One Bank One UniCredit

2016

Annual Report

Welcome to UniCredit Bank

We are a simple pan-European commercial bank with a fully plugged in Corporate & Investment Banking, delivering our unique Western Central and Eastern European network to our extensive client franchise.

We offer local expertise as well as international reach. We accompany and support our 25 million clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to another 18 countries worldwide.

Our vision is to be "One Bank, One UniCredit".

Everything we do to implement our vision is based on our Five Fundamentals.

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First).

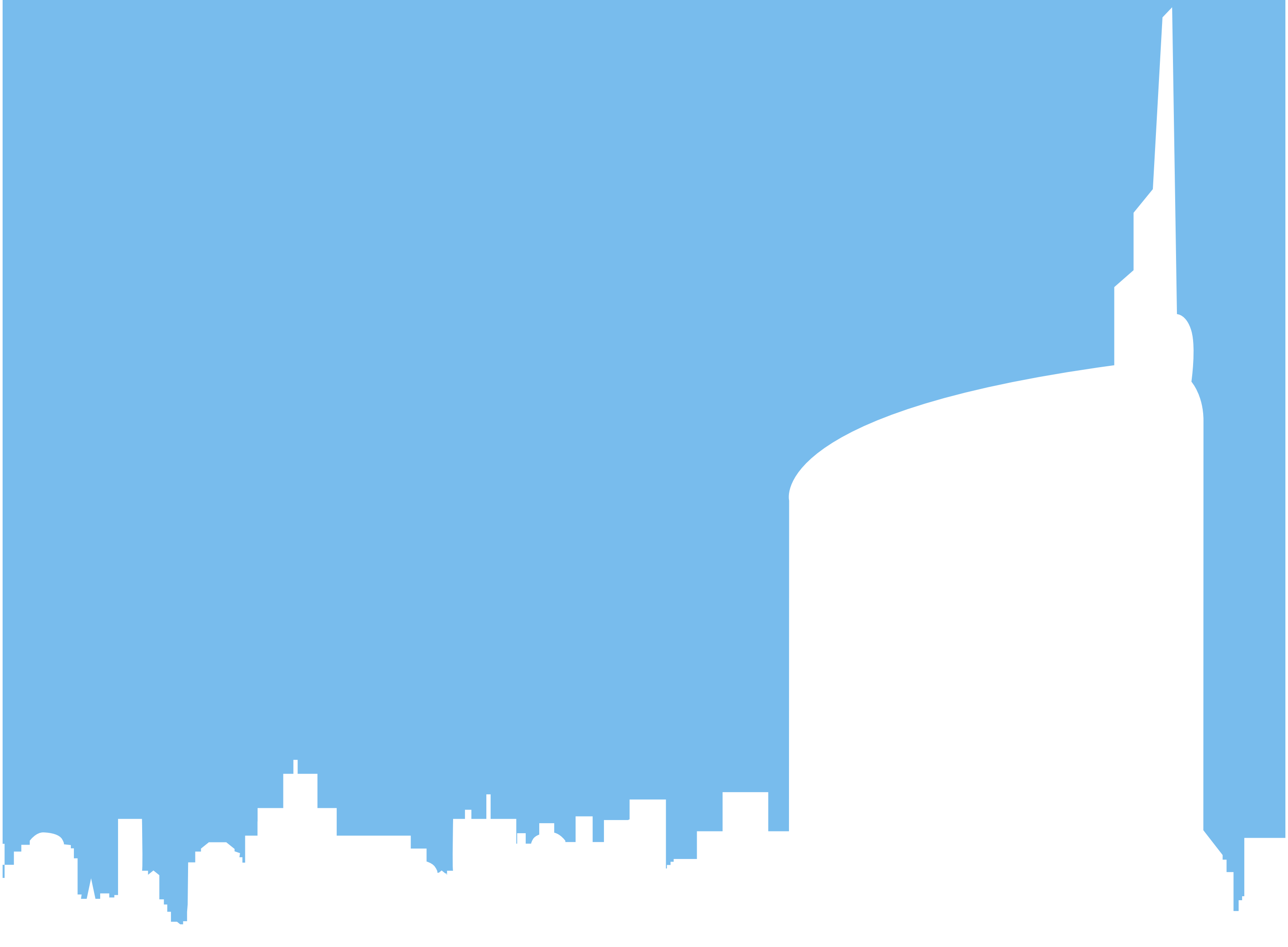
To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as "One Bank, One UniCredit" (Cooperation & Synergies).

We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

Life is full of ups and downs.
We're there for both.

Welcome to
UniCredit

One Bank, One UniCredit.



A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be "One Bank, One UniCredit". A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Executive Management Committee

JEAN PIERRE MUSTIER

Chief Executive Officer

GIANNI FRANCO PAPA

General Manager

GIANPAOLO ALESSANDRO

Head of Group Legal – Secretary of the Board of Directors

CARLO APPETITI

Group Compliance Officer

GIANFRANCO BISAGNI

Co-Head of CIB Division

ANDREA CASINI

Co-Head Italy

PAOLO CORNETTA

Head of Group Human Capital

RANIERI DE MARCHIS

Co-Chief Operating Officer

MASSIMILIANO FOSSATI

Group Chief Risk Officer

ALESSANDRO FOTI

Head of Asset Gathering

FRANCESCO GIORDANO

Co-Chief Operating Officer

OLIVIER KHAYAT

Co-Head of CIB Division

GIORDANO LOMBARDO

Head of Asset Management

LUIGI LOVAGLIO

Country Chairman Poland

GIOVANNI RONCA

Co-Head Italy

CARLO VIVALDI

Head of Central and Eastern Europe Division

THEODOR WEIMER

Country Chairman Germany

ROBERT ZADRAZIL

Country Chairman Austria

MIRKO BIANCHI

Group Chief Financial Officer

Message from the Chairman of UniCredit S.p.A.

"With the launch of the Transform 2019 Strategic Plan, UniCredit introduced a new way of banking – a way that is both more sustainable and more competitive."

Giuseppe Vita
Chairman
UniCredit S.p.A.

Dear Shareholders,

2016 saw a series of upheavals that significantly contributed to uncertainty about the future. It began with rising concerns about the health of the Italian banking sector, continued with the jolt that Brexit delivered to an already weakened Europe, and closed with rising turmoil in the Middle East and the introduction of new unknowns to a changing geopolitical landscape. Through it all, a steady stream of terrorist attacks further undermined our shared sense of security.

Concurrently, the European banking industry was compelled to reinvent itself in an era of zero interest rates, more stringent regulation and rising customer expectations.

In light of all of these developments, UniCredit cannot afford to stand still. If it is going to seize every opportunity to generate value and maintain its position as one of Europe's premier banks, it must continue to evolve.

To drive this evolutionary process forward, significant steps were taken over the past 12 months. Indeed, 2016 marked a major turning point for UniCredit, headlined by the appointment of Jean Pierre Mustier as the bank's new chief executive officer. He accepted the reins from Federico Ghizzoni, whom I would like to thank for his many years of dedicated service and for the steadfast commitment he displayed as UniCredit's CEO over the past six years.

Jean Pierre's return to the Group was most welcome. Given the years he previously spent as the head of our Corporate and Investment Banking division, I am confident that his extensive knowledge of the bank, along with his many stellar personal qualities, will enable him to steer UniCredit through its current transformation.

The replenishment of our management team represented yet another important change for UniCredit. All of our new managers, who were carefully chosen for their international vision and experience, were appointed from within the Group – an outcome that underscores the superb pool of professional talent to be found at UniCredit.

Yet I believe that the most significant event of the year for our Group was the launch of the Transform 2019 Strategic Plan, which resulted from the diligent work of our Board of Directors and our entire management team. With this plan, UniCredit introduced a new way of banking – a way that is both more sustainable and more competitive.

This break with the past can be summed up in three words: discipline, efficiency and profitability. Our priority is to increase UniCredit's capacity to create value by strengthening its balance sheet and taking a more vigilant approach to risk management. At the same time, we will leverage the full potential of new technologies to accelerate the digitization of the bank's processes and provide customers with higher-quality services.

In 2016, changes were also made to UniCredit's corporate governance. In particular, the functions of the Corporate Governance Committee were expanded to include supervision of sustainability-related issues, which have continued to grow in importance. With the renewal of the board to take place in 2018, as previously scheduled, additional changes will come into force. These include a reduction in the number of board members and vice presidents and the introduction of term limits for directors to ensure adequate turnover. Further work is ongoing to improve the efficiency of the board, including measures related to the management of documents and the flow of information. The object is to make more time available for strategic discussions.

Finally, Martha Dagmar Böckenfeld and Sergio Balbinot joined the board this year following the resignations of Helga Jung and Manfred Bischoff. I would like to thank both of these departing directors for their invaluable contributions.

All of these changes were made for the sake of a common objective: to make UniCredit more competitive. We cannot afford to be complacent and must redouble our efforts to ensure we are fully equipped for the future.

Only by working together can we overcome all the challenges ahead. Now more than ever before, the commitment and skill of our colleagues, as well as the confidence of our shareholders, are our primary sources of strength. We are grateful for their ongoing support at this key moment in UniCredit's long and proud history.

Sincerely,

Giuseppe Vita
Chairman
UniCredit S.p.A.

Message from the Chief Executive Officer of UniCredit S.p.A.

"I am proud to have the opportunity to lead UniCredit. I and my management team are fully committed to making UniCredit one of the most attractive banks in Europe."

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

Dear Shareholders,

as this is my very first letter to you, I would like to say how proud and honored I am to have the opportunity to lead UniCredit and that I and my management team, are fully committed to making UniCredit one of the most attractive banks in Europe and to creating recurring value for all our stakeholders.

2016 was an eventful year for European financial services, including for the Italian banking sector. This, coupled with rapidly evolving client behaviors and expectations and the need to transform and strengthen the Bank, led us to launch an in depth strategic review in early July.

Our core priorities are to reinforce and optimize the Group's capital position, improve profitability, ensure continuous transformation of operations, maintain flexibility to seize value creating opportunities, further reduce costs, increase cross selling and above all further improve risk discipline.

There is now one executive governing body, one closely knit management team, led by the CEO and composed of the leaders of the key activities and geographies within UniCredit, with one single General Manager in charge of all businesses activities. There is now One Bank, One UniCredit.

Before we presented the outcome of the strategic review, Transform 2019, which is the beginning of a long term transformative process for the bank, we took bold actions to strengthen our capital ratios. We did so by agreeing the sales of Pioneer and Pekao and by optimizing our participation in Fineco as well as improving our asset quality by addressing our Italian legacy issues through the de-risking of a 17.7 billion euro non performing portfolio.

Transform 2019's core message is that UniCredit is a simple Pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive client franchise; competitive advantages – on which we shall build.

The plan is based on pro-active self-help. Key levers of the plan, cost and risk, are fully under management control. This to ensure maximum value creation for all our stakeholders while reducing execution risk.

We de-risked the balance sheet by taking an 8.1 billion euro one-off provision in 2016 resulting in boosted coverage. This will significantly improve our asset quality.

Very strong risk discipline is another key component of the plan, this to further improve the quality of future origination with the objective to bring our group cost of risk down to about 49 bps by end 2019.

The transformation of business processes will allow our teams more client facing time, provide a better service and leading to a recurring 1.7 billion euro net annual cost reduction as of 2019. Group cost income ratio will decrease by more than 9.5 percentage points to below 52 per cent.

However, this transformation will also lead to a number of colleagues leaving the Group, primarily through early retirements and voluntary redundancies. We shall endeavor to treat everyone concerned with the utmost respect and dignity to facilitate their transition. My thanks for the contribution they have made to the Bank.

Going forward we will have a much leaner but strong steering corporate centre to drive Group performance and ensure accountability through a set of Group-wide KPIs.

Taking the current low rate environment and prevailing economic context into account, our objective is to reach a RoTE above 9 per cent in 2019.

Fully loaded CET1 will be above 12.5 per cent in 2019.

The Transform 2019 targets are tangible pragmatic and based on conservative assumptions. As a team we are fully committed to achieving them with management's interests fully aligned with shareholders'.

In order to achieve the plan targets and to significantly strengthen the Group's capital position in line with best-in-class global SIFIs, a 13 billion euro rights issue was proposed.

Let me also pay tribute to our employees and thank them for their ongoing commitment. This is only the beginning of our transformative journey and it is thanks to our teams, that we will be successful and create value.

Sincerely,

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

Highlights

UniCredit is a strong pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise. UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as an another 18 countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

Financial Highlights[1]

Operating income
€ 18,801 m

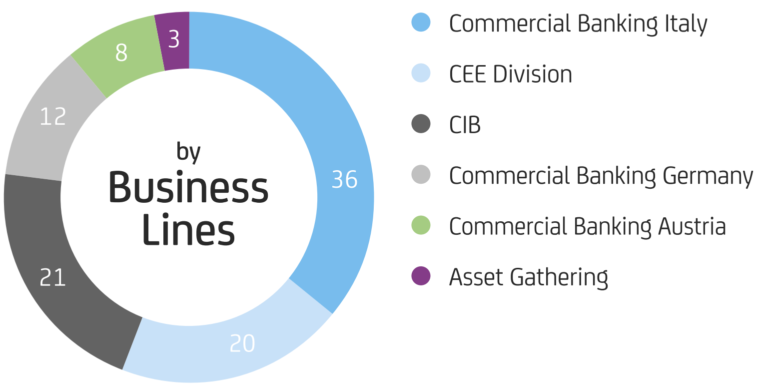
Net profit (loss)
€ (11,790) m

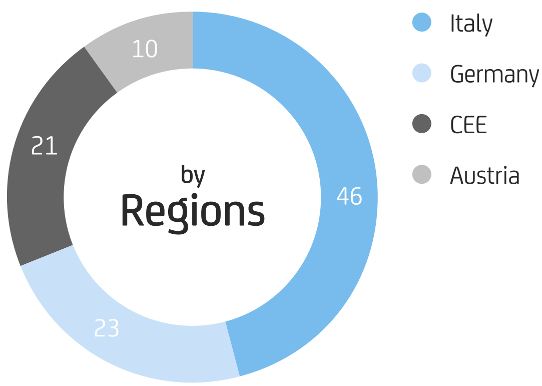
Shareholder's equity
€ 39,336 m

Total assets
€ 859,533 m

Common Equity Tier 1 ratio*
11.15%

Revenues[1] (%)



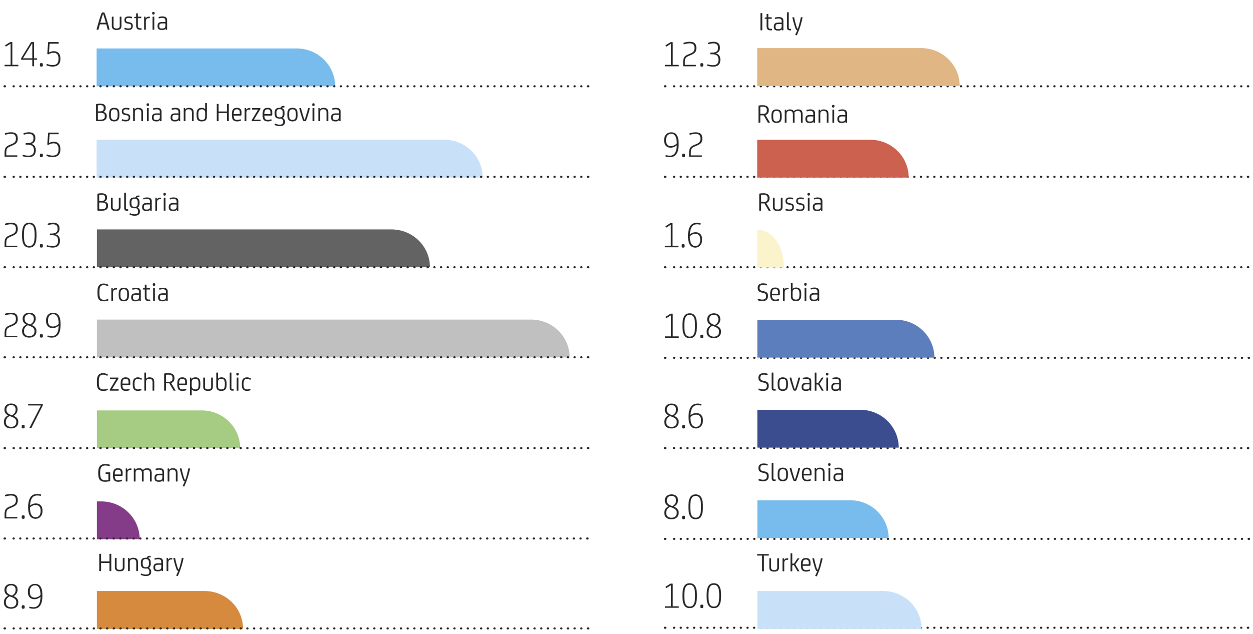


1. Data as at December 31, 2016. As at December 31, 2016, in accordance with IFRS5, the assets/liabilities and the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies, as a result of their classification as "discontinued operations", were recognized:
• in Balance Sheet under items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale";
• in Income Statement under item "Profit (loss) after tax from discontinued operation";
• the previous periods were restated accordingly to increase comparability.
* Fully loaded CET1 ratio at 11.15% post capital increase, above 12% including Pioneer and Pekao deals. CET1 ratio transitional at 11.49% post capital increase.

International presence[2]

Austria
Bosnia and Herzegovina
Bulgaria
Croatia
Czech republic
Germany
Hungary
Italy
Romania
Russia
Serbia
Slovakia
Slovenia
Turkey

Market Shares[3] (%)



2. On December 8, 2016, UniCredit ("UCG") entered into a binding agreement with PZU SA and PFR (Polish Development Fund) for the sale of a 32.8% stake in Bank Pekao (Poland) and, on the same date, it announced the disposal of the remaining 7.3% via a market transaction. The CEE division includes only the 11 countries in which the Group operates through Retail branches. Accordingly, Azerbaijan, Estonia, Latvia and Lithuania have been excluded.
3. Market Shares in terms of Total Loans as at December 31, 2016. Source: Company data, National Central Banks.

One Bank, One UniCredit Transform 2019

A challenging business environment marked by greater regulatory pressure and a lengthy period of low growth and low interest rates has prompted a deep strategic review of every major area of the bank. More specifically, the review has focused on how to reinforce and optimize the Group's capital position, reduce the risk profile of the balance sheet, improve profitability, and ensure that operations are transformed continuously in ways that enable increased client focus, further cost reductions and cross-selling across Group entities. These goals are to be pursued while maintaining the flexibility to seize value-creating opportunities and while improving risk discipline still further.

