR „Reporting SLA“	Fulfillment of reporting obligations according to EMIR	24. 3. 2014
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
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
Data Processing Agreement	Contract on the processing of personal data in connection with the reconciliation of OTC derivatives pursuant to contract No. SML 200029	22. 9. 2020
Service contract No. SML 200029	Contract for reconciliation of OTC derivatives	22. 9. 2020
Subcustody Agreement	Storage, management and settlement of securities (Austria vs. Czech Republic)	9. 4. 1996
Service level agreement	Service level agreement (Czech Market)	21. 12. 2020
Service level agreement	Service level agreement (Austrian Market and HUB)	12. 3. 2021
Service level agreement	Service level agreement (Austrian Market and HUB) (a branch in Slovakia)	26. 3. 2021
Service Level Agreement	Správa a úschova cenných papierov (a branch in Slovakia)	31. 7. 2020

4.3. Between UCB CZ&SK and **UniCredit Bank AG**, Arabellastrasse 12,81925 Munich, Germany

Contract name	Subject-matter of contract	Contract concluded on
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
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
RET Service Level Agreement No. 001	UCtrader trading platform for FX trades – cost sharing	29. 3. 2019
Framework Agreement	Framework agreement on the sale and purchase of receivables	17. 12. 2020
Mandate Agreement	Mandating UniCredit Bank AG as an arranger for the eurobond programme update (Frederick) and an agreement on remuneration for external legal advisors (White&Case).	9. 6. 2021
Cooperation Agreement for Equity Capital Markets	Spolupráce při originaci a exekuci ECM transakcí	11. 2. 2021

4.4. Between UCB CZ&SK, **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 UCB CZ&SK, **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 UCB CZ&SK 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
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	Contracts valid in 2021
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
Mutual Agreement	Agreement on the abolition of the tax group between UniCredit Bank Czech Republic and Slovakia and UniCredit Services.	20. 12 .2019
Internal Dealing Agreement	Specification of services provided by UniCredit Services in the field of Compliance – SIRON.	31. 3. 2020

4.7. Between UCB CZ&SKa **UniCredit Leasing CZ, a.s.**, Reg. No.: 15886492, Prague 4 – Michle, Želetavská 1525/1,14010

Contract name	Subject-matter of contract	Contract concluded on
Contract on the owner's account and administration of securities no. 99100061	Management of the securities owner's account, administration and safekeeping of securities	27. 7. 2006
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 (terminated as of 31. 1. 2021)
Contract on Business Cooperation	Business cooperation between contractual parties	1. 7. 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 28, Široká 5, Liberec	28. 7. 2015
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
Contract for sublease of a space serving a business	Sublease of a space used for business in building no. 892, Zeyerova 7, Karlovy Vary	27. 11. 2020
Contract on the provision of Risk Models Development	Provision of the service Risk Models Development	1. 1. 2021
Agreement on temporary o dočasném přidělení zaměstnance	Temporary assignment of an employee	30. 11. 2020
Commercial Papers Programme Agreement	Arrangement of establishment of the commercial papers programme by UCB CZ&SK	9. 11. 2021
Commercial Papers Programme Administration Agreement	Administration of the commercial papers issued within the commercial papers programme by UCB CZ&SK	9. 11. 2021
Mandate Agreement on establishment of the bond programme and arrangement of the particular issues	Arrangment of establishment of the bond programme and arrangement of the particular issues by UCB CZ&SK	9. 11. 2021
Bond Issue Administration Agreement	Administration of the bond issues to be issued within the bond programme by UCB CZ&SK	9. 11. 2021
Agreement on the collective bond deposit and conduction of the bondholders' register in the standalone register of the investment instruments	Services of the deposit of the collective bond and conduction of the bondholders' register in the standalone register of the investment instruments by UCB CZ&SK	9. 11. 2021
Bond Subscription Agreement	Arrrangement of the subscription of the bonds to be issued within the bond programe by UCB CZ&SK	9.11.2021
Contract on sublease of space serving business	Sublease of business premises in the 5th floor of Želetavská 1525/1, Praha 4	11. 2. 2021 until 31. 12. 2021

4.8. Between UCB CZ&SK and **UniCredit Leasing CZ, a.s.**, IČ: 15886492, Praha 4 – Michle, Želetavská 1525/1, PSČ 14010 and **UniCredit Fleet Management, s.r.o.**, IČ: 62582836, Praha 4 – Michle, Želetavská 1525/1, PSČ 14010