Hence, the Transform 2019 strategic plan targets are pragmatic, tangible and achievable and are based on conservative assumptions associated with five strategic pillars defined as follows:

- **Strengthen and optimize capital,** to align capital ratios with the best in class G-SIFIs
- **Improve the asset quality,** addressing Italian legacies via a proactive balance sheet de-risking
- **Transform the operating model,** strengthening our client focus while simplifying and streamlining products and services
- **Maximize commercial bank value,** capitalizing on the potential of our retail client relationships and our status as the "go-to" bank for corporate clients in Western Europe while building on our leadership position in Central and Eastern Europe and increasing cross-selling across business lines and countries
- **Adopt a lean but strong steering Group Corporate Center,** establishing consistent Groupwide KPIs to drive performance and improve accountability

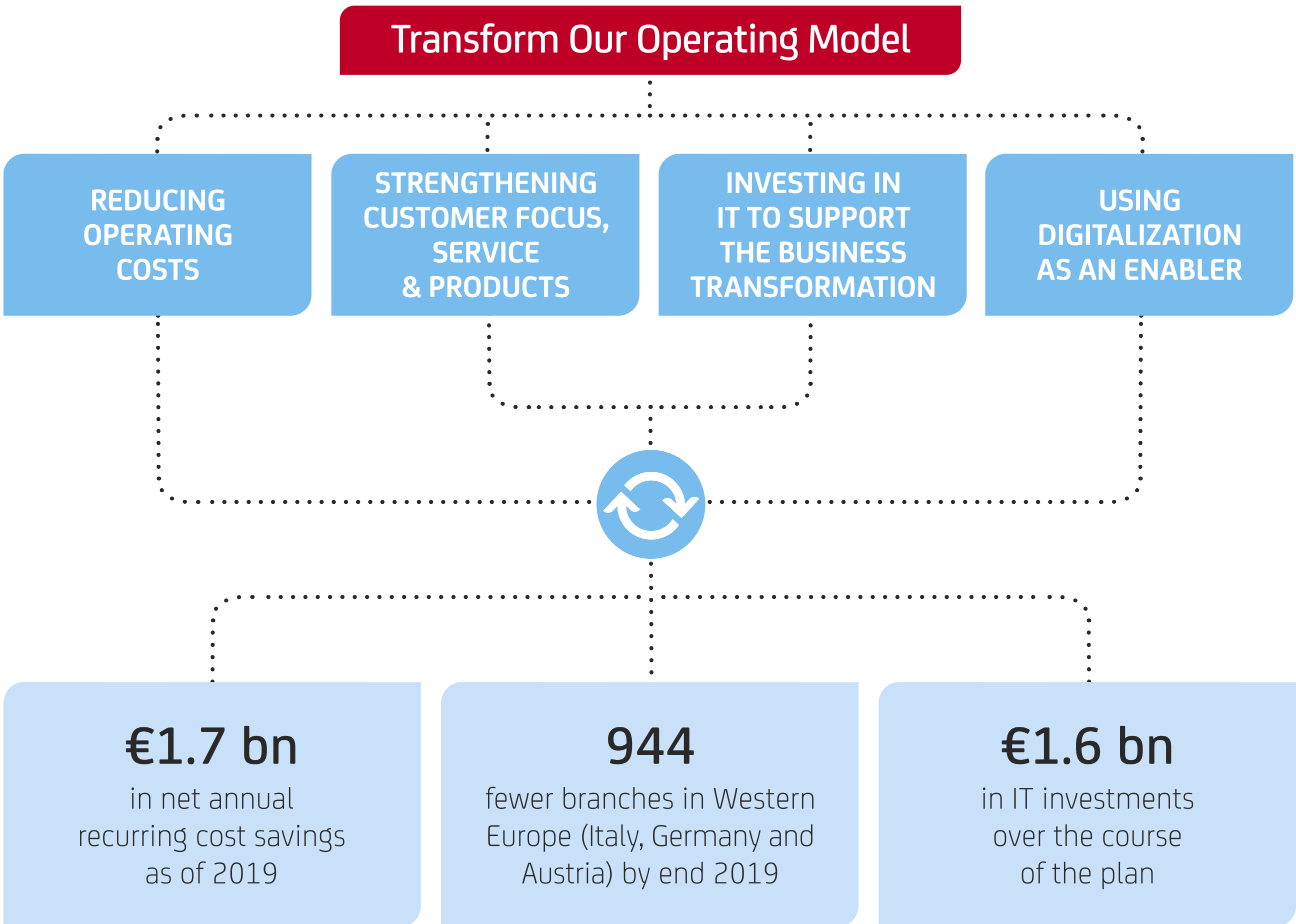
This transformation will enable the Group to take advantage of future opportunities and generate long-term profits, functioning successfully as a **simple pan-European commercial bank with a fully plugged in CIB and a unique network in Western, Central and Eastern Europe.**

Transform Our Operating Model

Among the key pillars of UniCredit's strategic plan for 2017-2019, one of the most important objectives is the transformation of the Group's operating model. The purpose of this is to strengthen our customer focus, service and products while simplifying our structure and increasing our efficiency.
Digitalization will enable the transformation and make it possible to achieve a lower sustainable cost base.

The main initiatives include:

- **Redesigning end-to-end processes and lowering the cost of "running the bank"** by leveraging our global operations and developing economies of scale
- **Strengthening client focus** by further improving the customer experience, carrying out product standardization, and engaging in more client-facing activities
- **Investments in IT** that will support the business transformation with greater digitalization, the technological improvement of core systems, and ongoing infrastructure updates



Simple Pan-European Commercial Bank

We are a simple pan-European commercial bank with a fully plugged in CIB, enriched by multiple cultures and strong local knowledge, where everybody shares the same vision: One Bank, One UniCredit. That's why when it comes to our client's international needs we have the solution. Whether it is trade or other banking services, we can help: with our deep local knowledge and our unique Western Central and Eastern European network serving our clients in Europe and beyond, we are fully equipped to meet our clients' needs, both in our home-markets and further afield.

Contents

Financial Highlights – Consolidated

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2016 MCZK	31 Dec 2015 MCZK
Operating results		
Net interest income and similar income	10,145	10,235
Net fee and commission income	3,823	3,843
Administrative expenses	(7,854)	(7,507)
Profit before income tax	7,713	7,064
Net profit after tax	6,045	5,640
Statement of financial position figures		
Total assets	635,042	570,284
Receivables from clients	385,572	351,541
Deposits from clients	371,163	363,989
Issued capital	8,755	8,755
Key ratios		
Return on average assets	1.0%	1.0%
Return on original capital	11.2%	11.4%
Assets per employee	190.8	172.8
Administrative expenses per employee	2.4	2.3
Profit after tax per employee	1.8	1.7
Information about capital and capital adequacy		
Tier 1	56,464	51,944
Tier 2	1,575	1,578
Capital	**58,039**	**53,522**
Capital requirement for credit risk under the standardised approach:	**6,466**	**5,878**
Capital requirements for exposure to regional government or local authorities	6	8
Capital requirements for exposure to institutions	13	1
Capital requirements for exposure to businesses	2,709	1,921
Capital requirements for retail exposures	2,055	1,925
Capital requirements for exposures secured by real estate	774	776
Capital requirements for exposures at default	255	407
Capital requirements for equity exposures	77	109
Capital requirements for other items	577	731
Capital requirement for credit risk under the IRB approach:	**20,996**	**21,033**
Capital requirements for exposure to central government or central banks	463	768
Capital requirements for exposure to institutions	880	740
Capital requirements for exposure to businesses	17,735	17,903
Capital requirements for retail exposures	1,918	1,622
Capital requirements for position risk	527	324
Capital requirements for currency risk	67	162
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	39	76
Capital requirements for operational risk	1,800	1,740
Capital requirements for credit valuation adjustment	111	123
CET1 capital ratio	15.05%	14.17%
Tier 1 capital ratio	15.05%	14.17%
Total capital ratio	15.47%	14.60%
Average number of employees	3,328	3,301
Number of branches	161	171

Reconciliation of equity to regulatory capital (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2016 MCZK	31 Dec 2015 MCZK
Data from the Statement of Financial Position:		
Share capital	8,755	8,755
Share premium	3,495	3,495
Valuation reserves	4,782	5,444
Retained earnings, reserve funds and other capital funds	43,814	38,172
Profit for the year	6,045	5,640
Total equity	**66,891**	**61,506**
CET1 capital adjustments:		
Profit for the year	(6,045)	(5,640)
Reserve from revaluation of hedging instruments	(1,880)	(1,755)
Reserve from revaluation of available-for-sale securities	–	–
Foreign exchange rate differences from the foreign branch	(2)	20
Intangible assets	(1,384)	(792)
Credit risk adjustments for non-defaulted exposures	1,839	1,670
Anticipated losses for non-defaulted exposures	(2,462)	(2,547)
Effect of companies not included in the prudential consolidation group	(452)	(380)
Other adjustments	(41)	(138)
Total CET 1	**56,464**	**51,944**
Total Tier 1 (T1)	**56,464**	**51,944**
Credit risk adjustments for exposures at default	7,363	8,551
Anticipated losses for exposures at default	(5,067)	(6,197)
Non-deductible surplus above the risk-weighted assets limit	(721)	(776)
Total Tier 2 (T2)	**1,575**	**1,578**
Capital	**58,039**	**53,522**

Financial Highlights – Separate

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2016 MCZK	31 Dec 2015 MCZK
Operating results		
Net interest income and similar income	8,947	9,051
Net fee and commission income	3,521	3,574
Administrative expenses	(7,296)	(6,950)
Profit before income tax	6,812	6,271
Net profit after tax	5,319	5,033
Statement of financial position figures		
Total assets	615,595	547,218
Receivables from clients	367,298	329,089
Deposits from clients	371,304	364,243
Issued capital	8,755	8,755
Key ratios		
Return on average assets	0.9%	1.0%
Return on original capital	10.2%	10.3%
Assets per employee	205.7	185.4
Administrative expenses per employee	2.4	2.4
Profit after tax per employee	1.8	1.7
Information about capital and capital adequacy		
Tier 1	54,243	50,343
Tier 2	1,820	1,767
Capital	**56,063**	**52,110**
Capital requirement for credit risk under the standardised approach:	**3,199**	**3,090**
Capital requirements for exposure to regional government or local authorities	6	8
Capital requirements for exposure to institutions	3	1
Capital requirements for exposure to businesses	553	507
Capital requirements for retail exposures	1,117	893
Capital requirements for exposures secured by real estate	670	679
Capital requirements for exposures at default	67	73
Capital requirements for equity exposures	337	368
Capital requirements for other items	446	561
Capital requirement for credit risk under the IRB approach:	**24,263**	**23,559**
Capital requirements for exposure to central government or central banks	463	768
Capital requirements for exposure to institutions	880	741
Capital requirements for exposure to businesses	21,002	20,428
Capital requirements for retail exposures	1,918	1,622
Capital requirements for position risk	527	323
Capital requirements for currency risk	44	82
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	39	76
Capital requirements for operational risk	1,518	1,432
Capital requirements for credit valuation adjustment	111	123
CET1 capital ratio	14.61%	14.04%
Tier 1 capital ratio	14.61%	14.04%
Total capital ratio	15.10%	14.53%
Average number of employees	3,003	2,952
Number of branches	161	171

Reconciliation of equity to regulatory capital (separate)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2016 MCZK	31 Dec 2015 MCZK
Data from the Statement of Financial Position:		
Share capital	8,755	8,755
Share premium	3,495	3,495
Valuation reserves	4,792	5,457
Retained earnings, reserve funds and other capital funds	41,174	36,141
Profit for the year	5,319	5,033
Total equity	**63,535**	**58,881**
CET1 capital adjustments:		
Profit for the year	(5,319)	(5,033)
Reserve from revaluation of hedging instruments	(1,890)	(1,767)
Reserve from revaluation of available-for-sale securities	–	–
Foreign exchange rate differences from the foreign branch	(2)	20
Intangible assets	(1,227)	(663)
Credit risk adjustments for non-defaulted exposures	1,839	1,670
Anticipated losses for non-defaulted exposures	(2,652)	(2,627)
Other adjustments	(41)	(138)
Total CET 1	**54,243**	**50,343**
Total Tier 1 (T1)	**54,243**	**50,343**
Credit risk adjustments for exposures at default	7,363	8,551
Anticipated losses for exposures at default	(5,067)	(6,197)
Non-deductible surplus above the risk-weighted assets limit	(476)	(587)
Total Tier 2 (T2)	**1,820**	**1,767**
Capital	**56,063**	**52,110**

Chairman's Statement

"UniCredit Bank achieved excellent results in 2016. The consolidated net profit on both markets exceeded CZK 6 billion, which is a 7.2% increase compared to last year."

Jiří Kunert
Chairman of the Board
and CEO
UniCredit Bank Czech Republic and Slovakia

Dear Shareholders, Ladies, and Gentlemen,

You are now holding the 2016 Annual Report of UniCredit Bank Czech Republic and Slovakia, a.s., in your hands. We are a strong financial institution on the Czech and Slovak market, and an integral part of a leading European banking group with more than 25 million clients across fourteen markets. We provide quality retail services and financing to clients ranging from entrepreneurs, to small and medium-sized enterprises, exporters and global companies.

Throughout the year the financial market in the Czech Republic was characterised by steadily low, even negative interest rates. This fact affected the reduction in net interest income, which, however, the banks managed to offset owing to the dynamic growth in lending and the cutting of costs, including the costs of risk. Both enterprises and households showed steadily increasing interest in lending throughout the year, with the interest of households partially shifting from housing towards consumption.

The financial market in Slovakia was affected by the negative deposit rates of the European Central Bank, which also made rates on the inter-bank market negative. As for mortgage rates, there was the pressure of intense competition. However, cheap loans encouraged interest in financing, in particular of households, where lending reported a double-digit increase for the third consecutive year.

The increase in our net profit was due to both the steadily increasing volumes of retail and corporate loans as well as the return from an international transaction – the acquisition of Visa Europe, where our bank had a shareholding.

In the retail segment, our long-term focus is on the dynamic growth of our client base and provision of simple products, as well as the introduction of major innovations to the market. Building on the introduction of the revolutionary U konto account with a ten-year guarantee of conditions, the retail segment managed to more than double the number of new client acquisitions. The unique U konto, with withdrawals from all ATMs worldwide free of charge and a ten-year guarantee of conditions, has already been opened by nearly 330 thousand clients, which is almost one third more than at the end of 2015. With the increasing number of clients, deposits rose by 11% as well as the volume of consumer loans and mortgages granted by another 12%.

Corporate banking also contributes significantly to the growth of UniCredit Bank. We provide comprehensive products, financing and quality advisory to clients from small and medium-sized enterprises all the way up to the largest corporations, owing to our professional know-how and synergies with UniCredit Leasing and UniCredit Factoring. Overall lending to corporate clients increased by 7% yoy, with the financing of small and medium-sized companies even reporting double-digit growth. The increase in deposits by companies also exceeded 10%. Within structured financing, we were involved in a number of significant transactions in the sector of energy, telecommunications, health, transport, and the financing of commercial property.

In our leasing companies, the financed value of vehicles for 2016 grew by 20% compared to the same period in 2015. Major yoy growth was reported by vehicles (below 3.5 tonnes), namely 23.4%.

This year we will focus on the further acquisition of retail clients with offerings of investment plans, consumer loans and mortgages with attractive conditions and the possibility to take out select products online. Further, we will continue to develop our electronic distribution channels and streamline our products. We will strengthen new client acquisitions in corporate banking. Moreover, we will maintain our prudent strategy of cutting the costs of credit risk in line with the development of the macroeconomic environment on both markets where we operate.

Both clients and experts appreciate our effort, as evidenced by the many awards we received last year. U Konto obtained the Account of the Year award in a competition of banking products entitled Fincentrum Bank of the Year; our mortgages and the Presto Loan for Housing received the Golden Crown (Zlatá koruna); the consumer Presto Loan did well in the Finparáda, receiving the Financial Product of 2016 award. The prestigious Euromoney Magazine gave us an award for our use of innovative technology and for our international client services in private banking.

In 2016, UniCredit Bank focused on activities overlapping with social responsibility.

This year we are proud to be able to support several charitable organisations which help sick and disadvantaged children in the Czech Republic and in Slovakia, as well as people affected by natural disasters, such as last year's earthquake in Central Italy. We also supported scientific institutions which are engaged in research and innovation in the field of oncological pathologies.

We continue our partnership with Poradna při finanční tísni (Counselling in Stringency) and, in cooperation with our partners in Slovakia, we also support unpaid blood donation and charitable Christmas markets for a good cause. Another important initiative is the Gift Matching Program, owing to which our employees can support a non-profit organisation at their own discretion.

We appreciate our long-term cooperation with the Karlovy Vary International Film Festival, of which our bank is a proud partner. We are also involved in sporting events. We have been a partner of the prestigious international UniCredit Czech Open Men's Tennis Tournament for a number of years. Last year, we supported the RunCzech series for the first time.

Thanks to you, our clients, and mainly thanks to your long-term trust in UniCredit as well as owing to the massive effort of our employees, we have achieved quality results. For that, I would like to express my thanks and gratitude to all of you.

April 2017

Jiří Kunert
Chairman of the Board
and CEO

Macroeconomic environment in 2016

in the Czech Republic

In 2016 the growth of the Czech economy slowed considerably to 2.4%, mainly due to weaker investment activity, which lacked the former drive in the form of EU fund drawdown. Export dynamics was weaker, too; although, on the other hand, the lower volume of investment imports increased the contribution of net export to GDP growth. With a more-than-one-half share, household consumption was a key factor of the growth of the economy. It was supported by increasing employment and accelerating wage growth in an environment of diminishing vacancies, as well as ongoing low inflation for most of the year. The average unemployment rate was at 5.5%, i.e. an eight-year low. Businesses increasingly listed lack of employees as the main obstacle to business development.

Throughout 2016, the CNB continued its exchange rate commitment to prevent the koruna from strengthening against the euro. The pressures on appreciation of the Czech koruna made the CNB intervene on the exchange market in every month of the year, save for one. The volume of the CNB's foreign reserve assets increased by more than one third, or the equivalent of 13% of GDP, throughout the year. A secondary result of investors' open positions in the appreciation of the Czech koruna was demand for CZK bonds from the Czech government, which maintained yields on a substantial portion of the curve in the negative. The low interest rates had a negative impact on the net interest income of the banking sector, while having a positive impact on lending dynamics. The total volume of bank loans accelerated its yoy growth to 7.2% owing to higher demand by companies, households and financial institutions. In order to prevent excessive growth in mortgage loans, the CNB has recently used macro prudential policy tools.

Two measures to tackle tax evasion were central to the government's economic policy – the so-called control reporting and the Electronic Evidence of Transactions /EET/ – which became effective during the year. Following the implementation of the measures, interim data on the state budget indicated an improvement in the payment discipline of taxable persons. The key measures with an accomplished legislative process also include the Act on the Budget Responsibility Rules. As for social policy, the government used its discretion to determine the value of the 2017 percentage pension assessment at 2.2%, i.e. beyond the scope of the increase by inflation plus one third of the real wage increase. The government also decided on a robust increase to the minimum wage by 11% in 2017.

in Slovakia

The growth of the Slovak economy decelerated in 2016; however, it maintained its level above 3%. Economic growth was slowed down, in particular, due to investments – the termination of EU-funded projects from the preceding budget period and a very slow kick-off of new EU funds caused a sharp slump in public investments. On the other hand, household consumption continued in its growth trend, with external demand reporting a positive development, too. The growing economy continued to create new jobs, brining unemployment very close to the historic lows of 2008. During the year, the labour market increasingly started to struggle with the inadequate structure of the unemployed, which generated increasing pressure on the growth of wages and the import of labour from abroad. The growth of real household income was no longer hampered by inflation, which remained negative for most of the year, resuming slightly positive figures in December.

The eurozone's monetary policy is still loose. During the year, the ECB prolonged and extended the quantitative easing programme, pushing interest rates on the interbank market to new historic lows. The long-term negative interest had a negative impact on the interest income of the Slovak banking sector. Banks managed to increase lending, in particular, in the segment of individuals. A legislative change limiting the amount of fees charged for early repayment started a price war, owing to which the refinancing of old loans reported a new historic peak in the spring months. The low interest rates and the strong labour market, however, also attracted new mortgage applicants. This increasing trend was also maintained by corporate loans; however, due to slower growth in private investments in the economy, the dynamics of their growth approached approximately one half. The good condition of the economy also caused further improvement in the ratio of loans at default.

Parliamentary elections were held in Slovakia in February 2016, which saw increase in the support of, in particular, non-standard anti-systemic parties and made the formation of a new government difficult. However, a compromise was found quite quickly and the single-coloured government of the Social Democrats was replaced by a left-right four-party coalition, later reduced to a three-party coalition. Regardless of various affairs, the government's coalition seems to be stable so far. Right at its beginning, the coalition repeatedly postponed its objective of achieving a balanced budget until the end of the election period (2020), making the implementation of the consolidation of public finance slower compared to the original plans.

Corporate, investment, and private banking

Corporate and investment banking

2016 represented another successful year for the Corporate and Investment Banking Division. We continued to reinforce our strong position in corporate banking in the Czech and Slovak market. We did well in the acquisition of new clients, owing to the provision of comprehensive services and high flexibility for our clients.

Revenues in the corporate division grew on both markets by more than 4% compared to 2015, and we acquired almost 3,197 new clients.

As for primary sources, we managed to considerably increase the volume of deposits by nearly CZK 25 billion on the Czech and Slovak market, which corresponds to 10.4% compared to 2015. In lending, despite companies' declining demand for loans, we increased the volume of loans by CZK 17 billion, i.e. by 7% compared to 2015.

In 2016, in line with our long-term strategy focused on small and medium-sized enterprises, the largest Small Business clients from retail were transferred to the corporate banking division in order to also ensure the quality and comprehensiveness of services for smaller companies, thus reinforcing our overall position within this segment.

Overall, 2016 was a very successful year in the segment of small and medium-sized enterprises, with a yoy increase in the volume of extended loans of more than 10%. The growth in lending was also driven by cooperation with external entities granting bank guarantees to small and medium-sized enterprises, or providing the bank with cheaper sources of financing and thus making financing available to a larger range of clients. On a long-term basis, those entities include: Českomoravská záruční a rozvojová banka (ČMZRB), the European Investment Bank (EIB), the European Investment Fund (EIF), and the Council of Europe Development Bank (CEB). Additionally, we effectively provided our Slovak clients with financing using TLTRO funds from the European Central Bank (ECB).

In 2016, the Bank reinforced its leading 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 – arranging the refinancing of EP Infrastructure, České radiokomunikace, Agel, 100% subscription of financing the acquisition of a minority shareholding in Italian lotteries for Sazka, arranging the financing of Aquapalace or Medicon.

In terms of structured and project finance, 2016 was the most successful year in the bank's history on the Slovak market. In particular, the bank was active in the financing of infrastructure. A major example is the provision of bridge loans and the co-financing of infrastructural projects of Západoslovenská vodárenská spoločnosť, a.s. In cooperation with UniCredit Group, the bank participated in the financing of the Bratislava bypass in the form of a PPP, where UniCredit Group played a prominent role in the syndicate of financing banks.

The 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 terms of lending, the bank was slightly more active in industrial real estate and residential construction than in other segments in 2016.

UniCredit Bank participated in a major syndicated loan for refinancing the existing portfolio of the P3 Group in the Czech Republic and Slovakia. Further, the bank financed the construction of industrial buildings for the CTP, PANATTONI and ACCOLADE groups.

Among others, development projects of the CRESTYL, FINEP and SATPO groups in Prague and the PENTA Group in Košice were financed in the field of residential projects. As one of two creditors, UniCredit Bank also participated in the refinancing of the Nová Karolina Ostrava shopping mall and the retail real estate portfolio of the CPI Group in Slovakia. As for office real estate, the bank financed the acquisitions of the Twin City and CUBUS buildings in Bratislava.

In 2016 transaction banking reported a double-digit increase in the number of transactions as well as in the volume of business assets and liabilities. The positive development was mainly affected by the rising tendency of the domestic market, supported by the development of foreign trade.

On the other hand, the amount and structure of transaction costs from the ongoing low interest on deposits changed considerably. The common denominator of the changes was, in particular, regulatory interventions. Impacts were recorded in card transactions, the foreign payment system and the settlement of capital market transactions.

Despite these global tendencies, transaction banking reported higher revenue growth by more than 7% compared to 2015.

In 2016 the most important factor of positive growth was the development in acquiring – card acceptance at the bank's payment terminals, where we managed to adequately transform regulatory measures into the dynamics of our commercial growth. In connection with innovations, where we were awarded the Innovative Bank of 2016 by MasterCard, we managed to make another massive penetration into the retail and catering sector, resulting in more than 60% growth in revenues and extension of the payment terminal network by more than 5 thousand terminals.

Another award was for services provided in the custody of securities. Our Bank was awarded the "Best Sub Custodian Bank in the Czech Republic in 2016" by the prestigious Global Finance magazine.

During 2016 structured commercial and export financing was characterised by a major decline in transactions with regular business destinations, persisting sanctions towards Russia and the gradual transition to new markets. The added value in this process was provided by the bank, owing to its close cooperation within UniCredit Group, cooperation with leading institutions for the support and insurance of export, a professional conference during the Engineering Trade Fair in Brno and thematic seminars and workshops for its clients. Another "Export Price" competition was held under the auspices of UniCredit Bank, the attractiveness of which is accentuated by the record participation of exporters – the number of registered companies rose by almost 30% in 2016 compared to the previous year. The evidence of the success of such a concept is the implementation of major structured export commercial transactions in Central, South and South-East Asia or Russia, with more than 40% growth in financing.

The year 2016 was characterised by the ongoing restructuring of UniCredit Factoring's client portfolio, which underwent major changes in the previous year with respect to the acquisition of the company by the bank. Within commercial cooperation with the bank, several new factoring products were created which corresponded more to the requirements of part of the new client portfolio. The relatively fast acquisition of new clients gradually acquired by the company mainly from the banking sales channels caused the total number of clients at the end of 2016 to surpass the number of clients from the acquisition period. At the end of 2016, we could say that the company did not lose its position on the Czech factoring market and that its market share remained at previous years' levels.

As for the import factoring product, the company maintained its dominant position last year as well. The funds in use ratio was almost CZK 1.5 billion at the end of the year. Together with the planned organisational and competence changes in the company, this business development at the end of the year provides a basis for continued business expansion and reinforcement of the company's market position.

At UniCredit Bank, we also provide our clients with complex subsidy consulting services on a long-term basis. This mainly involves consulting related to European structural funds, but also includes further national subsidies, investment incentives or other pan-European funds. The year 2016 was mainly characterised by the financing of the first projects of the new 2014–2020 programming period. This mainly included real estate renovations or purchases of new technologies. UniCredit Bank continues to be a very active member of the Czech Banking Association's working group for cohesion policy.

One important activity of the corporate competence centre is the financing of agriculture and related sectors, with 2016 being a successful year for both countries. The volume of extended loans rose by 41% to CZK 4,216 million in the Czech Republic and by 12% to EUR 401 million in Slovakia, with the Slovak part of the bank reinforcing its position of top bank for agriculture financing in Slovakia.

Private banking

2016 was a year of great changes for the UniCredit Bank private banking segment. As a strategic step, the Bank decided to offer its excellent private banking services to a larger number of clients and reduced the "TFA" (Total Financial Assets) threshold from CZK 10 million to CZK 3 million (EUR 100,000 in Slovakia). Moreover, clients with anticipated potential for private banking eligibility were invited to take part in private banking, i.e. owners of select companies and high-income earners, thus offering private banking services and products to another 7.5 thousand clients in the Czech Republic and Slovakia. We offer our clients a great amount of added-value services – a personalised approach, tailored solutions and a broader portfolio of investment solutions not only for our most affluent clients, but also for their family members.

In investing, private banking in the Czech Republic and Slovakia is based on controlled open fund architecture, which is still a unique concept on both markets. Thus, the Bank provides its clients with access not only to high-quality investment solutions from the whole UniCredit Group, but also to the best funds in given categories offered by partner companies, which are analysed and selected for the Bank's private clients by a team of international experts. In 2016 the number of partner companies for the Czech Republic and Slovakia increased as the Bank started cooperation with Invesco, one of the largest and most prestigious international asset management fund companies in the world.

In 2016 the Bank further broadened its offer by introducing two new concepts: myNext funds by Pioneer and the concept of regular investing for private banking clients based on the same fund platform. In cooperation with UniCredit Bank AG Munich, the Bank also continued to successfully offer issues of tailored investment certificates using a unique software solution of its fellow subsidiary. The comprehensive offer of services further included successful cooperation with the conservative Austrian private bank Schoellerbank AG, a member of UniCredit Group.

Digital innovation and the excellent quality of services provided by private bankers also won a number of prestigious international awards for the private banking department of UniCredit Group in 2016. In a survey organised by Euromoney where private banks elect from among themselves the best providers of competitive services in their segment, Czech private banking provided by UniCredit Bank won the top position in two categories, namely "Innovative Technology – Client Experience" and "Philanthropic Advice", which UniCredit private banking won for the second year in a row.

Retail banking

We are living in a time of significant change. The retail banking market was shaped by the low interest rates ever, growing regulatory pressure, as well as intense and active competition.

Technology is generating a new way of relating to one another and also of the banking. Digitalization is key for adapting to the new form of customer relationships. Hence our goal for 2017 is not only to continue attracting new clients and successfully selling the new product line to existing clients, but also boosting of digital banking services. We would also like to continue the trend of more sales made through on-line channels. The number of digital customers reflect the boost provided by the multichannel strategy. We are making significant progress in this direction and have been recognized in the sector as pioneers in the launch of various apps and services.

Retail and Private Banking Division of UniCredit continued to improve services for clients. We have adjusted also our branch network in Czech Republic and in Slovakia, so that our network answers to our client needs. During the past year, we redesigned or reconstructed 16 branches. Also, to be closer to our clients, we relocated 2 branches.

In order to increase the efficiency of our branch network and its sustainability as far as distance between branches is concerned, we performed its optimization by merging selected branches. 10 branches were concerned, overall in the two countries.

Loans

In 2016 we strengthened our offer of consumer PRESTO loans to four categories: refinancing and debt optimization (still being considered as our flag-ship product), preapproved simple and fast loans for our current clients, non-purpose loans and newly Presto for Living (CZ only, ready to be launch in SK in 2017), which immediately won Zlatá Koruna (Golden Crown) in category of consumer loans. PRESTO was also awarded as best consumer loan by Finparada.cz

Focus on products with very good conditions for clients with good credit history is in long term being more and more understood – internal low-risk cluster was again the strongest cluster within all disbursed loans.

We have started important reshaping of our infrastructure for origination process – in SK we first deployed the new unified solution immediately cutting processing times to 50% with further improvements possible and expected during 2017. Additionally, we intend to enhance "Time to yes" and simplify the process also for loans providing to small enterprises.

Mortgage

In 2016 we came to market with a unique concept of „all for one price „when we offered the same interest rate for a variable rate and the 3 and 5-year fixation. In an environment of very low interest rates, we offered to our clients the certainty in form of long-term rates and have focused also on offer of 7 and 10-year fixation o our clients.

We had to prepare for the implementation of the European mortgage directive. The new law change affected to a great extent. The new Consumer Credit Act influenced mainly the mortgage process. It was necessary to adjust IT systems, tools, forms, methods, contractual documents, marketing materials, print outputs and parameters of the product itself. Furthermore We had to apply the restrictions resulting from the CNB/NBS regulation (max. LTV limits).

In Slovakia, the Slovak government has added the possibility to early repay with a very low penalty during fixing period. Significantly increased the volume of refinanced mortgage loans from other banks.

Since the same as last year, continued to work on simplifying products and processes in order to improve customer experience, end of the year was focused on a major simplification for the purpose of construction (quick and simply drawing). We‘ve also simplified and standardized the area documentation of income.

Our Success with mortgages in 2016 is emphasise by 2 highly rated rewards – Our product "All for one price" won first place for loan product Golden Crown award (Zlatá koruna) and we also received award for the Financial Product of the year 2016 – given by finparada.cz – 3rd Place in mortgages – Individual product.

Current accounts

In 2016, we focused on expanding the client portfolio with regard to our key product U konto we initially launched in April 2014. Its features continue to put U konto among the top client-friendly personal current accounts on the Czech and Slovak markets. This has been highlighted by prestigious awards we received on the both markets. U konto became a winner of the Account of the Year 2016 title in a competition Banka roku in the Czech Republic and was bestowed the same award by the FinancnaHitparada.sk portal in Slovakia.

During September to December 2016, we ran a campaign in support of new client acquisition, offering new U konto clients an opportunity to obtain a discount voucher for a Huawei mid-range smartphone at a discounted price.

Investments and deposits

With deposit interest rates close to zero we focused in 2016 our efforts on providing our clients with alternative investment solutions.

Historically low bond yields and growing volatility on equity markets make investment environment for individual investor even more challenging, but at the same time create opportunities. That is why we shifted our focus further towards widely diversified investment solutions with active and flexible management. The core of our investment product offer consists of three Pioneer Fund Solution funds (Conservative, Balanced, Dynamic) each of them represents complete portfolio solution for given client's risk profile.

In autumn of 2016 we introduced new regular investment scheme U Invest Plus providing our clients more flexible solution and helping them to grow their wealth in a simple and systematic way.

Next to high quality investment funds from Pioneer Investment we also successfully introduced in both countries structured bond UCB SD Health Care 2022.

Direct banking

In 2016, direct banking enjoyed further growth in popularity, which was clearly seen from the considerable growth in the number of Online Banking and especially Smart Banking users, and the growing number of transactions made through those channels.

We continued to strengthen our position of leading Bank in area of direct banking launching several innovation. In Czech Republic we launched new online banking with modern design and innovative functions like Personal Finance Manager or MyGoal Functionality. As the first Bank on the both markets (Czech Republic and Slovakia) we introduced the possibility to do both log-in and authorize payments in Smart Banking via fingerprint. This feature is widely recognized by our customers.

Small Business

We have made a strategic decision to focus on small companies and entrepreneurs by significantly changing our service model and product offer. Our goal is to give clients best service with simple and transparent products that can be offered and quickly processed by any branch. Bigger clients have been moved to the corporate segment which is fully focused on their individual requirements.

In the segment of freelance clients, we have focused even more on bankers' professionalism with an effort to maximize assistance to the client simultaneously with an emphasis on the understanding of individual needs of each client group. Our efforts have resulted in the growing market share especially in legal professions.

Payment cards

At the beginning of 2016 we introduced a unique discount program U-Setrete, packed neatly into a credit card U-Setrete, which is tailored to our clients – without need of any vouchers or coupons. All you have to do is to activate your offer via mobile application or on the internet and pay at the selected partner with any UniCredit Bank card. The discount will be activated automatically, without necessity to ask for it in advance. Simply, without limits and hidden conditions.

Treasury

Last year, the International Markets Division was one of the crucial profit-making pillars of the Bank. The Markets Division as a whole significantly surpassed its year-long plan. In the area of trading in treasury products on the bank's own account, the Bank achieved record-breaking results for the period of existence of UniCredit Bank Czech Republic and Slovakia, a.s., and above-standard growth was also achieved in deals with end clients.

Thanks to our acquisition initiatives, we have increased both the volume and the profitability of deals focused on daily cash-flow management and hedging of all market risks (foreign exchange, interest, and commodity risks) in trading with corporate clients. The excellent results were also driven by the increased trading activity of clients together with the expected termination of the CNB's foreign-currency interventions.

On a long-term basis, the Markets Division has been focusing on the development of new products that are successfully sold to corporate clients and financial institutions, as well as to retail and private banking clients, which strongly contributes to the growth and good results achieved by UniCredit Bank's retail banking. In 2016 corporate bonds represented a crucial area where our Bank ranked among leading arrangers on the Czech market.

Sponsoring and charity

In 2016 UniCredit Bank focused on activities overlapping with social responsibility. This year we are proud to be able to support several charitable organisations which help sick and disadvantaged children in the Czech Republic and in Slovakia, as well as people affected by natural disasters, such as last year's earthquake in Central Italy. We also supported scientific institutions which are engaged in research and innovation in the field of oncological pathologies. This was the second year that the Bank cooperated with the UniCredit Foundation in supporting social business, combining everyday business with charitable activities. Besides financial assistance through grant programs such as "Lepší byznys" ("Better Business") in the Czech Republic and "Môžu ryby lietať?" ("Can Fish Fly?") in Slovakia, we also focused our efforts on supporting the employment of groups of citizens facing various handicaps or with a limited ability to work.

Another major activity is the Gift Matching Program, allowing the Bank's employees to support any non-profit organisation of their choice. This year, more than 600 employees supported 35 projects, donating a total of almost CZK 1.1 million in favour of non-profit organisations and with the UniCredit Foundation doubling this amount.

Our Bank has been involved with helping children for a long time. In Slovakia, the Bank assigns a portion of its income tax to support civic associations and foundations which primarily help children from orphanages, child patients or children from developing countries.

Last year, the Bank continued its partnership with the Advisory Service for People in Financial Distress, helping to prevent financial distress and resolve problems with making payments. Additionally, in cooperation with the Czech Bank Association, the Bank also supports other projects focused on improving financial literacy, such as the "Bankers to Schools" project. In cooperation with partners in Slovakia, we also support free blood drives and charitable Christmas Markets for a good cause.

In sponsoring activities, we have maintained a partnership with the Dvořák Festival, presenting Dvořák's music in unexpected arrangements and styles. For a few years now, the Bank has been a major partner to the Karlovy Vary International Film Festival. The Festival ranks among such prestigious film festivals as the international film festivals in Cannes, Berlin or Venice. Every year in Karlovy Vary, well-deserved international attention is given to new films from Central and Eastern Europe, i.e. the region where UniCredit Group concentrates its operations.

Since 2009, we have been the official bank of the UEFA Champions League in cooperation with UniCredit Group. Moreover, we broadened our partnership to include all competitions organised under the name of UEFA, including the UEFA Europa League, which offers opportunities for a number of Czech and Slovak football clubs. The sponsoring of football helps UniCredit Group strengthen its position as one of the leading European banks. Moreover, for many years our Bank has supported the UniCredit Czech Open, the major international men's tennis tournament in the Czech Republic.

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 the 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 in its internal processes.

Those goals include, for instance, the reduction of emissions, involvement in the Carbon Disclosure project, the financing of renewable energy sources, or the granting of loans for renovation aimed at energy savings. We regularly participate in the Earth Hour initiative.

Employment relations

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

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

Report of the Board of Directors

on the state of the Bank and the Group's business activities and assets UniCredit Bank Czech Republic and Slovakia, a. s. for 2016

Vision, mission and corporate values
UniCredit Bank Czech Republic and Slovakia is a universal commercial bank with professional skills covering all the financial needs of its clients. We are the bank of first choice for clients both in our traditional segments and in new strategic segments. We are the bank with the most satisfied clients on the Czech and the Slovak market and, at the same time, we are a sought-after employer.

We are a member of an international group – UniCredit Group. In the Group, we rank among the strategic countries of the CEE region, together with Russia and Turkey. Our bank is perceived by the Group as an example of successful and dynamic growth in the corporate segment, but first and foremost, in the retail segment.

The **corporate values** in which we believe and which we observe in our everyday practice lay emphasis on Respect, Trust, Fairness, Freedom to Act, Reciprocity and Transparency.