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Cooperation in concluding loan agreements for the financing of motor vehicles	20. 7. 2020

4.9. Between UCB CZ&SK and **UniCredit Factoring Czech Republic and Slovakia**, Reg. No.: 152 72 028, Prague 4 – Michle, Želetavská 1525/1, 14000

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 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
Risk participation contract (participation contract)	Participation in the risk of receivable non-payment	29. 3. 2017
Sublease Agreement	Sublease of office space and parking spaces	13. 11. 2020
Zero Balancing Master Agreement	Zero Balancing	25. 11. 2020
Zero Balancing Participating Agreement	Zero Balancing	25. 11. 2020

4.10. Between UCB CZ&SK and **UCTAM Czech Republic s.r.o.**, Reg. No.: 24275671, Prague 1 – Nové Město, Náměstí Republiky 2090/3a, 11000

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

4.11. Between UCB CZ&SK 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
Contract on cooperation	Cooperation of the contractual parties	1. 7. 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
Contracts for renting non-residential premises	Sublease of commercial premises in Poprad on Popradske nabrezi 18 (contract valid from 1. 5. 2019)	12. 4. 2019
Contracts for renting non-residential premises	Commercial premises for Rent in Zvolen, nám. SNP 50	1. 1. 2019
Lease agreement	lease of non-residential premises in Nitra on Štefánikova street	8. 4. 2020
Lease agreement	lease of non-residential premises in Košice na Roosevelt street	30. 6. 2020
Commercial Papers Programme Agreement	Arrangement of establishment of the commercial papers programme by UCB CZ&SK	9. 11. 2021
Commercial Papers Programme Administration Agreement	Administration of the commercial papers issued within the commercial papers programme by UCB CZ&SK	9. 11. 2021
Mandate Agreement on establishment of the bond programme and arrangement of the particular issues	Arrangment of establishment of the bond programme and arrangement of the particular issues by UCB CZ&SK	9. 11. 2021
Bond Issue Administration Agreement	Administration of the bond issues to be issued within the bond programme by UCB CZ&SK	9. 11. 2021
Agreement on the collective bond deposit and conduction of the bondholders‘ register in the standalone register of the investment instruments	Services of the deposit of the collective bond and conduction of the bondholders‘ register in the standalone register of the investment instruments by UCB CZ&SK	9. 11. 2021

Contract name	Subject-matter of contract	Contract concluded on
Bond Subscription Agreement	Arrrangement of the subscription of the bonds to be issued within the bond programe by UCB CZ&SK	9. 11. 2021
Non-residential Lease Agreement	Lease of non-residential premises in Prešov in Hlavna Street	1. 1. 2021

4.12. Between UCB CZ&SK and **UniCredit Leasing Slovakia, as**, Company Identification Number: 35 730 978, Šancová 1 / A, Bratislava 814 99, Slovak Republic and **UniCredit Fleet Management, sro**, Company Identification Number: 35 820 381, Šancová 1 / A Bratislava 814 99, Slovak republic

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Cooperation in concluding loan agreements for the financing of motor vehicles	30. 7. 2020

4.13. Between UCB CZ&SK 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
Subcustody Agreement	custody, administration and settlement of securities	10. 3. 1998
Service Agreement	consulting services in connection with custody, risk review, network management, coordination of projects within custody	16. 12. 2020
Data Processing Agreement	data processing, amendment to the Service Agreement dated 16. 12. 2020	16. 12. 2020

4.14. Between UCB CZ&SK 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
Service level agreement	Service level agreement (Czech Market)	14. 12. 2020
Service Level Agreement	Správa a úschova cenných papierov (Hungary Market)	31. 7. 2020
Service Level Agreement	Správa a úschova cenných papierov (Slovakian Market)	26. 3. 2021
Service Level Agreement	Service level agreement (Hungary Market)	6. 4. 2021

4.15. Between UCB CZ&SK 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
Service Level Agreement	Management and custody of foreign securities (a branch in Slovakia)	3. 2. 2021

4.16. Between UCB CZ&SK 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

4.17. Between UCB CZ&SK and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 62582836, Prague 4 – Michle, Želetavská 1525/1, 14010

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 – 264 cars	Contracts valid in 2021