Economic development of the market in the Czech Republic and in Slovakia in 2016
In 2016, the growth of the Czech economy considerably decelerated to reach a level of 2.4%, which was caused, in particular, by weaker investment activities lacking past incentives in the form of EU funds. More than half of the overall credit for the economic growth goes to household consumption, which is considered the key driver of the growth. Household consumption was supported by growing employment rates and the accelerating growth of wages, along with low inflation rates which persisted most of the year. Throughout 2016, the CNB continued its exchange rate commitment to prevent the koruna from strengthening against the euro. Investors' open positions for strengthening the Czech currency resulted in a by-product in the form of demand for CZK bonds issued by the Czech Government, keeping the yields in the negative over a substantial part of the curve. The low interest rates had a negative impact on net interest income of the banking sector, although, on the other hand, the interest rates positively influenced the dynamics of lending. The year-on-year growth of the total volume of bank loans accelerated to reach the rate of 7.2%, which was owing to stronger demand from corporations, households and financial institutions.

Although in 2016 the growth of the Slovak economy slowed down, the growth rate stayed above the 3% level. The slowdown in economic growth was mostly caused by investments – the closing of projects financed from EU funds. On the other hand, household consumption continued in a growing trend. The growing economy further created new jobs. The growth in real household income was not hampered by inflation, which most of the year remained in negative figures. The monetary policy of the euro area remained loose. Over the year, the ECB prolonged and extended its quantitative easing scheme, pushing the interest rates on the interbank market to new historical minimum levels. In the long run, the negative interest rates had a negative impact on the interest income of the Slovak banking sector. Banks succeeded in increasing the volume of loans, in particular in the retail segment. However, low interest rates and the strong labour market attracted new clients interested in mortgage loans. Corporate loans also continued their growth trend owing to slower growth in private investments; in the economy, however, their growth rates dropped to a half.

Evaluation of results achieved by UniCredit Bank Czech Republic and Slovakia
In 2016 UniCredit Bank Czech Republic and Slovakia achieved solid results in terms of net profit. The net profit of 2016 considerably exceeded the rather ambitious plan, mainly owing to the extremely low costs of risk and excellent trading results. The Bank's overall financial result was also driven by revenues resulting from an international transaction – the acquisition of Visa Europe.

The environment of extremely low interest rates resulted in a decrease of interest income compared to 2015 despite the growing amount of deposits and loans in the comparable period.
In the following period we expect further pressure on the reduction of interest margins and other revenue items, which shall be outweighed by growth in volumes.

The results were also driven by synergies resulting from the merger of UniCredit Bank CZ and UniCredit Bank SK. And last but not least, it should be noted that the results were achieved thanks to the purposeful and effective management of operating costs.

Financial results of UniCredit Bank Czech Republic and Slovakia Group for 2016

The profit after tax for the **UniCredit Bank Czech Republic and Slovakia** Group **increased by 7.2% on a year-on-year basis**, from CZK 5,640 million in 2015 to CZK 6,045 million in 2016. This result shows that despite a y/y lower net interest income caused by the environment of negative interest rates, UniCredit Group managed to outbalance the deficit thanks to the dynamic growth of loans and reduction of costs (net of allocations to the Resolution Fund), including the costs of risk. Other drivers that contributed to the result included steadily increasing volumes of retail and corporate loans and revenues from an international transaction – the acquisition of Visa Europe.
New innovations in our product portfolio, our professional approach to clients and the provision of know-how in corporate banking – all these are further drivers of the great results of 2016.

Statement of Comprehensive Income

Compared to 2015, net interest income in 2016 dropped by 0.9% to reach CZK 10,145 million (2015: CZK 10,235 million). The Group was able to achieve a similar level of net interest income in an environment of persisting low interest rates and strengthening competition on the banking market, in particular thanks to the growth of the client base and the increased volume of transactions on both markets where the Group operates.

In 2016 net income from fees and commissions amounted to CZK 3,823 million (2015: CZK 3,843 million), which means a 0.5% decrease.

In 2016 net income from the sale of financial assets and liabilities increased to CZK 1,053 million (2015: CZK 9 million), which was in particular owing to the revenues from an international transaction – the transformation of Visa Europe, in which the Bank held an ownership interest.

The Group also strengthened in trading: the trading profit grew by 11.8% from CZK 1,905 million in 2015 to CZK 2,129 million in 2016. The results achieved in trading confirm that the Group has made maximum use of the opportunities available on the financial markets in 2016, mainly thanks to trading on foreign exchange markets and higher spreads in risk premiums.

Operating costs in 2016 reached CZK 17,152 million; that is a 7.3% increase compared to the CZK 15,984 million recognised in 2015, which reflects the dynamic growth of the client base and higher volumes of transactions in combination with all the above-described effects.

Administrative expenses were recognised in the amount of CZK 7,854 million (2015: CZK 7,507 million), which means an increase by 4.6%. The growth in costs is in line with the expansion of the Group's business activities and reflects the Group's higher contributions in allocations to the Resolution Fund.

Losses on the impairment of loans and receivables increased on a year-on-year basis by 4% (from CZK 1,441 million in 2015 to CZK 1,499 million in 2016). This development confirms that the approach applied by the Group in the management of the costs of risk is prudent and responsible.

Depreciation and impairment losses on tangible assets increased from CZK 680 million (2015) to CZK 768 million (2016).
The Group's profit was also influenced by proceeds from the sale of certain own buildings (proceeds from the sale of non-financial assets) in the first half of 2016.

Statement of Financial Position

Assets

As at 31 December 2016, the Group's total assets amounted to CZK 635 billion, which is an increase by 11.4% compared to the 2015 closing balance, when total assets amounted to CZK 570 billion.

Compared to the 2015 closing balance, financial assets at fair value through profit or loss dropped by 5.6% from CZK 9.5 billion to CZK 9 billion.

Available-for-sale securities dropped by 3% to reach CZK 80 billion (31.12.2015: CZK 83 billion). In this portfolio, the Bank holds mostly government bonds covering 72% of this item.

Receivables from clients increased by 9.7% to the total amount of CZK 386 billion, compared to the 2015 closing balance (CZK 352 billion).

In the retail segment, growth was seen mainly in mortgage loans, which reported a year-on-year increase by 13.1% on average, and consumer loans (year-on-year growth by 7.0% on average). The key product of the retail segment is the U-Account (U-Konto) with a 10-year guarantee of terms and free withdrawals from any ATM, both locally and anywhere in the world. Thanks to this product (awarded in the contest of bank products Fincentrum Banka as the "Account of the Year") and thanks to other innovative services, the retail segment further grew in number of clients, which exceeded the level of 650 thousand.

In the corporate segment, the Group recognised further strong growth both in loans granted to small and mid-size enterprises (year-on-year average growth by 10.4%) and in lending to large corporations. The total corporate loan portfolio grew on a year-on-year basis by 6.0% on average. The corporate lending strengthened owing to synergies between the bank, the leasing companies and factoring. The Bank is further focused on structured financing and the Group was involved in a number of transactions both in the Czech Republic and in Slovakia.

Leasing companies strengthened in brand vehicle financing, credit financing in the area of corporate loans, and operating leasing for businesses and non-business individuals. Loans provided to clients of leasing companies grew by 6.5% on a year-on-year basis. The key product category encouraging the growth were vehicles below 3.5 tonnes, where the financed amount increased by 23.4% on average. Further commodities reporting a significant growth were vehicles above 3.5 tonnes (19.0%) and machinery and equipment (13.4%).

Compared to the closing balance as at 31 December 2015, receivables from banks increased by 31.2% (CZK 140 billion as at 31 December 2016 vs CZK 107 billion as at the end of 2015), which was mainly owing to the increase in receivables from reverse repo deals.

In 2016 the Group continued selling some of its own buildings and in the course of 2016, those buildings were reclassified from tangible assets to non-current assets held for sale. As at the end of 2016, the value of the assets amounted to CZK 4 million. Sale of the buildings is scheduled for 2017.

The increase in the carrying amount of intangible assets from CZK 792 million as at 31 December 2015 to CZK 1,387 million as at the end of 2016 is owing to the implementation of the common architecture of IT systems used by the Czech headquarters and the Slovak branch, which is to be the final step of the unification of the two banks following the merger in 2013. The common architecture will make it possible to reduce expenses for capital investments and maintenance.

Liabilities

As at the end of 2016, liabilities to banks increased by 93.5%. Here again, the reason for the growth is mainly the increase in liabilities from repo transactions.

Compared to the 2015 closing balance, client deposits increased by 2% to reach the final amount of CZK 371 billion (31.12.2015: CZK 364 billion). The growth in deposits in retail banking was driven mainly by the success of the charge-free U konto account, whose popularity is growing in particular among young clients. There was also a considerable increase in deposits in the corporate segment.

Compared to the 2015 closing balance, issued debt securities dropped by 7.6% to reach the level of CZK 60 billion (31 December 2015: CZK 65 billion).

Equity

As at 31 December 2016, the Group's equity amounted to CZK 66.9 billion, which means a year-on-year growth by 8.8% (31.12.2015: CZK 61.5 billion).

The Group did not pay any dividends in 2016 (2015: CZK 2.2 billion).

The consolidated capital adequacy as at 31 December 2016 reached 15.47% (31.12.2015: 14.60%).

Expected business and financial situation of UniCredit Bank in 2017

The scenario for 2017 and the following years is based on the assumption of both economies existing in an environment of solid and stable economic growth, low inflation and falling unemployment rates. The net revenue should remain at the level of 2016 with expectation of further growth in 2019. Generation of revenues will be influenced by two contradictory drivers. The increasing number of clients and volumes of deals are expected to have a positive effect, however, reduction of margins owing to increasing competitive pressure and low interest rates will have the opposite effect. Another adverse effect will come from the costs of risk regaining levels before the extraordinary years of 2015 and 2016. Thanks to the well-balanced growth of loans and deposits, there will be no need to adopt any major measures to equalize the balance sheet sum.

The Bank's activities in corporate banking

In 2016 the Bank further pursued its long-term strategic goals, which, in corporate banking, are to **confirm its position as key player in the segment of financing large international and local companies** along with focusing on the **increase of the market share in the SME segment.** Under this strategy, the SME segment was extended to include firms with an annual turnover exceeding CZK 10 million. Our objective is to expand present know-how and experience with the service model from the SME segment to improve our services provided to small businesses. The extension of the SME segment and the rules for the application thereof are common for markets of both countries where the Bank operates, i.e., in the Czech Republic and Slovakia.

Another long-term strategic goal of the Bank is to strengthen its position in the provision of sophisticated and individual solutions for clients and to keep the leading position in property financing (development projects financing) and to be for clients the best bank in cash management, foreign payments, treasury services, foreign trade financing or project, structured and acquisition financing.

We intend to ensure future growth mainly through the full use of the potential of our existing clients, the acquisition of new clients and the expansion of cooperation within UniCredit Bank on the markets of both countries. Close attention is given to cross-border cooperation in servicing clients with an international background. Extension of the SME segment allows us to strengthen acquisition activities through the better allocation of human resources in the regions.

In 2016 we continued our successful cooperation with UniCredit Leasing in the Czech Republic and in Slovakia and with UniCredit Factoring Czech Republic and Slovakia, a.s. We further improved our cooperation in the offer of factoring products to the Bank's clients and several new factoring products have been developed for that purpose. This allowed UniCredit Factoring to maintain its position on the factoring market.

- The number of active clients in the corporate banking segment increased by more than 500.
- The volume of loans increased on a year-on-year basis, however, margins remain under significant pressure, inter alia, owing to the environment of extremely low interest rates.
- The amount of deposits grew at a two-digit rate and in absolute value it increased by almost CZK 25 billion.
- The Bank confirmed its leading position on the market in the Large Corporates, Structured Financing, Financial Institutions and Real Estate segments.

The Bank's activities in retail and private banking

In 2016, the Bank further pursued its strategic goal to strengthen its position of universal provider of banking and finance services and to be a leader on both markets. We aim to achieve a considerable increase in market share not only by focusing on selected promising retail market segments, but mainly through innovations in availability – by using alternative distribution channels and innovations in product offer.

The Bank provides a full scope of banking products on the retail market – current and saving accounts, saving and investment products, payment cards, housing financing products and consumer loans. With all those products, the Bank aims to provide innovative products and make maximum use of electronic distribution channels. This effort was clearly visible in the implementation of our new websites and internet banking.

Our orientation on growth is, on one hand, based mainly on fully using the potential of our existing clients, and on the other hand, the acquisition of new clients from target segments. In 2016, the Bank paid considerable attention to acquisitions in cooperation with other retail institutions which are not our direct competitors, such as leasing companies, insurance companies, etc.

In 2016, the Bank's number of clients grew further; the modern banking services and products provided by UniCredit Bank attracted 93 thousand new clients.

Despite the growing pressure of the competition, the Bank managed to increase the average volume of retail loans provided; the year-on-year increase was 12.4%, which is more than CZK 10 billion. The key driver of this development was mortgage loans, with a 13.1% increase in average volume. Compared to 2015, the deposits made by the Bank's client were higher on average by more than CZK 10 billion.

In 2016, the private banking segment experienced considerable change. The experience from servicing private clients was extended to other wealthy clients of the Bank so that they could also enjoy similar benefits, in particular, those of the broader product offer in investment products. In the private banking segment, we managed to attract more than 600 new clients and to increase the amount of assets managed by the bank by CZK 6.5 billion.

The Bank is further focused on segments which have been extraordinary successes on a long-term basis, such as freelance clients and religious institutions in the Czech Republic. In Slovakia it is mainly servicing clients from the agricultural sector.

The Bank's activities in support units

Risk management

In risk management the emphasis is on the consistent separation of conflicting positions in the organisation structure of the Bank. The Bank's credit strategies, tools and processes are chosen to comply, as much as possible, with the business strategy, and to reflect the best level of knowledge concerning management of the risks faced.

Risk management is applied by the Bank both individually, on the level of business transactions and on the portfolio level, in accordance with the basic principles defined in the Bank's credit policy and aiming to comply with the risk parameters defined in the credit strategy for the year. Based on approval from the Czech National Bank, the Bank calculates credit risk capital requirements for most of its portfolio using an advanced approach based on its own estimates of risk parameters (Advanced IRB).

Based on regulatory approval, since 2008 the Bank has applied an enhanced approach to the calculation of the operational risk capital requirements (AMA). In 2016, the Bank did not suffer any significant operational risk losses

In market risk management, the Bank addresses risks related to business activities on the level of individual risks and individual financial instruments. The basic instruments are the limits for transaction amounts, portfolio sensitivity limits (BPV), stop loss limits and Value at Risk (VaR) limits. In 2016 no such significant events occurred which would lead to a reassessment of the existing strategy or a reset of the existing limits.

Back-office services

The Group strategy involves the outsourcing of back office services to a fellow subsidiary, UBIS, which is a member of the UniCredit Group. In this area the Bank prefers a balanced approach, i.e. cost savings resulting from specialisation and the scope of services resulting from the merger of certain positions, accompanied by the retained availability of services in both languages to avoid a negative impact on the quality of services provided to clients. Critical factors for the effective operation of all distribution networks are the continual optimisation of banking processes, the utmost simplification and centralisation of administrative activities and automated data entry. At the same time, this centralisation and specialisation leads to better control over compliance with the regulatory requirements regarding contractual arrangements and the quality of document processing between the Bank and its clients

In 2016, the Bank continued its project of the target **consolidation** of its **IT environment** in the Czech Republic and Slovakia. The key principle is a substantial upgrading and implementation of new functionalities in the present Slovak part and the target migration to that environment, with the scheduled deadline in the third quarter of 2017. The common IT environment will result in a substantial reduction of IT operating costs, a more effective implementation of changes in the future and further consolidation and optimisation of processes. The common IT platform will be the basis for the digitalization and strengthening of on-line communication with the Bank's clients, including on-line offers of the Bank's services and products.

Assets and liabilities management

In 2016 the Bank achieved a very strong liquidity position in CZK and a well-balanced liquidity position in EUR. This was another year when the liquidity surplus at headquarters was used for financing subsidiaries and the Slovak branch. The Bank's presence in Slovakia provides us with access to cheap financing from the European Central Bank under the TLTRO programme. The improved effectiveness of liquidity management in the merged bank and the centralisation of the treasury function bring further cost synergies, better use of capital funds and encourage the growth of business activities. The position in the organisation structure with a direct reporting line to UniCredit S.p.A., as rearranged in 2016, makes it easier to benefit from the strong liquidity position of the parent company.

Human resources

The key success factor for a business strategy is to achieve a high quality of services and consulting activities. In the implementation of the bank business strategy, the key role is played not only by the bank staff, who are in direct contact with clients, but also by back-office staff, whose activities have a significant impact on the quality of services and thus also the satisfaction and loyalty of clients, and, consequently, total business results.

Therefore, the Bank pays maximum attention to the selection, education and development of its employees both in professional knowledge and communication skills and overall corporate culture profiling so that it results in improvement of the personal integrity of all employees.

Human resources also play a key role in the implementation of the bank strategy, risk management and ensuring the long-term and sustainable growth of the company. A strong and comprehensive HR strategy and consistent corporate culture are the key drivers to achieving good results in the long term.

That is why key priorities in HR management are focused on the harmonization of HR activities and business strategies. To put it more specifically, they are the search for and development of talent, leadership, career and succession planning, motivation and bonus schemes, diversity and commitment.

In 2016 we launched the Retail Banking Academy development program for those among our bankers who demonstrate the competences and motivation to become a branch manager. The purpose of the program is to improve their skills in retail banking and to prepare the attendees for a managerial position and leadership. Additionally, activities have been launched for the development of technical, business and communication skills to support our employees in meeting their objectives.

In the wages and bonus scheme, we adopted standards encouraging not only higher performance, but also behaviour and actions directed towards a well-balanced approach to risk management in the long run.

Social responsibility

Sustainability
Sustainability is UniCredit's everyday commitment.
We believe that sustainable banking requires making our everyday decisions and defining our long-term strategy with economic, social and environmental responsibility. We strive to achieve comprehensive solutions beneficial for all stakeholders in the long run.

Anti-corruption rules
UniCredit Bank applies the rule of zero tolerance to corruption. The Bank will not tolerate the involvement of its employees or third parties with any relationship to the Bank in any corruption activities (whether direct or indirect).

Sponsoring and charity
In 2016 UniCredit Bank again focused its attention to activities involving social responsibility.

We are proud to say that in 2016 we made donations to several charitable organisations helping sick and disadvantaged children in the Czech Republic and in Slovakia, and people hit by natural disasters such as last year's earthquake in central Italy. We also provided support to scientific institutions involved in research and innovations in the treatment of cancer.

We are further developing our partnership with the Advisory Line for Financial Distress (*Poradna* při finanční tísni) and in cooperation with our partners in Slovakia, we also support free blood donations and charitable Christmas markets. Another significant activity is the Gift Matching Program, under which our employees are encouraged to support a non-profit organisation of their own choice.

For many years now the Bank has been a proud partner of the Dvořák Festival, which ranks among the largest musical events annually. Similarly, we appreciate our long-term cooperation with and support of the International Film Festival in Karlovy Vary.

And last, but not least, is the support provided to sporting events. For many years we have been a partner of the reputable international tennis tournament UniCredit Czech Open. Our new initiative was the support provided to a series of running competitions called RunCzech.

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 2016 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.

April 2017

Ing. Jiří Kunert
Chairman of the Board of Directors

Ljubiša Tešić
Member of the Board of Directors

Report of the Supervisory Board

The Supervisory Board of UniCredit Bank Czech Republic and Slovakia, a.s., supervised the implementation of the Bank's business policy and exercise of powers of the Board of Directors in accordance with Czech legislation, regulations of the Czech National Bank and the Bank's Statutes. The Supervisory Board held five sessions and obtained information from all areas of the Bank's operation having a relevant impact on the Bank's financial position and the Bank's management. The Board supervised how the Board of Directors exercised its powers, reviewed the Bank's accounting records and other financial records, examined the effectiveness of the management and control system and assessed it on a regular basis.

After examination of the separate and the consolidated financial statements of UniCredit Bank for the period from 1 January to 31 December 2016, and the financial statements of the Bank's Slovak branch, the Supervisory Board for the aforementioned period concluded that the financial statements and the records have been maintained in a verifiable manner and in compliance with generally binding regulations governing accounting of banks. The accounting records give a true and fair view of the financial situation of UniCredit Bank, in all material respects, and the financial statements prepared based on those accounting records give a true and fair view of assets, liabilities and financial situation of UniCredit Bank and the Group. The Supervisory Board recommends that the General Meeting approve the separate and the consolidated financial statements, and the financial statements of the Bank's Slovak branch and the draft distribution of profit for 2016 as prepared by the Board of Directors.

The Supervisory Board examined the Report on relations between the controlling and the controlled entity and the relations between the controlled entity and other entities under the same control, as it has been prepared by the Board of Directors of UniCredit Bank and submitted to the Supervisory Board. The Supervisory Board does not have any factual objections to the Report and recommends it for approval by the General Meeting.

April 2017

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 2016, the basis for calculating the contribution to the Guarantee Fund was CZK 619,319,762.10. The contribution to the Guarantee Fund is 2% of this amount, i.e., CZK 12,386,395.28.

Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer's real needs and aimed at creating value for both individuals and businesses.

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	2016 MCZK	2015 MCZK
Interest income and similar income	5	11 832	12 748
Interest expense and similar charges	5	(1 687)	(2 513)
Net interest income and similar income		**10 145**	**10 235**
Fee and commission income	6	5 018	5 060
Fee and commission expenses	6	(1 195)	(1 217)
Net fee and commission income		**3 823**	**3 843**
Dividend income	7	3	2
Net income/loss from financial assets and liabilities held for trading	8	2 129	1 905
Net income/loss from hedging against risk of changes in fair value	9	(4)	(9)
Net income/loss from the sale of financial assets and liabilities	10	1 053	9
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	11	3	(1)
Operating income		**17 152**	**15 984**
Impairment losses on financial assets and off-balance sheet items	12	(1 499)	(1 441)
Administrative expenses	13	(7 854)	(7 507)
Creation and release of provisions		(304)	16
Depreciation and impairment of property and equipment		(768)	(680)
Amortisation and impairment of intangible assets		(43)	(35)
Other operating income and expenses	14	790	665
Operating expenses		**(8 179)**	**(7 541)**
Profit/loss from investments in associates		60	59
Profit/loss from the sale of non-financial assets		179	3
Profit before income tax		**7 713**	**7 064**
Income tax	32	(1 668)	(1 424)
Net profit		**6 045**	**5 640**
Net profit attributable to the Group‘s shareholders		6 045	5 638
Net profit attributable to minority shareholders		–	2
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments:		126	(367)
Changes in net fair values of derivatives in cash flow hedges		206	(357)
Net fair value of derivatives in cash flow hedges transferred to profit or loss		(80)	(10)
Reserve from revaluation of available-for-sale securities		(786)	510
Change in revaluation of available-for-sale securities		(164)	621
Revaluation of available-for-sale securities transferred to profit or loss		(622)	(111)
Foreign exchange rate gains from the consolidation of a foreign branch		(2)	(334)
Other comprehensive income after tax		**(662)**	**(191)**
Other comprehensive income attributable to the Group‘s shareholders		(662)	(191)
Other comprehensive income attributable to minority shareholders		–	–
Total comprehensive income		**5 383**	**5 449**
Total comprehensive income attributable to the Group‘s shareholders		5 383	5 447
Total comprehensive income attributable to the minority shareholders		–	2

The notes on pages 39–91 form a part of these financial statements.

Consolidated statement of financial position as of 31 December 2016

	Note	31 Dec 2016 MCZK	31 Dec 2015 MCZK
AKTIVA			
Cash in hand and cash balances	15	4 192	4 445
Financial assets at fair value through profit or loss including		9 027	9 567
– held for trading	16	9 027	8 028
– not held for trading	16	–	1 539
Available-for-sale securities	17	80 192	82 649
Securities held to maturity	18	186	186
Receivables from banks	19	139 900	106 611
Receivables from clients	20	385 572	351 541
Positive fair value of hedging derivatives	22	5 163	4 907
Equity investments in associates	21	401	401
Property and equipment	23	5 016	5 116
Intangible assets	24	1 387	792
Tax receivables, including:		921	1 048
– current income tax	33	294	182
– deferred tax	33	627	866
Non-current assets held for sale		4	23
Other assets	25	3 081	2 998
Total assets		**635 042**	**570 284**
LIABILITIES			
Deposits from banks	26	115 524	59 702
Deposits from clients	27	371 163	363 989
Debt securities issued	28	60 107	65 019
Financial liabilities held for trading	29	6 569	7 036
Negative fair value of hedging derivatives	30	3 417	3 144
Tax liabilities, including:		1 523	1 995
– current income tax	33	398	721
– deferred tax	33	1 125	1 274
Other liabilities	31	8 879	6 657
Provisions	32	969	1 236
Total liabiliites		**568 151**	**508 778**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		4 782	5 444
Retained earnings, reserve funds and other capital funds	36	43 814	38 172
Profit for the period		6 045	5 640
Total shareholder‘s equity		**66 891**	**61 506**
Total liabilities and shareholder‘s equity		**635 042**	**570 284**

The notes on pages 39–91 form a part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016

	2016 MCZK	2015 MCZK
Net profit for the period	**6 045**	**5 640**
Adjustments for non-cash items		
Impairment of loans and receivables and financial investments	1 499	1 441
Revaluation of securities and derivatives	398	(357)
Creation and release of other provisions	304	(16)
Depreciation and amortisation of property and equipment, and intangible assets	811	715
Profit (loss) from securities available for sale	(1 085)	–
Profit (loss) from property and equipment and intangible assets sold	(179)	(3)
Taxes	1 668	1 424
Other non-monetary changes	541	677
Operating profit before change in operating assets and liabilities	**10 002**	**9 521**
Financial assets and liabilities held for trading	(1 855)	3 559
Receivables from banks	(34 002)	(57 851)
Loans and receivables from clients	(36 271)	(14 067)
Other assets	(83)	(170)
Deposits from banks	55 846	4 963
Deposits from clients	7 317	35 508
Other liabilities	2 153	1 017
Income tax paid	(1 720)	(1 169)
Net cash flows from operating activities	**1 387**	**(18 689)**
Changes in securities available for sale and other financial investments	4 241	5 835
Acquisition of a subsidiary	–	(57)
Gains from the sale of property and equipment and intangible assets	1 573	18
Acquisition of property and equipment and intangible assets	(2 630)	(2 557)
Dividends received	3	2
Net cash flows from investment activities	**3 187**	**3 241**
Dividends paid	–	(2 181)
Debt securities issued	(4 827)	17 939
Net cash flows from financial activities	**(4 827)**	**15 758**
Cash and other highly liquid funds at the start of the period	**4 445**	**4 135**
Addition arising from the merger	–	–
Net cash flows from operating activities	1 387	(18 689)
Net cash flows from investment activities	3 187	3 241
Net cash flows from financial activities	(4 827)	15 758
Cash and other highly liquid funds at the end of the period	**4 192**	**4 445**
Interest received	11 679	12 638
Interest paid	(1 939)	(2 825)

The notes on pages 39–91 form a part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2016

			Reserve from revaluation			Retained earnings and reserve funds					
mil. Kč	Issued Issued	Share premium	hedging instru-ments	securities available for sale	exchange rate gains or losses of a foreign branch	Reserve fund and other capital funds	Special--purpose reserve fund	FX differences from consolidation	Retained earnings	Profit for the period	Equity
Balance as at 31 December 2014	**8 755**	**3 495**	**2 122**	**2 687**	**826**	**5 019**	**11 611**	**6**	**18 978**	**4 911**	**58 410**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2014 profit						171			4 740	(4 911)	–
Dividend payment									(2 181)		(2 181)
Consolidation impact								(8)	(164)		(172)
Total comprehensive income for the period											
Net profit for 2015										5 640	5 640
Other comprehensive income											
Change in revaluation of available-for-sale securities											
Change in revaluation of available-for-sale securities reported in other comprehensive income				765							765
Revaluation of available-for-sale securities transferred to profit or loss				(137)							(137)
Deferred tax				(117)							(117)
Changes in net fair values of derivatives in cash flow hedges											
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			(443)								(443)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(15)								(15)
Deferred tax			90								90
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(334)						(334)
Total comprehensive income for the period			**(368)**	**511**	**(334)**						**(191)**
Balance as at 31 December 2015	**8 755**	**3 495**	**1 754**	**3 198**	**492**	**5 190**	**11 611**	**(2)**	**21 373**	**5 640**	**61 506**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2015 profit						10			5 630	(5 640)	–
Dividend payment											–
Consolidation impact								2			2
Total comprehensive income for the period											
Net profit for 2016										6 045	6 045
Other comprehensive income											
Change in revaluation of available-for-sale securities											
Change in revaluation of available-for-sale securities reported in other comprehensive income				(215)							(215)
Revaluation of available-for-sale securities transferred to profit or loss				(768)							(768)
Deferred tax				197							197
Changes in net fair values of derivatives in cash flow hedges											
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			255								255
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(95)								(95)
Deferred tax			(34)								(34)
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(2)						(2)
Total comprehensive income for the period			**126**	**(786)**	**(2)**						**(662)**
Balance as at 31 December 2016	**8 755**	**3 495**	**1 880**	**2 412**	**490**	**5 200**	**11 611**	**–**	**27 003**	**6 045**	**66 891**

The notes on pages 39–91 form a part of these financial statements.

Notes to the financial statements (consolidated)

year ended 31 December 2016

1. Introduction

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Bank") was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company.
In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company. Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.
As part of restructuring in the 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 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 the 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, the UniCredit Group had the opportunity to reduce the complexity of its organisational structure and the level of management efforts as a result of establishing one local management team overseeing both markets. The Bank increased its share capital for the purposes of the merger. A number of minority shareholders of UniCredit Bank Slovakia a.s. exercised their right to sell the shares of the dissolving bank, other minority shareholders utilised the right to exchange the shares for newly issued shares of the Bank. The successor bank took over the capital of the dissolving bank of MCZK 11,611 and allocated it to the special-purpose reserve fund in EUR that can be used only to offset losses.
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;
    1. In forward and contract options, including foreign currency and interest rate contracts; and
    2. With transferable securities;
    3. 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.

2. Basis for the preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

These consolidated financial statements were prepared based on the going concern assumption.

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

The financial statements were prepared on the fair value principle for financial derivatives, financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, except for those whose fair value measurement cannot be reliably determined. The methods for determining fair value are presented in Note 3(b)(v). Recognised assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. Other financial assets and liabilities and non-financial assets and liabilities are measured at amortised cost or at historical cost.

(a) Consolidation

These financial statements are consolidated financial statements and include the parent company and its subsidiaries (the “Group”). As part of restructuring in the 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 holding 100% of the Bank’s shares.

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.

On 14 February 2014, the Bank signed a contract for the purchase of the 100% equity investment in UniCredit Leasing CZ, a.s. of MCZK 3,211 and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. with the cost of MEUR 16. Principal activities of both entities include leases and instalment sale. The contracts were signed between the Bank and UniCredit Leasing SpA.; these are transactions under common control. At the same time, both lease companies purchased Czech and Slovak real estate project companies from their original owner UniCredit Leasing SpA, these are also transactions under common control. Both entities were sold within the UniCredit Group due to the reorganisation of the equity investments in the UniCredit Group in order to create a strong financial group on local markets with a stronger sales potential.

The Bank subsequently transferred a 91.2% equity investment in UniCredit Leasing Slovakia, a.s. (the purchased equity investment of 71.3% and the equity investment of 19.9% that was held by the Bank already at the end of 2013 and reported as part of ‘Available-for-sale securities’) as a non-cash investment in the share capital of UniCredit Leasing CZ, a.s. and the investment of the Bank in UniCredit Leasing CZ, a.s. consequently increased by MCZK 570 on 18 April 2014.

As part of the purchase of real estate project companies, UniCredit Leasing CZ, a.s. acquired CA-Leasing Praha s.r.o. and CAC IMMO, s.r.o. that were merged with HVB Leasing Czech Republic s.r.o. on 1 November 2014.

On 8 October 2014, UniCredit Leasing Insurance Services, s.r.o. was established, which is fully owned by UniCredit Leasing Slovakia, a.s. The company’s principal business activity is mediation of services.

UniCredit Leasing Real Estate s.r.o., which was acquired by UniCredit Leasing Slovakia, a.s. as part of the purchase of real estate project companies, merged with UniCredit Leasing Slovakia, a.s. on 8 January 2015.

On 20 January 2015, the acquisition of the 100% equity investment in Transfinance, a.s. was completed. The entity was acquired from an owner outside the UniCredit Group and the investment amounted to MCZK 198. The principal activities of the acquired entity include the financing, collection and securing of short-term receivables of clients from various industry segments. The objective of this acquisition for the Bank primarily involves further extending the range of products and services of corporate banking to include factoring that is intended primarily for small and medium sized companies. The name of the acquired entity changed to UniCredit Factoring Czech Republic and Slovakia, a.s. in May 2015.

CAC Real Estate, s.r.o. owned by UniCredit Leasing CZ, a.s. was sold outside the UniCredit Group in June 2015.

In February 2016, INPROX Poprad, spol. s r.o. and INPROX SR I., spol. s r.o. merged with UniCredit Leasing Slovakia, a.s. with effect from 1 January 2016.

BACA Leasing Gama s.r.o. owned by UniCredit Leasing CZ, a.s. was sold outside the UniCredit Group in March 2016.

In August 2016, INPROX Chomutov, s.r.o. and INPROX Kladno, s.r.o. merged with UniCredit Leasing CZ, a.s. with effect from 1 January 2016.

As of 31 December 2016, the consolidation group includes the following entities:

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign Currency and Foreign Currency Translation

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

Transactions in foreign currencies (ie other than functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank and ruling 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 ruling 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 ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as "Net income/loss from financial assets and liabilities held for trading".

(b) Financial Assets and Financial Liabilities

(i) Classification

Financial assets and financial liabilities at fair value through profit or loss include instruments classified as held for trading and instruments designated by the Group as at fair value through profit or loss upon initial recognition.

Trading financial assets and financial liabilities are held by the Group principally for the purpose of short-term profit taking. These include investments in debt instruments and shares, certain purchased loans and derivative contracts that are not designated as hedging instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

Financial instruments designated by the Group upon initial recognition as at fair value through profit or loss are included within "Financial assets not held for trading".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on markets. Loans and receivables are mainly those created by the Group providing money to a borrower other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and non-bank customers and unquoted bonds purchased upon primary issue.

Held-to-maturity assets are financial assets with fixed or pre-defined income and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are included in "Held-to-maturity assets".

Available-for-sale assets are financial assets that are not classified as financial assets recognised at fair value through profit or loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are included in "Available-for-sale securities".

(ii) Recognition of Financial Assets

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

Available-for-sale financial assets are recognised on the settlement date in the Group's accounting books. Any gains or losses arising from changes in the fair value of the assets are recognised in other comprehensive income from the trade date.

Held-to-maturity assets are recognised on the settlement date in the Group's accounting books.

The Group initially recognises loans and receivables on their origination dates.

(iii) Measurement of Financial Assets and Financial Liabilities

Financial assets are measured initially at fair value, including (in the case of financial assets not at fair value through profit or loss) transaction costs.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, in which case such instrument is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortised cost, including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including the relevant initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Upon initial recognition, deposits from banks and clients and securities issued are recognised at fair value. They are subsequently reported at amortised cost.

(iv) Day 1 Profit/Loss

In the event that the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in profit or loss. The Group typically does not conduct this type of transaction.

(v) Fair Value Measurement Principles

The fair value of financial assets and financial liabilities is based on their quoted market price at the balance sheet date without any 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.

Where discounted cash flow techniques are used, estimated future cash flows are based on the 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.

The valuation of bonds in the Group's portfolio is carried out on a daily basis using available market rates quoted by market participants by means of 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 there is no market price 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 Note 3g (ii)).

The Group's 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 recognised at fair value 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.

Fair Value Adjustments

The Group utilises other fair value adjustments for the fair values of financial assets and financial liabilities to reflect reality as faithfully as possible:

Credit Valuation Adjustment

The Credit Valuation Adjustment (CVA) is reflected in the valuation of derivatives such that the resulting fair value of derivatives takes into account the counterparty risk and the Bank's credit quality. The Bank uses the same group standard for calculating CVA on the basis of the inputs as follows:

- Anticipated profile of the exposure from derivatives is estimated on the basis of the stochastic Monte Carlo simulation;
- Simulated exposures from derivatives take into account Specific Wrong Way Risk;
- Depending on the type of the derivative counterparty, CVA is calculated as:
  - Unilateral CVA – the calculation is based on historical PD and PGD (this relates to non-financial counterparties and counterparties that do not have own CDS tradable on the market);
  - Bilateral CVA – the calculation is based on PD and LGD derived from quoted CDS; and
- CVA is not calculated for counterparties/clients for which PD=1 (ie the client is in default) to prevent the costs of credit risk from being included twice in an already-recognised provision.

OIS Adjustment

The Group applies the OIS (overnight index swap) effect to collateralised exposures in financial instruments (derivatives, repo etc) denominated in EUR. The OIS effect is added to the yield curve in EUR so that the resulting fair value of the respective financial instruments takes into account the actual value of OIS. This adjustment is recognised in the Group's profit and loss account.

FVA/AVA

Quoted market exchange rates, yield curves, spreads etc ("market factors" in general) do not need to accurately reflect, at every moment, the conditions under which the Group may liquidate its positions in financial instruments. This may result from larger than standard traded volumes which the Group would like to realise on financial markets, stress periods on financial markets, periods with below-average market liquidity etc. In these situations the realised fair value could be lower than implied by quoted market factors. Therefore, in line with IFRS and CRR, the Group applies FVA which adds a surcharge to quoted market factors arising from:

- Liquidity;
- Uncertainty regarding price/ valuation model applied to the financial instrument; and
- Credit risk.

The Group recognises the determined FVA value in the profit and loss account.

In addition to FVA, additional valuation adjustment (AVA) is also determined by the Group with respect to market factors. AVA is defined as a difference between the fair value reported in the Group's balance sheet including FVA and prudent valuation (PV). PV represents a highly unlikely (but fair) value of market factors which may occur on the market upon the sale of financial assets due to stress on financial markets.

(vi) Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognised directly in profit or loss as "Net income/loss from financial assets and liabilities held for trading". Interest income from financial assets held for trading is recognised n profit or loss as "Interest income and similar revenues".

Gains and losses arising from a change in the fair value of other financial assets and financial liabilities designated upon initial recognition at fair value through profit or loss not held for trading are recognised directly in profit or loss as "Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading". The interest income from financial assets and financial liabilities at fair value through profit or loss not held for trading is recognised in profit or loss as "Interest and similar income".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and become the equity item "Reserves from revaluation of available-for-sale securities". When the financial assets are sold, transferred or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to profit or loss as "Net income from the sale of financial assets and liabilities". Interest income from available-for-sale debt securities is recognised in the income statement as "Interest income and similar revenues". The accounting for impairment of available-for-sale assets is described in Note 3(g).

Gains and losses arising from financial assets and financial liabilities carried at amortised cost are recognised in profit or loss when the financial asset or financial liability is derecognised or impaired (see Note 3(g)), and through the amortisation process.