4.18. Between UCB CZ&SK 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 – 100 cars	Contracts valid in 2021

4.19. Between UCB CZ&SK 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

4.20. Between UCB CZ&SK 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 UCB CZ&SK	23. 11. 2012
Services Agreement	Providing services in the field of coordination of robo-advisory development, commercial initiatives and sharing of product know-how within the banking group.	9. 12. 2020

4.21. Between UCB CZ&SK and **Diners Club CS, s.r.o., organizační složka** (a branch), Reg. No.: 24768669 Prague 1, Široká 36/5, 11000

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

4.22. Between UCB CZ&SK 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

4.23. Between UCB CZ&SK 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

4.24. Between UCB CZ&SK and **UniCredit S.p.A., London Branch**, London, 120 London wall, United Kingdom

Contract name	Subject-matter of contract	Contract concluded on
Process Agent Letter	Appointment of UniCredit Bank S.p.A., London Branch as agent for receiving all correspondence in court proceedings before English courts in connection with the Settlement Agreement concluded between UCB CZ&SK and Citibank, N.A., London Branch, concluded on 19 November 2021.	9. 11. 2021

4.25. Between UCB CZ&SK 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
Service level agreement	Service level agreement (Bulgarian market)	6. 4. 2021

4.26. Between UCB CZ&SK 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

4.27. In addition to the above stated contracts, in the last financial year, also other contracts were effective between UCB CZ&SK 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. UCB CZ&SK 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 f UCB CZ&SK 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 UCB CZ&SK, 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 UCB CZ&SK equity, according to the financial statements at the end of 2021, was 77 961 mil CZK, exceeded in 2021 the funding provided by UCB CZ&SK to UniCredit Leasing CZ, a.s. and UniCredit Leasing Slovakia, a.s. (and to their subsidiaries). In the course of 2021, the controlling entity and/or its controlled entities deposited amounts on its accounts kept at UCB CZ&SK exceeding 10% of UCB CZ&SK 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 UCB CZ&SK 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 UCB CZ&SK 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., UniCredit Unlocked, providing UCB CZ&SK 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 UCB CZ&SK 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 UCB CZ&SK and communication, and by building a strong 'brand' on the local level.

In Prague, on 15 March 2022

On behalf of the Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s.

Mgr. Jakub Dusílek, MBA
Chairman of the Board
of Directors

Massimo Francese
Member of the Board
of Directors

Annexes: 1. Organisation Chart of the UniCredit Group

Structure of UniCredit Group

UniCredit International Bank (Luxembourg) SA – Luxembourg - Banking (100%)
- 100% UniCredit Leasing SpA – Milano - Leasing
  - 94,90% BA CA Leasing (Deutschland) GmbH – Bad Homburg - Leasing
  - 100% UniCredit Leased Asset Management S.p.A. – Milan - Real estate owned company
- 100% UniCredit Factoring SpA – Milano - Factoring
- 100% CORDUSIO Soc.Fiduc.per Az. – Milano - Fiduciary
- 100% Cordusio SIM S.p.A. – Milano - Advisory on investments
- 60% UniCredit BpC Mortgage Srl – Verona - Guarantees provider
- 60% UniCredit OBG Srl – Verona - Guarantees provider
- 100% UniCredit myAgents Srl – Bologna - Agent in financial activities
- 100% UniCredit Global Leasing Exp.GmbH – Vienna - Leasing
- 100% PAI Management Limited (a) – Dublin - Management of hedge funds
- 100% PAI (Bermuda) Limited (a) – Hamilton - Holding/man.-adv. of hedge funds
- 99,99% UniCredit Services Scpa (d) – Milano - Instrumental services
  - 100% UniCredit Services GmbH – Vienna - Instrumental services
- 100% Crivelli S.r.l. – Milan - real estate
- 100% SOFIGERE SaS in liquidazione – Paris - Credit repurchase

UniCredit Bank Hungary Zrt – Budapest - Banking (100%)
- 100% UniCredit Jelzalogbank Zrt – Budapest - Banking
- 100% UniCredit Leasing Hungary Zrt – Budapest - Leasing

- 100% AO UniCredit Bank – Moscow - Banking
  - 100% OOO "UniCredit Leasing" – Moscow - Leasing
  - 100% OOO UniCredit Garant – Moskow - Leasing
- 98,63% UNICREDIT BANK S.A. – Bucharest - Banking
  - 50,10% UniCredit Consumer Financing IFN SA (b) – Bucharest - Consumer credit
  - 0,05% / 99,95% UniCredit Leasing Corporation IFN S.A. – Bucharest - Leasing
- 100% UniCredit Banka Slovenija DD – Ljubljana - Banking
  - 100% UniCredit Leasing, leasing, d.o.o. – Ljubljana - Leasing
- 100% UniCredit Bank Serbia Jsc – Belgrade - Banking
  - 100% UniCredit Leasing Srbija d.o.o. Beograd – Belgrade - Leasing
- 99,44% UniCredit Bank a.d. Banja Luka – Banja Luka - Banking