(vii) Derecognition

A financial asset is derecognised when the Group loses the contractual rights to the cash flow from an asset or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is settled. Available-for-sale assets and assets recognised at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised at the settlement date. The Group uses accounting methods to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognised on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

(c) Principles of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. An entity is controlled when the Group has the power (direct or indirect) to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

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.

Unconsolidated Subsidiaries and Associates

Unconsolidated subsidiaries and associates are reported in the balance sheet at cost less impairment losses.
Mutual balances and transactions among the entities in the Group and unrealised profits arising from intragroup relations are eliminated upon the preparation of the consolidated financial statements. Unrealised profits arising from transactions with associates are eliminated in the amount of the Group's share in the entity and are eliminated against the investments in associates.

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 method of carrying amounts of the acquired business and concurrently reports these transactions prospectively, ie without adjustments in comparative periods.

(d) Derivatives

(i) Hedging Derivatives

Hedging derivatives are carried at fair value. 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
- In the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in profit or loss 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 and similar revenues" or "Interest expense and similar charges".
If the 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 and becomes the equity item "Reserves from revaluation of hedging instruments". The ineffective part of the hedge is recognised in profit or loss.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the aforementioned 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 profit or loss.

(ii) Embedded Derivatives

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 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 not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

(e) Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.

As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Group recognises a liability to either banks or customers in the amount of this compensation.

Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognised in the Group's statement of financial position.

As a result of the cash collateral provided in respect of securities borrowed/purchased under securities lending arrangements or resale agreements, the Group recognises loans and advances to either banks or customers. The receivables are recorded as collateralised by the underlying security.

In the case of the sale of a security acquired on the basis of securities lending arrangements or repurchase agreements, the Group derecognises the securities acquired in such manner from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the balance sheet. This payable is reported under "Financial liabilities held for trading".

Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognised on an accrual basis over the period of the transactions and are recognised in profit or loss in "Interest income and similar revenues" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities may be offset 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 reported in the statement of financial position on a net basis. The Group does not offset any financial assets and financial liabilities.

(g) Impairment

Assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and the impairment of the asset is recognised in profit or loss.

(i) Loans and Receivables and Held-to-Maturity Assets

Loans and receivables and held-to-maturity assets are presented at amortised cost, ie net of impairment losses.

Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets in order to reduce these assets to their recoverable amounts. The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument's original effective interest rate.

Collective impairment losses of portfolios of standard loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit rating of the underlying customers. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal steps have been taken and the final loss has been determined, the loan is written off directly and any previously unrecognised loss is recognised in profit or loss under "Impairment losses on financial assets". Any consideration received in respect of a loan written off is recognised in profit or loss under "Other operating income".

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss, the impairment loss is reversed through profit or loss in "Impairment of loans and receivables".

(ii) Available-for-sale Financial Assets

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognised in other comprehensive income, the cumulative loss is reclassified to profit or loss and recognised in "Impairment losses on financial assets". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent of the impairment. Any additional impairment loss is recognised in profit or loss. Impairment losses recognised in profit or loss arising from investment in equity instruments classified as available-for-sale are not reversed through profit or loss.

(h) Property and Equipment and Intangible Assets

Property and equipment and intangible assets are assets which may be used for a period longer than one year.
The Bank has property and equipment to conduct its activities as well as property and equipment held as an investment. Both types of property and equipment and 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 periods (over respective estimated useful lives) for individual categories of property and equipment and intangible assets 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 the 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
• Software and intangible assets	2–6 years or in accordance with the contract
• Low value tangible assets	2–3 years

Both tangible and 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.
The gains and losses on disposal are determined based on the net book value and are included in other operating income or expenses.
The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised.
Property and equipment, which the Group intends to sell within 12 months, is classified as "Non-current assets held for sale". Such property and equipment is reclassified at the lower of its carrying amount or its sales value less disposal costs.

(i) Leases

Provided Finance Lease
A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incident to ownership.
Receivables arising from finance leases are reported as equal to the net investment in the lease upon the receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equate to the gross investment in the lease (given that finance lease contracts include a clause on the 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 which is 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.
Receivables of the Group arising from finance leases also 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.

Provided Operating Leases
Other leases are classified as operating leases, the leased asset remains to be owned by the lease company after the termination of the lease contract.
Income from operating leases is reported in "Other operating income".

Received Operating Leases
Payments under contracts for received operating leases are included in "General administrative expenses" evenly over the period of the lease contract.
In the case of contract cancellation before the end of the lease contract, all required penalty payments are accounted for as a period cost at the time of cancelling the lease.

(j) 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 are not past their due dates. The factoring company pays part of the purchase price ('prefinancing') to the supplier. Receivables from purchased receivables are reported in "Receivables from clients" 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 prefinancing comprising two basic components – the risk component and the cost component. The risk component represents the Group's remuneration for taking on credit risk and is principally affected by the customers' financial health and payment discipline.

In determining the cost component, other factors are taken into account, such as the costs incurred in keeping the records of receivables, the cost of conducting the dunning process, information services, assistance in the complaints handling procedure, other costs involved in blocking the funds required to finance the receivables. The current price is derived from the specific level of turnover, number and solvency of customers, etc. In addition to the fee, the Group charges interest, the absolute amount of which depends on the amount of prefinancing 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.

(k) Provisions

Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions 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.

(l) Interest Income and Expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. In the current environment of negative interest rates, negative interest income is presented in income with the negative sign. Negative interest expense is presented in interest expense with the opposite sign.

Unless a management decision is made to the contrary, accrued interest income is also recognised in profit or loss for impaired loans and receivables (except for loans and receivables in bankruptcy proceedings). In such cases, the interest income represents a part of the amortised cost which forms a basis for the impairment loss calculation.

(m) Fee and Commission Income and Expense

Fee and commission income and expense 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/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognised when the corresponding service is provided or completed.

(n) Dividend income

Dividend income is recognised in profit or loss in “Dividend income” on the date that the dividend is declared.

(o) Deferred Bonuses

The Group accounts for deferred bonuses on the accrual basis of accounting

(p) 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 or receivable 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. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(q) Contingent Assets and Liabilities

A contingent asset/liability is a potential asset/liability that arises from past events and whose existence will be only confirmed 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 balance sheet but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50%, the Group will recognise a provision. Where the likelihood of an inflow of economic benefits is almost 100%, the Group will recognise an asset and revenue.

(r) 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. In 2016, the structure of internal organisation and the composition of reported segments changed.

The Group’s primary segment reporting is broken down by types of clients, 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 takes in especially the following products and services: providing banking services to companies and public institutions, including loans, 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 clients, investment advisory, and consulting on mergers and acquisitions.

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

(s) Standards and Interpretations Effective in the Current Period

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 Equity Method in Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2016); and
- Annual Improvements to IFRSs 2012–2014 Cycle (Effective for annual periods beginning on or after 1 January 2016) which include amendments to a number of IFRSs as changes in methods of disposal in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, servicing contracts and applicability of the amendment to IFRS 7 on offsetting disclosure to condensed interim financial statements in IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1), discount rate: regional market issue in IAS 19 Employee Benefits and disclosure information included in the interim financial report in IAS 34 Interim Financial Reporting.

(t) Standard and Interpretations Issued by the IASB and Adopted by the EU that are Not Yet Effective

The Group has evaluated the impact of standards, interpretations and amendments to valid standards which are not yet in force and were not used in preparing these financial statements but which are already approved and will have an impact on the Group's financial statements in the future. The Group is currently analysing the impacts arising from the adoption of these standards. The Group plans to implement these standards at the date they become effective.

- *IFRS 9 "Financial Instruments*" is effective for annual periods beginning on or after 1 January 2018 and replaces *IAS 39 "Financial Instruments: Recognition and Measurement"*. IFRS 9 includes requirements for initial recognition, measurement and derecognition of financial assets and liabilities and hedge accounting. The IFRS 9 implementation project is currently underway in the Group with regard to classification, measurement and impairment.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets. The current model based on portfolios according to IAS 39 will be abolished and financial assets will be newly classified on the basis of the business model for financial asset management and characteristics of contractual cash flows (the "SPPI test"). Through these criteria, the Bank defines measurement categories as follows:

- Financial assets at amortised cost ("AC");
- Financial assets at fair value through profit or loss ("FVTPL"); and
- Financial assets at fair value through other comprehensive income ("FVOCI").

All loans are held by the Group under a business model designed to hold financial assets to collect contractual cash flows ("held to collect"). Based on the result of the SPPI test, loans may be classified as either AC or FVTPL. The portfolio analysis is ongoing at present but the Group anticipates that the vast majority of the loan portfolio will meet the SPPI test and will therefore be classified as AC, ie will continue to be presented on a practically identical basis.

Other financial instruments, namely securities, are held under a business model designed to collect contractual cash flows or to sell financial assets ("held to collect" and "held to collect and sell"). These assets may see minor changes in the presentation as a result of a change in classification in specific cases.

Impairment – the key impact relates to the change in the concept of estimating losses on impairment of financial assets from the current "incurred loss" concept to the "expected credit loss" concept. The Group anticipates that the new concept will accelerate the recognition of impairment losses on financial assets and will lead to greater provisioning at the initial recognition date.

Other requirements of IFRS 9 in this area include calculating impairment not only by reference to historical information but also on the basis of current and future prospective macroeconomic or other group-specific information. The methodology for using this information is currently being internally analysed and fine-tuned.

For reporting and provisioning purposes, IFRS 9 introduces a three-level model that takes into account changes in credit quality since initial recognition ("staging"):

- Level 1 includes financial assets the credit risk of which has not increased significantly since initial recognition and assets with

low credit risk at the balance sheet date. The 12-month expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets. The Group anticipates that this category will include the vast majority of standard receivables.
- Level 2 includes financial assets the credit risk of which has increased significantly since initial recognition but for which there is no objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is still calculated on the basis of the gross carrying amount of assets. The Group anticipates that this category will include receivables whose risk profile has deteriorated since the origination date (this will be managed both on a qualitative and quantitative basis, specific parametrisation is subject to ongoing analyses and model development).
- Level 3 includes financial assets for which there is objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category will include receivables with default.

This new segmentation also determines the approach to calculating provisions, specifically:
- Level 1 receivables will be provisioned as equal to the calculated expected loss of the given product.
- For Level 2 receivables, the LtEL ("life time expected loss") is introduced representing the modelled expected loss reflecting aggregate life time of the given product. This calculation will be based on the corresponding life-time parameters which are currently being developed/calibrated. In line with the concept, the Bank takes into account available information in developing models while also closely cooperating with the Group in developing a consistent interpretation of the methodology.
- For Level 3 receivables, the Bank does not anticipate any significant changes in the logics of the calculation as compared to the current approach to provisioning receivables in default (the split into the individual and collective approach to calculating provisions will remain unchanged).

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activities. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities. IFRS 9 generally expands and simplifies the possibility of applying hedge accounting by, for example, enabling a broader inclusion of non-financial assets or derivatives among hedged items and simplifying the assessment of hedge effectiveness. As a result, the Bank anticipates applying hedge accounting in a wider scope following the adoption of IFRS 9. The Group expects that the current and planned hedge accounting arrangements will be subordinated to IFRS 9 as a whole. Given the delayed application of part of IFRS 9 in respect of macro hedge accounting, it will be possible to follow the guidance under IAS 39 on hedge accounting until approximately 2020.

Own credit risk – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The Group will not early-adopt IFRS 9, hence it will apply the requirements of the standard from 1 January 2018.

The expected timeline of the implementation is as follows:
- 2016 to the 2nd quarter of 2017: finalisation of the IFRS 9 impact analysis, development of internal and Group-wide methodology and application of the local solution;
- 1st quarter of 2017 – start of user testing; and
- 2nd–4th quarter of 2017: calibration of models for calculating impairment and accounting models, adjustment of internal and group-wide methodologies, continuance of user testing, parallel run of the old IAS 39 model and the new model under IFRS 9.

The Group will not restate previous periods. The Bank plans on preparing and disclosing the following reconciliations:
- Reconciliation of financial assets per the portfolios defined in IAS 39 as of 31 December 2017 and per the new portfolios defined in IFRS 9 as of 1 January 2018; and
- Reconciliation of the amount of provisions defined in IAS 39 as of 31 December 2017 and defined in IFRS 9 as of 1 January 2018 by class of financial assets.

In view of the complexity of the change arising from IFRS 9 and given the pending implementation projects, the Group presently does not calculate the expected impact of the initial application of IFRS 9 on the financial statements. The Group anticipates that the key impact will relate to increased provisioning levels since IFRS 9 requires recognising provisions for expected losses even on assets for which there is no objective evidence of impairment at the financial statements date.

Upon initial recognition as of 1 January 2018, the effect of changes in impairment of financial assets will be charged against equity.

Ongoing changes subsequent to 1 January 2018 arising from the new provisioning requirements will be reported in the statement of income.

In respect of regulatory capital planning pursuant to Basel III, a one-off decrease is expected to occur as of 1 January 2018. This will be due to the non-recurring reduction of the amount of retained earnings brought forward which was one of the key components of the CET1 capital.

Note: Based on the discussion paper issued by the BCBS in October 2016[1], the impact of IFRS 9 on the CET1 capital is expected to

1 Discussion paper: Regulatory treatment of accounting provisions (D385) and Consultative document: Regulatory treatment of accounting provisions – interim approach and transitional arrangements (D386).

be distributed over multiple years. A new draft of CRR 2[2] dated November 2016 foresees the distribution of the impact of additional provisioning under IFRS 9 over a period of five years.
The impacts disclosed above are estimates only and may be subject to change during the implementation.

- *IFRS 15 "Revenue from Contracts with Customers"* (effective for annual periods beginning on or after 1 January 2018).

(u) Standards and Interpretations Published by the IASB, but not yet Adopted by the European Union

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016). The European Commission decided not to commence the approval process of the interim standard and await the final standard;
- IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Effective for annual periods beginning on or after a date to be determined);
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 7 Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2017);
- Clarifications to IFRS 15 Revenue from Contracts with Customers;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2018);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Effective for annual periods beginning on or after 1 January 2017);
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018); and
- Amendments to IAS 40: Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018).

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 40).

2 REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012.

The presentation of the consolidated financial statements in conformity with IFRS requires the Group's management to make 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 specifically relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions, are based on the information available at the balance sheet date.

(a) Key Sources of Estimation Uncertainty

(i) Impairment

Assets accounted for at amortised cost are evaluated for impairment. The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Collectively assessed impairment covers credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations of credit risk, and other economic factors.
In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based upon historical experience and current economic conditions. The accuracy in quantifying the impairment depends upon how well the Group is able to estimate these future cash flows for specific counterparties and the quality in establishing the models' parameters.

(ii) Determining Fair Values

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy 3(b) (v). 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.

(b) Critical Accounting Judgements in Applying the Group's Accounting Policies

(i) Financial Asset and Liability Classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances; the Group confirms that the assumptions disclosed in Note 3(b) (i) have been met.

(ii) Hedge Accounting

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

(iii) Change in Accounting Policy

There were no changes in accounting policies during the year ended 31 December 2016 and the year ended 31 December 2015.

(iv) Effect of the Changes in Accounting Standards in these Financial Statements

In the years ended 31 December 2016 and 31 December 2015, the Group did not identify any changes of financial reporting standards that would significantly affect the Group's financial statements.

5. Net interest income and similar income

MCZK	2016	2015
Interest income and similar revenues		
Balances with central banks	56	33
Receivables from banks	157	128
Receivables from clients	9 774	10 598
Available-for-sale securities	1 312	1 453
Securities held to maturity	9	10
Financial assets at fair value through profit or loss held for trading	17	27
Financial assets at fair value through profit or loss not held for trading	–	10
Net interest income from hedging derivatives	507	489
Interest income and similar revenues	**11 832**	**12 748**
Interest expense and similar charges		
Deposits from central bank	(5)	(7)
Deposits from banks	(197)	(465)
Deposits from clients	(516)	(855)
Debt securities issued	(969)	(1 185)
Financial liabilities held for trading	–	(1)
Interest expense and similar charges	(1 687)	(2 513)
Net interest income and similar income	**10 145**	**10 235**

6. Net fee and commission income

MCZK	2016	2015
Fee and commission income from		
Securities transactions	5	4
Management, administration, deposit and custody services	692	653
Loans	1 885	1 833
Payment services	789	757
Account administration	511	514
Payment cards	856	1 034
Other	280	265
Fee and commission income	**5 018**	**5 060**
Fee and commission expenses from		
Securities transactions	(8)	(10)
Management, administration, deposit and custody services	(72)	(71)
Loans	(364)	(246)
Payment services	(31)	(33)
Payment cards	(577)	(774)
Other	(143)	(83)
Fee and commission expenses	**(1 195)**	**(1 217)**
Net fee and commission income	**3 823**	**3 843**

7. Dividend income

MCZK	2016	2015
Dividend income		
Shares classified as available-for-sale securities	3	2
Total dividend income	**3**	**2**

8. Net income/loss from financial assets and liabilities held for trading

MCZK	2016	2015
Net realised and unrealised gain/(loss) from securities held for trading	87	93
Net realised and unrealised gain/(loss) from derivatives held for trading	698	1 410
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 344	402
Net trading income (loss)	**2 129**	**1 905**

9. Net income/loss from hedging against risk of changes in fair value

MCZK	2016	2015
Hedging instruments	(158)	156
Hedged instruments	154	(165)
Net income/loss from hedging against risk of changes in fair value	**(4)**	**(9)**

10. Net income/loss from the sale of financial assets and liabilities

MCZK	2016	2015
Receivables from clients	3	1
Available-for-sale securities	1 085	16
Debt securities issued	(35)	(8)
Net income/loss from the sale of financial assets and liabilities	**1 053**	**9**

The income from financial assets available for sale predominantly includes income arising from an international transaction – transformation of Visa Europe in which the Group held an equity interest.

11. Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading

MCZK	2016	2015
Debt securities (assets)	3	(1)
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	**3**	**(1)**

12. Impairment losses on financial assets and off-balance sheet items

MCZK	2016	2015
Receivables from clients	(1 431)	(1 486)
Provision for off-balance sheet items	(65)	45
Available-for-sale securities	(3)	–
Total impairment losses on financial assets and off-balance sheet items	**(1 499)**	**(1 441)**

13. Administrative expenses

MCZK	2016	2015
Personnel expenses		
Wages and salaries paid to employees	(2 431)	(2 400)
Social costs	(840)	(820)
Other	(119)	(102)
	(3 390)	**(3 322)**
Other administrative expenses		
Rent and building maintenance	(681)	(654)
Information technologies	(1 241)	(1 232)
Promotion and marketing	(471)	(461)
Consumables used	(76)	(84)
Audit, legal and advisory services	(183)	(180)
Administrative and logistic services	(547)	(490)
Deposits and transactions insurance	(532)	(460)
Other services	(273)	(289)
Other	(460)	(335)
	(4 464)	**(4 185)**
Total administrative expenses	**(7 854)**	**(7 507)**

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

MCZK	2016	2015
Short-term employee benefits	185	168
Post-employment benefits	–	–
Other long-term employee benefits	34	34
Termination benefits	–	–
Share-based payments	–	–
Total	**219**	**202**

Information on equity-based bonuses is included in Note 35.

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

	2016	2015
Employees	3 328	2 952
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	33	29

The line item "Employees" includes all employees of the Group. The line items "Members of the Board of Directors", "Members of the Supervisory Board" and "Other executives directly reporting to the Board of Directors" include the Bank's personnel.