Zagrebacka Banka d.d. – Zagreb - Banking (84,475%)
- 99,30% UniCredit Bank d.d. – Mostar - Banking
- 100% UniCredit Leasing Croatia d.o.o. za leasing – Zagreb - Leasing
- 100% Zagreb Nekretnine d.o.o. – Zagreb - Real estate manag.
  - 100% Zane BH D.O.O. – Sarajevo - Real estate manag.
- 100% ZB Invest d.o.o. – Zagreb - Mutual funds manag.

- 100% UniCredit Bank Czech Republic and Slovakia a.s. – Prague - Banking
  - 100% UniCredit Factoring Czech Rep. and Slovakia, a.s. – Prague - Factoring
  - 100% UniCredit Leasing CZ a.s. – Prague - Leasing
    - 100% UniCredit Leasing Slovakia a.s. – Bratislava - Leasing
- 99,45% UniCredit Bulbank AD – Sofia - Banking
  - 100% UniCredit Consumer Financing EAD – Sofia - Consumer credit
  - 100% UniCredit Factoring EAD – Sofia - Factoring
  - 100% UniCredit Fleet Management EOOD – Sofia - Fleet management
  - 100% UniCredit Leasing EAD – Sofia - Leasing
- Europa Investment Fund Management – Budapest - Management of mutual funds 100% (1)

(1) held indirectly by UniCredit S.p.A. trhough company non belonging to Banking Group

HypoVereinsbank – UniCredit Bank AG – Munich - Banking (100%)
- ...% for controlled companies (belonging to Banking Group) see Annex A
- 50,10% Card Complete Service Bank AG – Vienna - Issuing of credit cards
- 100% DC Bank AG – Vienna - Issuing of credit cards
  - 100% Diners Club Polska Sp.z.o.o. (a) – Warsaw - Credit cards
  - 100% Diners Club CS s.r.o. (a) – Bratislava - Credit cards
- 100% FactorBank Aktiengesellschaft – Vienna - Factoring
- 100% Bank Austria Wohnbaubank AG – Vienna - Real estate financing
- 100% BA GVG-Holding GmbH – Vienna - Holding
  - 100% BA Gebäudevermietungsgmbh (c) – Vienna - Real estate
- 100% Human Resources Service and devel.GmbH – Vienna - Personnel secondment
- 100% Pollux Immobilien GmbH (c) – Vienna - Real estate
- 100% UniCredit Leasing (Austria) GmbH (c) – Vienna - Holding and leasing
  - (***) LEASFINANZ GmbH – Vienna - Leasing 100% (***)
  - (***) Leasfinanz Bank GmbH – Vienna - Small lending business 100% (***)

(***) held indirectly by UniCredit Leasing (Austria) GmbH trhough company/ies non belonging to Banking Group

Bank Austria – UniCredit Bank Austria AG – Vienna - Banking (99,99%)
- 100% Schoellerbank Aktiengesellschaft – Vienna - Private bank
  - 100% Schoellerbank Invest AG – Salzburg - Investment company
- 100% Palais Rothschild Verm.GmbH & Co OG – Vienna - Real estate services
- 100% Palais Rothschild Vermietungs GmbH – Vienna - Real estate services
- 94,95% Bank Austria Real Invest Immob.-Managem.GmbH – Vienna - Real estate investment
  - 100% Bank Austria Real Invest Imm.Kap.GmbH – Vienna - Real estate invest. company
  - 100% Bank Austria Real Invest Client Investm. GmbH – Vienna - Investment advisory
- 100% Alpine Cayman Islands Ltd. – Georgetown (Cayman Is.) - Holding
- 100% Paytria Unternehmensbeteiligungen GmbH – Vienna - Holding
- 100% Bank Austria Finanzservice GmbH – Vienna - Agent for investments services
- 100% BA- Alpine Holdings, Inc. – Wilmington (USA) - Holding
- 100% AI Beteiligungs GmbH – Vienna - Holding
- 100% CABET-Holding GmbH – Vienna - Holding
  - 100% CABO Beteiligungsgesellschaft m.b.H. – Vienna - Holding
- 100% BA-CA Markets & Investment Bet.GmbH – Vienna - Holding
- 100% (2) BAH-Kappa Kft. V.A. – Budapest - Leasing