A summary of operating leases is presented in the following table:

2016 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	351	1 389	–
2015 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	293	1 203	–

14. Other operating income and expenses

MCZK	2016	2015
Income from rent	696	598
Other income relating to lease	68	76
Other income	535	546
Total other operating income	**1 299**	**1 220**
Taxes	(2)	(3)
Fines and penalties	(15)	(13)
Other expenses relating to lease	(96)	(72)
Other	(396)	(467)
Total other operating expenses	**(509)**	**(555)**
Total other operating income and expenses	**790**	**665**

A summary of receivables from operating leases is presented in the following table:

2016 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	305	383	84
2015 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	516	823	76

15. Cash in hand and cash balances

MCZK	31 Dec 2016	31 Dec 2015
Cash in hand	4 083	4 354
Other balances with central banks	109	91
Total	**4 192**	**4 445**

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds.

16. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	2 803	13	–	2 816
Shares	–	–	–	–
Derivatives	39	6 172	–	6 211
Total	**2 842**	**6 185**	**–**	**9 027**
31 Dec 2015				
Debt securities	1 607	4	–	1 611
Shares	–	–	–	–
Derivatives	36	6 381	–	6 417
Total	**1 643**	**6 385**	**–**	**8 028**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Government sector	2 816	1 611
Shares		
Financial services	–	–
Other	–	–
Total	**2 816**	**1 611**

(b) Not Held for Trading

(i) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	–	–	–	–
Total	**–**	**–**	**–**	**–**
31 Dec 2015				
Debt securities	–	1 539	–	1 539
Total	**–**	**1 539**	**–**	**1 539**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Financial services	–	6
Government sector	–	1 533
Other	–	–
Total	**–**	**1 539**

17. Available-for-sale securities

The Group has no Italian, Spanish, Irish, Portuguese or Greek state bonds in its portfolios.

(a) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	65 539	14 424	–	79 963
Shares	–	–	229	229
Total	**65 539**	**14 424**	**229**	**80 192**
31 Dec 2015				
Debt securities	64 906	17 108	4	82 018
Shares	–	–	631	631
Total	**64 906**	**17 108**	**635**	**82 649**

(b) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Banking	12 240	12 927
Governments and central banks	57 759	59 824
Other public sector	2 185	2 215
Other	7 779	7 052
Shares		
Investment funds	–	–
Other	229	631
Total	**80 192**	**82 649**

(c) Participation Interests

MCZK Name	Registered office	Date of acquisition	Acquisition price	Net book value 2016	Net book value 2015	Share of the Group at 31 Dec 2016	Share of the Group at 31 Dec 2015
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**		

18. Securities held to maturity

(a) By type of security

MCZK	31 Dec 2016	31 Dec 2015
Debt securities	186	186
Total	**186**	**186**

(b) Securities by activities of issuers

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Governments and central banks	186	186
Other	–	–
Total	**186**	**186**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2016	31 Dec 2015
Current accounts	1 204	1 714
Term deposits	6 830	44 277
Loans	7 977	6 415
Reverse repurchase commitments (see Note 37)	117 501	46 000
Obligatory minimum reserves at central banks	6 388	8 205
Total	**139 900**	**106 611**

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

MCZK	31 Dec 2016	31 Dec 2015
Czech Republic	127 946	96 683
Other EU countries	5 500	5 962
Other	6 454	3 966
Total receivables from banks	**139 900**	**106 611**

20. Receivables from clients

(a) Analysis of Net Receivables from Clients, by Type

MCZK	Non-default	Default	Total
31 Dec 2016			
Current accounts (overdrafts)	34 441	474	34 915
Resident mortgage loans	90 932	696	91 628
Other mortgage loans	62 473	1 902	64 375
Leases	26 676	643	27 319
Credit cards and consumer loans	11 723	107	11 830
Factoring	6 087	144	6 231
Bills of exchange	–	–	–
Other loans	147 065	2 209	149 274
Total	**379 397**	**6 175**	**385 572**
31 Dec 2015			
Current accounts (overdrafts)	32 150	585	32 735
Resident mortgage loans	80 590	1 644	82 234
Other mortgage loans	55 428	2 377	57 805
Leases	25 705	1 027	26 732
Credit cards and consumer loans	10 955	138	11 093
Factoring	5 301	110	5 411
Bills of exchange	–	–	–
Other loans	133 454	2 077	135 531
Total	**343 583**	**7 958**	**351 541**

The Group uses the ‘client default’ definition in line with the CNB’s Regulation 163/2014 Coll./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.

(b) Classification of Receivables from Clients and Impairment

MCZK	Gross value	Impairment of individual receivables	Impairment of portfolios of receivables	Net value
31 Dec 2016				
Standard	374 717	–	(1 746)	372 971
Watch	6 695	–	(269)	6 426
Substandard	6 190	(3 140)	–	3 050
Doubtful	1 884	(1 093)	–	791
Loss	8 364	(6 030)	–	2 334
Total	**397 850**	**(10 263)**	**(2 015)**	**385 572**

MCZK	Gross value	Impairment of individual receivables	Impairment of portfolios of receivables	Net value
31 Dec 2015				
Standard	337 266	–	(1 731)	335 535
Watch	8 356	–	(308)	8 048
Substandard	4 653	(1 597)	–	3 056
Doubtful	3 741	(1 518)	–	2 223
Loss	10 026	(7 347)	–	2 679
Total	**364 042**	**(10 462)**	**(2 039)**	**351 541**

The following table presents a summary of gross receivables according to internal rating:

MCZK	31 Dec 2016	31 Dec 2015
Receivables without default		
Internal rating 1	6 573	7 421
Internal rating 2	10 232	9 889
Internal rating 3	44 861	23 621
Internal rating 4	102 911	90 465
Internal rating 5	105 750	103 516
Internal rating 6	67 537	69 764
Other internal rating	23 922	29 831
Receivables without internal rating	19 626	11 115
Total	**381 412**	**345 622**
Receivables with default	16 438	18 420
Total	**397 850**	**364 042**

The Group regularly classifies its receivables. The categories used for classification consider the Group's analysis as to the probability of repayment and analysis of the borrower's behaviour (number of days payments are past due, financial performance, payment discipline, etc.). In 2015, the methodology of calculating provisions was revised, giving rise to, inter alia, a change in the guidance in applying the method of impairment calculation (individually vs using the model). The Group assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realised collateral); in respect of clients in default with exposure above MEUR 1 on an individual basis, other clients using the relevant model.

The following table summarises the gross amounts of non-default loan receivables based on the number of days past due.

MCZK	31 Dec 2016	31 Dec 2015
Non-default receivables, gross		
Due receivables	375 502	339 010
1–30 days past due	5 148	5 288
31–90 days past due	762	1 324
91–180 days past due	–	–
More than 180 days past due	–	–
Total	**381 412**	**345 622**

(c) Analysis of Net Receivables from Clients by Sector

MCZK	31 Dec 2016	31 Dec 2015
Financial institutions	9 797	10 724
Non-financial institutions	268 668	244 266
Government sector	1 669	1 744
Individuals and others	105 438	94 807
Total	**385 572**	**351 541**

(d) Analysis of Gross Receivables from Clients, by Type of Collateral Provided and Classification

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
31 Dec 2016						
Bank and similar guarantee	8 483	26	3	1	–	8 513
Real estate	89 417	1 799	1 122	366	864	93 568
Corporate guarantee	2 728	15	–	–	–	2 743
Movable assets	5 762	460	121	47	171	6 561
Other security	42 003	–	141	747	1 099	43 990
Unsecured	226 324	4 395	4 803	723	6 230	242 475
Total	**374 717**	**6 695**	**6 190**	**1 884**	**8 364**	**397 850**
31 Dec 2015						
Bank and similar guarantee	10 601	15	2	–	–	10 618
Real estate	79 665	2 454	1 608	574	1 103	85 404
Corporate guarantee	1 330	16	–	–	–	1 346
Movable assets	24 521	821	264	134	660	26 400
Other security	3 936	882	504	3	676	6 001
Unsecured	217 213	4 168	2 275	3 030	7 587	234 273
Total	**337 266**	**8 356**	**4 653**	**3 741**	**10 026**	**364 042**

The item “Unsecured” includes, among other things, receivables arising from project funding that are secured by real estate collateral in the nominal value of MCZK 53,723 (as of 31 December 2015: MCZK 41,068). In the case of the project funding of commercial real estate (IPRE), the collateral quality is taken into account in determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

(e) Analysis of Net Receivables from Clients by Region

MCZK	31 Dec 2016	31 Dec 2015
Czech Republic	238 771	212 647
Slovakia	127 130	115 110
Other EU countries	14 800	19 350
Other	4 871	4 434
Total	**385 572**	**351 541**

(f) Analysis of Net Receivables from Clients by Business Activity

MCZK	31 Dec 2016	31 Dec 2015
Real estate services	77 794	64 456
Financial services	9 747	10 707
Wholesale	27 679	28 426
Household services	102 455	92 041
Retail	7 243	7 910
Leasing and rental	5 842	4 156
Automotive industry	8 775	6 484
Power industry	27 237	29 885
Other	118 800	107 476
Total receivables from clients	**385 572**	**351 541**

(g) Analysis of Forbearance

The Group’s approach to forbearance reporting is disclosed in Note 40 (b) (iv) – Financial Risk Management.

Analysis of forborne receivables by sectors:

MCZK	Gross non-default receivables	Gross default receivables	Total gross forbearance	Impairment of non-default receivables	Impairment of default receivables	Total impairment of forbearance	Net forbearance
31 December 2016							
Non-financial institutions	8 360	2 728	11 088	(143)	(1 425)	(1 568)	9 520
Other financial institutions	8	–	8	–	–	–	8
Government sector	–	–	–	–	–	–	–
Individuals and others	61	68	129	(4)	(17)	(21)	108
Total	**8 429**	**2 796**	**11 225**	**(147)**	**(1 442)**	**(1 589)**	**9 636**
31 December 2015							
Non-financial institutions	1 516	3 660	5 176	(74)	(1 696)	(1 770)	3 406
Government sector	–	–	–	–	–	–	–
Individuals and others	6	75	81	–	(17)	(17)	64
Total	**1 522**	**3 735**	**5 257**	**(74)**	**(1 713)**	**(1 787)**	**3 470**

Net forbearance represented 2.5% of the total receivables from clients as of 31 December 2016 (2015: 1.0%).

The table below provides an analysis of forborne receivables by days after the due date:

MCZK	Gross forbearance	Impairment of forbearance	Net forbearance
31 Dec 2016			
Non-default receivables			
Before due	7 054	(88)	6 966
Past due	1 375	(59)	1 316
Total non-default forbearance	**8 429**	**(147)**	**8 282**
Default receivables			
0 to 90 days past due	1 985	(794)	1 191
91 to180 days past due	299	(147)	152
181 days to 1 year past due	106	(66)	40
Over 1 year past due	406	(435)	(29)
Total default forbearance	**2 796**	**(1 442)**	**1 354**
Total	**11 225**	**(1 589)**	**9 636**
31 December 2015			
Non-default receivables			
Before due	217	(9)	208
Past due	1 305	(65)	1 240
Total non-default forbearance	**1 522**	**(74)**	**1 448**
Default receivables			
0 to 90 days past due	2 416	(831)	1 585
91 to180 days past due	126	(75)	51
181 days to 1 year past due	248	(101)	147
Over 1 year past due	945	(706)	239
Total default forbearance	**3 735**	**(1 713)**	**2 022**
Total	**5 257**	**(1 787)**	**3 470**

The table below shows movements in gross forbearance:

MCZK	
Balance at 1 January 2015	7 630
Transfer to forbearance	1 320
Additions	99
Write-offs	(456)
Settled	(1 017)
Transfer from forbearance	(2 300)
Other	(19)
Total forbearance as of 31 December 2015	**5 257**
Balance at 1 January 2016	5 257
Transfer to forbearance	8 254
Additions	24
Write-offs	(157)
Settled	(408)
Transfer from forbearance	(1 091)
Other	(654)
Total forbearance as of 31 December 2016	**11 225**

During 2016, the Group undertook a one-off retroactive review of its activities performed over the last two years that could meet the characteristics for classification as non-default forbearance. This resulted in a major increase in the category of such receivables.

The table below shows movements in the impairment of forbearance:

MCZK	
Balance at 1 January 2015	(1 774)
Transfer to forbearance	(527)
Charge during the current year	(189)
Release during the current year	163
Receivables written off – use	313
Transfer from forbearance	222
Other	5
Total impairment forbearance as of 31 December 2015	**(1 787)**
Balance at 1 January 2016	(1 787)
Transfer to forbearance	(655)
Charge during the current year	(146)
Release during the current year	179
Receivables written off – use	132
Transfer from forbearance	517
Other	171
Total impairment forbearance as of 31 December 2016	**(1 589)**

(h) Impairment of Receivables from Clients

MCZK	
Balance as of 1 Jan 2015	(12 471)
Addition arising from consolidation	(132)
Creation during the period	(4 604)
Release during the period	3 118
Net effect on profit or loss	(1 486)
Receivables written off – use	1 488
FX differences	100
Total impairment of receivables from clients as of 31 Dec 2015	**(12 501)**

MCZK	
Balance as of 1 Jan 2016	(12 501)
Addition arising from consolidation	–
Creation during the period	(3 834)
Release during the period	2 403
Net effect on profit or loss	(1 431)
Receivables written off – use	1 541
FX differences	113
Total impairment of receivables from clients as of 31 Dec 2016	**(12 278)**

(i) Receivables from Finance Leases

	Minimum lease payment		Present value of the minimum lease instalment	
MCZK	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Receivables from finance leases:				
Within 1 year	9 201	8 777	7 969	8 233
From one year to five years	15 213	15 031	14 684	13 204
More than five years	5 099	5 873	4 666	5 295
	29 513	29 681	27 319	26 732
Minus: unrealised income	(2 194)	(2 949)	–	–
Present value of the receivable from the minimum lease instalment	**27 319**	**26 732**	**27 319**	**26 732**

21. Equity investments

MCZK	Assets	Operating income	Profit/ (loss)	Equity	Net book value
31 December 2016					
RCI Financial Services, s.r.o. (50%)	3 042	202	120	719	401
Total					**401**
31 December 2015					
RCI Financial Services, s.r.o. (50%)	2 653	207	117	719	401
Total					**401**

Changes in Investments in Associates

MCZK	
Balance at 1 January 2015	542
Addition arising from consolidation	–
Change in profit or loss	57
Dividend	(72)
Change in equity	(124)
Total	**401**
Balance at 1 January 2016	401
Addition arising from consolidation	–
Change in profit or loss	60
Dividend	(60)
Change in equity	–
Total	**401**

22. Positive fair value of hedging derivatives

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Fair value hedging	–	122	–	122
Cash flow hedging	–	5 041	–	5 041
Total	**–**	**5 163**	**–**	**5 163**
31 Dec 2015				
Fair value hedging	–	240	–	240
Cash flow hedging	–	4 667	–	4 667
Total	**–**	**4 907**	**–**	**4 907**

23. Property and equipment

MCZK	31 Dec 2016	31 Dec 2015
Property and equipment for operations		
Buildings and land	1 094	1 776
Fixtures and fittings	39	75
IT equipment	134	185
Assets provided under operating leases	2 863	2 231
Other	174	104
Property and equipment held as an investment		
Buildings and land	712	745
Total	**5 016**	**5 116**

(a) Movements in Property and Equipment Held for Operations

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Cost at 1 Jan 2015	**3 766**	**483**	**1 016**	**1 987**	**180**	**7 432**
Accumulated depreciation and impairment at 1 Jan 2015	(1 838)	(406)	(814)	(588)	(87)	(3 733)
Net Book Value at 1 Jan 2015	**1 928**	**77**	**202**	**1 399**	**93**	**3 699**
Additions arising from consolidation	–	–	–	–	3	3
Additions	149	30	191	1 962	37	2 369
Disposals	–	–	(143)	(558)	–	(701)
Depreciation charges	(147)	(16)	(61)	(399)	(23)	(646)
Transfers to assets held for sale	(23)	–	–	–	–	(23)
Other and FX rate gains or losses	(131)	(16)	(4)	(173)	(6)	(330)
Net Book Value at 31 Dec 2015	**1 776**	**75**	**185**	**2 231**	**104**	**4 371**
Cost at 31 Dec 2015	2 927	443	709	2 868	165	7 275
Accumulated depreciation and impairment at 31 Dec 2015	(1 151)	(368)	(524)	(637)	(61)	(2 904)
Cost at 1 Jan 2016	**2 927**	**443**	**709**	**2 868**	**165**	**7 275**
Accumulated depreciation and impairment at 1 Jan 2016	(1 151)	(368)	(524)	(637)	(61)	(2 904)
Net Book Value at 1 Jan 2016	**1 776**	**75**	**185**	**2 231**	**104**	**4 371**
Additions arising from consolidation	–	–	–	–	–	–
Additions	99	8	47	2 093	56	2 303
Disposals	(661)	–	–	(697)	(14)	(1 372)
Depreciation charges	(146)	(10)	(60)	(483)	(36)	(735)
Transfers to assets held for sale	(4)	–	–	–	–	(4)
Other and FX rate gains or losses	30	(34)	(38)	(281)	64	(259)
Net Book Value at 31 Dec 2016	**1 094**	**39**	**134**	**2 863**	**174**	**4 304**
Cost at 31 Dec 2016	2 047	212	734	3 500	480	6 973
Accumulated depreciation and impairment at 31 Dec 2016	(953)	(173)	(600)	(637)	(306)	(2 669)

In February 2016, management of the Group approved the sale and leaseback of a building with the net book value of MCZK 629, which was subsequently transferred to “Non-current assets held for sale”. The transaction was conducted during 2016.

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

MCZK	Buildings and land	Total
Cost at 1 Jan 2015	**1 395**	**1 395**
Accumulated depreciation and impairment at 1 Jan 2015	(412)	(412)
Net Book Value at 1 Jan 2015	**983**	**983**
Additions arising from the consolidation	–	–
Additions	–	–
Disposals	–	–
Depreciation charges	(34)	(34)
Transfers to assets held for sale	(205)	(205)
Other and FX rate gains or losses	1	1
Net Book Value at 31 Dec 2015	**745**	**745**
Cost at 31 Dec 2015	982	982
Accumulated depreciation and impairment at 31 Dec 2015	(237)	(237)
Cost at 1 Jan 2016	**982**	**982**
Accumulated depreciation and impairment at 1 Jan 2016	(237)	(237)
Net Book Value at 1 Jan 2016		
Additions arising from the consolidation	–	–
Additions	–	–
Disposals	–	–
Depreciation charges	(33)	(33)
Transfers to assets held for sale	–	–
Other and FX rate gains or losses	–	–
Net Book Value at 31 Dec 2016	**712**	**712**
Cost at 31 Dec 2016	982	982
Accumulated depreciation and impairment at 31 Dec 2016	(270)	(270)

24. Intangible assets

Movements in Intangible Assets

MCZK	Software	Other	Total
Cost at 1 Jan 2015	**1 286**	**8**	**1 294**
Accumulated amortisation and impairment at 1 Jan 2015	(1 189)	(8)	(1 197)
Net Book Value at 1 Jan 2015	**97**	**–**	**97**
Additions arising from consolidation	–	–	–
Additions	699	80	779
Disposals	–	–	–
Amortisation charges	(35)	–	(35)
Other	11	(60)	(49)
Net Book Value at 31 Dec 2015	**772**	**20**	**792**
Cost at 31 Dec 2015	1 901	27	1 928
Accumulated amortisation and impairment at 31 Dec 2015	(1 129)	(7)	(1 136)

MCZK	Software	Other	Total
Cost at 1 Jan 2016	**1 901**	**27**	**1 928**
Accumulated amortisation and impairment at 1 Jan 2016	(1 129)	(7)	(1 136)
Net Book Value at 1 Jan 2016	**772**	**20**	**792**
Additions arising from consolidation	–	–	–
Additions	622	–	622
Disposals	–	–	–
Amortisation charges	(43)	–	(43)
Other	36	(20)	16
Net Book Value at 31 Dec 2016	**1 387**	**–**	**1 387**
Cost at 31 Dec 2016	2 556	–	2 556
Accumulated amortisation and impairment at 31 Dec 2016	(1 169)	–	(1 169)

Software includes assets of MCZK 1,174 (2015: MCZK 639) acquired primarily in respect of the implementation of a new banking system which are not brought into use and hence not amortised.