(2) held indirectly by UniCredit Bank Austria AG trhough company non belonging to Banking Group

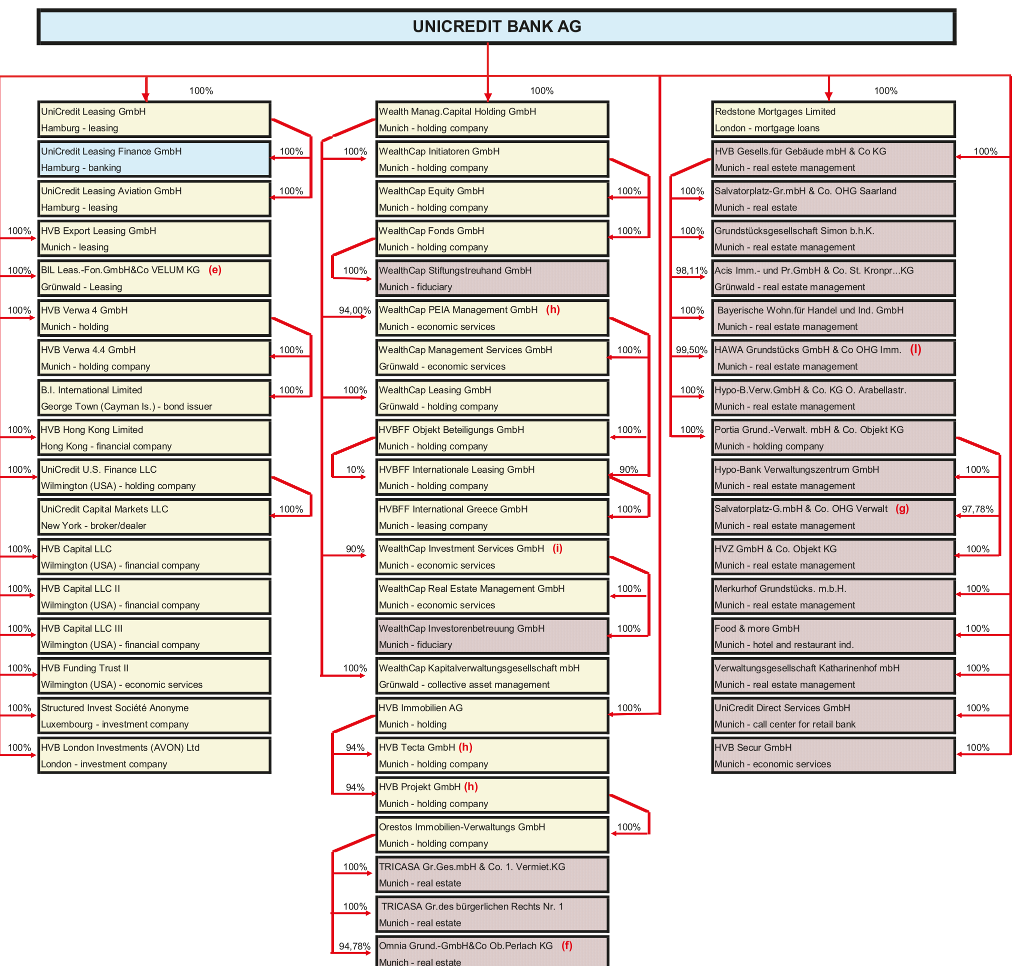
(a) not operative (b) 49,9% held by UniCredit SpA (c) % considering shares held by other Companies controlled by BA (d) Other companies belonging to UniCredit Group and third parties hold shares of the company

Companies belonging to the Banking Group

banking
financial
instrumental

Updated
01st January 2022

Annex A



(e) voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (f) 5,22% held by WealthCap Leasing GmbH (g) 2,22% held by Tivoli Grundstücks-Aktiengesellschaft (h) 6% held by UniCredit Bank AG (i) 10% held by UniCredit Bank AG (l) 0,50% held by Tivoli Grundstücks-Aktiengesellschaft

Companies belonging to the Banking Group

- banking
- financial
- instrumental

Updated
01st January 2022

List of Branches

Czech Republic

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