25. Other assets

MCZK	31 Dec 2016	31 Dec 2015
Deferred expenses and accrued income	368	480
Prepayments made in relation to cash additions to ATMs and cash registers	1 151	1 033
Trading receivables	426	753
Receivables from securities	201	92
Other taxes	125	90
Suspense accounts	472	374
Other	354	202
Total	**3 097**	**3 024**
Impairment of other assets	(16)	(26)
Net other assets	**3 081**	**2 998**

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2016	31 Dec 2015
Deposits from central banks	11 889	11 899
Current accounts	7 033	11 506
Loans	16 380	22 487
Term deposits	39 210	7 540
Repurchase commitments (see Note 37)	41 012	6 270
Other	–	–
Total	**115 524**	**59 702**

The Group currently uses the European Central Bank's currency instrument TLTRO II ("Targeted Long-term Refinancing Operation") in the amount of MEUR 440. The Group drew this tranche in June 2016, it will mature in June 2020 and is reported in the line "Deposits from central banks". TLTRO II has the characteristics of a long-term repo transaction and as such it is secured by collateral accepted by the Eurosystem. The funding obtained through this instrument is used to refinance largely corporate loans in Slovakia.

27. Deposits from clients

Analysis of Deposits from Clients by Type

MCZK	31 Dec 2016	31 Dec 2015
Current accounts	322 479	299 340
Term deposits	40 411	53 653
Repurchase commitments (see Note 37)	4 653	7 208
Other	3 620	3 788
Total	**371 163**	**363 989**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2016	31 Dec 2015
Mortgage bonds	49 183	51 661
Structured bonds	8 170	7 809
Zero coupon bonds	1 664	1 844
Other issued debt securities	1 090	3 705
Total	**60 107**	**65 019**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 8,512 (at 31 December 2015: MCZK 8,406). The positive fair value of these derivatives of MCZK 17 is reported under "Financial assets held for trading" (at 31 December 2015: MCZK 11); the negative fair value of these derivatives of MCZK 293 is recognised under "Financial liabilities held for trading" (at 31 December 2015: MCZK 338).

29. Financial liabilities held for trading

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Liabilities from short sales	1 033	–	–	1 033
Derivatives	–	5 536		5 536
Total	**1 033**	**5 536**	**–**	**6 569**
31 Dec 2015				
Liabilities from short sales	926	–	–	926
Derivatives	–	6 110	–	6 110
Total	**926**	**6 110**	**–**	**7 036**

30. Negative fair value of hedging derivatives

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Fair value hedging	–	1 044	–	1 044
Cash flow hedging	–	2 373	–	2 373
Total	**–**	**3 417**	**–**	**3 417**

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2015				
Fair value hedging	–	1 017	–	1 017
Cash flow hedging	–	2 127	–	2 127
Total	**–**	**3 144**	**–**	**3 144**

31. Other liabilities

MCZK	31 Dec 2016	31 Dec 2015
Deferred income and accrued expenses	1 118	1 373
Trade payables	944	1 012
Payables to employees	739	637
Unsettled security transactions	89	19
Suspense accounts	5 677	3 250
Other	312	366
Total other liabilities	**8 879**	**6 657**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2016	31 Dec 2015
Provisions for off-balance sheet credit items	553	1 128
Legal disputes	81	84
Provision for restructuring	23	21
Other	312	3
Total provisions	**969**	**1 236**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
Balance at 1 Jan 2015	1 173
Charge during the period	197
Usage during the period	–
Release during the period	(242)
Other – foreign exchange rate gains or losses	–
Total provisions for off-balance sheet credit items at 31 Dec 2015	**1 128**
Balance at 1 Jan 2016	1 128
Charge during the period	300
Usage during the period	(650)
Release during the period	(235)
Other – foreign exchange rate gains or losses	10
Total provisions for off-balance sheet credit items at 31 Dec 2016	**553**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance at 1 Jan 2015	100	30	10	140
Additions arising from consolidation	–	–	–	–
Charge during the period	12	2	3	17
Use during the period	–	(6)	–	(6)
Release of redundant provisions and other	(28)	(5)	(10)	(43)
Total other provisions at 31 Dec 2015	**84**	**21**	**3**	**108**

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance at 1 Jan 2016	84	21	3	108
Additions arising from consolidation	–	–	–	–
Charge during the period	11	3	313	327
Use during the period	(3)	(1)	(1)	(5)
Release of redundant provisions and other	(11)	–	(3)	(14)
Total other provisions at 31 Dec 2016	**81**	**23**	**312**	**416**

33. Income tax

(a) Tax in Profit or Loss

MCZK	2016	2015
Current tax payable	(1 488)	(1 403)
Tax of prior year	73	(24)
Deferred tax	(253)	3
Total income tax	**(1 668)**	**(1 424)**

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:

MCZK	2016	2015
Profit/loss for the year before tax	7 713	7 064
Tax calculated using the tax rate of 19%	(1 465)	(1 342)
Impact of prior years on the current tax payable	73	(24)
Non-taxable income	107	167
Tax non-deductible expenses	(169)	(192)
Impact of prior years on the deferred tax	(86)	6
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(58)	(40)
Unreported temporary differences in deferred tax	(80)	–
Recognition of an originally unrecognised deferred tax	43	
Impact of a change in the Slovak tax rate	(31)	–
Other	(2)	–
Total income tax	**(1 668)**	**(1 424)**

The effective tax rate of the Group is 21.6% (2015: 20.2%).

(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.

In 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.

Management of the Group believes that the Group will be able to fully recover deferred tax assets reported as of 31 December 2016 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

MCZK	31 Dec 2016		31 Dec 2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	24	–	19	–
Impairment of loans and off-balance sheet items	597	–	820	–
Differences arising from the net book values of assets	37	–	24	–
Reserve from revaluation of hedging instruments	–	(11)	21	(2)
Reserve from revaluation of available-for-sale securities	–	(54)	–	(62)
Tax loss	38	–	37	–
Other	37	(41)	54	(45)
Deferred tax liability/asset	733	(106)	975	(109)
Net deferred tax asset	**627**		**866**	

(ii) Net Deferred Tax Liability

MCZK	31 Dec 2016		31 Dec 2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	83	(3)	77	(3)
Impairment of loans and off-balance sheet items	365	(643)	365	(569)
Leases	–	–	–	–
Differences arising from the net book values of assets	16	(99)	3	(55)
Reserve from revaluation of hedging instruments	2	(434)	3	(432)
Reserve from revaluation of available-for-sale securities	–	(477)	–	(666)
Tax losses	8	–	2	–
Other	58	(1)	11	(10)
Deferred tax liability/asset	532	(1 657)	461	(1 735)
Net deferred tax liability		**(1 125)**		**(1 274)**

The Group additionally carries the following deferred tax assets which are not recognised and accounted for on the grounds of prudence: arising from non-tax deductible provisions recognised by the Czech Bank of MCZK 67, non-tax deductible provisions recognised by the Slovak branch of MCZK 22, provisions for loan receivables of MCZK 17 recognised by the Slovak branch, provisions recognised by UniCredit Leasing Slovakia, a.s. of MCZK 73 and unutilised tax losses of UniCredit Leasing Slovakia, a.s. of MCZK 16, of which MCZK 15 is deductible in 2017.

34. Issued capital and share premium

The recorded, issued and fully paid capital of the Group amounted to MCZK 8,755 as of 31 December 2016 (MCZK 8,755 as of 31 December 2015).

(a) Shareholder Structure of the Group

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2016				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2015				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99.96
Minority shareholders		5	12	0.04
Total		**8 755**	**3 495**	**100.00**

As part of restructuring in the 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 holding 100% of the Bank's shares.

(b) Capital Breakdown of the Group

	31 Dec 2016 Number of shares	31 Dec 2016 MCZK	31 Dec 2015 Number of shares	31 Dec 2015 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. Both at 31 December 2016 and 31 December 2015, the Group held no treasury shares.

35. 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.

36. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

MCZK	31 Dec 2016	31 Dec 2015
Reserve funds	5 200	5 190
Special-purpose reserve fund	11 611	11 611
Retained earnings	27 003	21 373
Foreign exchange rate gains or losses from consolidation	–	(2)
Total	**43 814**	**38 172**

The Group may create the reserve fund (reported under "Reserve funds") from the net profit reported in the ordinary financial statements pursuant to the resolution of the general meeting. The established reserve fund can be used solely to cover the Bank's loss, pursuant to the resolution of the general meeting.
As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Group.

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

(a) Reverse Repurchase Transactions

MCZK	31 Dec 2016	31 Dec 2015
Receivables from banks	117 501	46 000
Fair value of securities received	116 305	45 138
Receivables from clients	–	–
Fair value of securities received	–	–

Securities received as collateral as part of reverse repurchase transactions of MCZK 12,393 and securities received as part of collateral exchange of MCZK 393 are further provided as collateral under repurchase transactions (as of 31 December 2015: a total of MCZK 8,177).

(b) Repurchase Transactions

MCZK	31 Dec 2016	31 Dec 2015
Deposits from banks	41 012	6 270
Fair value of securities provided	44 596	6 939
Deposits from clients	4 653	7 208
Fair value of securities provided	4 653	7 206

38. Contingent liabilities, contingent assets and financial derivatives

In the ordinary course of business, the Group conducts various financial transactions that are not reported on the face of the Group's balance sheet and that are designated as off-balance sheet financial instruments. Unless stated otherwise, the information below represents the nominal values of the off-balance sheet transactions.

(a) Contingent Liabilities

Legal Disputes

As of 31 December 2016, the Group assessed the legal disputes in which it acted as a defendant. The Group established provisions for these legal disputes (see Note 32). 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

The Czech and Slovak tax legislation has significantly changed over the last years. As such, many complicated legislation areas remained unresolved, due to which the interpretation of taxation authorities in specific cases may not be anticipated. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations get adopted in practice or in the event that official interpretations are available.

Liabilities arising from Guarantees, Credit Commitments and Other Contingent Liabilities

Contingent liabilities predominantly include amounts of undrawn credit commitments. Credit commitments issued by the Group include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include credits and guarantees 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.

Liabilities arising from financial guarantees include irrevocable confirmations made by the Group to perform payments, under the condition that the terms defined under individual guarantee certificates are met. As such confirmations bear similar risk as credits, the Group creates the relevant provisions using a similar algorithm as for credits (see Note 40).

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 that 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 Note 40).

The Group created provisions for off-balance sheet items to cover losses incurred and arising from the impairment of the off-balance sheet items due to credit risk. As of 31 December 2016, the aggregate provisions amounted to MCZK 553 (as of 31 December 2015: MCZK 1,128), see Note 32 (a).

MCZK	31 Dec 2016	31 Dec 2015
Letters of credit and financial guarantees	41 499	46 255
Other contingent liabilities (undrawn credit facilities)	115 291	114 053
Total	**156 790**	**160 308**

Values Taken into Administration and Management

MCZK	31 Dec 2016	31 Dec 2015
Bonds	474 869	513 180
Shares	205 853	206 615
Depository notes	21 489	29 932
Total values taken into administration and management	**702 211**	**749 727**

(b) Contingent Assets

The Group had an option to draw a credit line provided by the Council of Europe Development Bank (CEDB) amounting to MCZK 405.3 (MEUR 15) with the latest maturity of seven years from the time of drawing. This credit line is purpose-bound for the refinancing of credits that fulfil the conditions of the CEDB. The Bank additionally has an option to draw a credit line from Oesterreichische Kontrollbank AG Bank of MCZK 1,144.8 (MEUR 42.4) with the maximum maturity on 30 June 2029 depending on the maturity of loans refinanced from this credit line and a credit line from The Export-Import Bank of The Republic of China of MCZK 222.9 (MUSD 8.7) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2016			
Trading instruments – interbank market (OTC)			
Options	91 312	863	(833)
Interest rate swap contracts	306 961	3 157	(3 024)
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	43 043	1 457	(1 242)
Term currency transactions	77 574	589	(334)
Other instruments	1 357	106	(103)
Total	**520 247**	**6 172**	**(5 536)**
Trading instruments – stock exchange			
Futures	1 587	39	–
Total trading instruments	**521 834**	**6 211**	**(5 536)**
Hedging instruments			
Interest rate swap contracts	265 428	4 383	(3 328)
Cross currency swap contracts	43 864	780	(89)
Term currency transactions	46	–	–
Total hedging instruments	**309 338**	**5 163**	**(3 417)**
31 Dec 2015			
Trading instruments – interbank market (OTC)			
Options	57 515	740	(727)
Interest rate swap contracts	262 908	3 268	(3 113)
Forward rate agreements (FRA)	11	–	–
Cross currency swap contracts	30 845	1 906	(1 681)
Term currency transactions	63 352	273	(396)
Other instruments	2 074	194	(193)
Total	**416 705**	**6 381**	**(6 110)**
Trading instruments – stock exchange			
Futures	1 556	36	–
Total trading instruments	**418 261**	**6 417**	**(6 110)**
Hedging instruments			
Interest rate swap contracts	201 738	4 328	(3 099)
Cross currency swap contracts	35 297	579	(45)
Total hedging instruments	**237 035**	**4 907**	**(3 144)**

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

MCZK	Up to 1 year	1–5 years	Over 5 years	Total
31 Dec 2016				
Trading instruments				
Interest rate instruments	58 023	203 316	85 783	347 122
Equity instruments	1 420	14 129	874	16 423
Currency instruments	104 804	44 111	6 430	155 345
Other	1 241	116	–	1 357
Total	**165 488**	**261 672**	**93 087**	**520 247**
Hedging instruments				
Interest rate instruments	17 071	173 026	75 330	265 428
Currency instruments	11 333	25 047	7 531	43 910
Total	**28 404**	**198 073**	**82 861**	**309 338**
31 Dec 2015				
Trading instruments				
Interest rate instruments	57 911	151 239	72 622	281 772
Equity instruments	848	12 727	2 443	16 018
Currency instruments	86 496	16 048	14 297	116 841
Other	1 636	438	–	2 074
Total	**146 891**	**180 452**	**89 362**	**416 705**
Hedging instruments				
Interest rate instruments	19 573	109 885	72 280	201 738
Currency instruments	8 810	10 052	16 435	35 297
Total	**28 383**	**119 937**	**88 715**	**237 035**

39. Segment reporting

The Group presents the segment information based on performance criteria as disclosed in Note 3 (r).
The structure of internal organisation and reported segments was revised in the year ended 31 December 2016. The information as of 31 December 2015 is presented in line with the newly-defined segments.

(a) Segment Information by Client Category

MCZK	Retail and private banking	Corporate and investment banking, leasing	Other	Total
At 31 Dec 2016				
Net interest and dividend income	2 824	7 447	(123)	10 148
Other net income	1 587	4 216	1 201	7 004
Depreciation/impairment losses of property and equipment and intangible assets	(90)	(667)	(54)	(811)
Impairment of assets and provisions	78	(1 823)	(58)	(1 803)
Segment expenses	(3 816)	(2 815)	(194)	(6 825)
Profit before tax	583	6 358	772	7 713
Income tax			(1 668)	(1 668)
Result of segment	583	6 358	(896)	6 045
Segment assets	102 196	521 589	11 257	635 042
Segment liabilities	147 830	379 517	40 804	568 151

The segment “Other” includes the effect arising from an international transaction – transformation of Visa Europe, in which the Bank held an investment, and the gain on the sale of a building. The income tax for all segments is presented in the segment “Other”.

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

MCZK	Retail and private banking	Corporate and investment banking, leasing	Other	Total
At 31 Dec 2015				
Net interest and dividend income	2 964	6 919	354	10 237
Other net income	1 873	3 759	115	5 747
Depreciation/impairment losses of property and equipment and intangible assets	(125)	(566)	(24)	(715)
Impairment of assets and provisions	1	(1 412)	(14)	(1 425)
Segment expenses	(3 527)	(2 613)	(640)	(6 780)
Profit before tax	1 186	6 087	(209)	7 064
Income tax			(1 424)	(1 424)
Result of segment	1 186	6 087	(1 633)	5 640
Segment assets	95 212	464 061	11 011	570 284
Segment liabilities	147 599	320 740	40 439	508 778

40. 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 Note 40b (vi).

(b) Credit Risk

The Group is exposed to credit risks as a result of its trading activities, providing credits, hedging transactions, and investment and mediation activities.
Credit risk is managed both on the level of individual clients (transactions) and on the portfolio level.
The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. All these departments are organisationally independent of the business divisions and are directly accountable to a member of the Board of Directors in charge of the risk management division.
Under its credit policy, the Bank defines the general principles, methods and instruments applied in identifying, measuring and managing credit risk. The definition of the Bank's credit policy is rendered by the Strategic Credit Risk Management department. The policy is reviewed by this department on a regular basis, minimally once a year.
The Bank defines in its internal guidelines the approval competencies for credit deals, including the definition of responsibilities and competencies of the Credit Committee.

(i) Credit Risk Management on the Level of Individual Clients

The credit risk on the level of individual clients is managed by analysing clients' financial health and determining the limits of credit exposure. The analysis is focused on clients' position in the relevant market, rating of their financial statements, prediction of future liquidity, and the like. The result of this analysis is, among other things, to establish a rating that reflects the probability of clients' default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is rendered both prior to granting a credit and during the credit arrangements with clients.
The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc).
To classify clients into individual rating classes, the Bank assesses (apart from the number of days past due with regard to overdue receivables, if any) the financial indicators related to the client (such as the structure of and proportion between the balance sheet, the income statement, and the cash flow statement), management quality, ownership structure, individual clients' market position, reporting quality, production equipment, account-use history, etc.
Clients with default receivables are always assigned to one of the classes from 8–, 9 or 10.
For receivables from individuals, the ability of the client to fulfil his or her obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring).
The Bank likewise sets and regularly updates the probability of client default – natural entities, using the behavioural scoring method.
A client's final rating combines both application and behavioural components.

As an additional source of information for assessing a client's financial standing, the Bank uses information provided by credit registries.
In accordance with its credit risk management strategy, prior to providing credits, the Bank requires collateral for its credit receivables (according to the client's financial health and the character of the given transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of property. In determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing collateral and the nominal value of the collateral, ie expert appraisals made by a special department of the Bank. The realisable value of collateral is determined based on this value by applying the adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management on the Portfolio Level

This level of credit risk management principally includes reporting on the credit portfolio including analyses and monitoring of 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 anticipated losses from its credit exposure. 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 monthly basis, in accordance with the applicable decree of the Czech National Bank.
The Bank assesses on a regular basis whether any impairment of receivables has occurred. If any such impairment is identified, the Bank reports impairment losses for individual accounts receivable or receivable portfolios, in accordance with IFRS.

Impairment Losses on Individual Receivables

Impairment losses related to individual receivables in default are recognised in the event that the carrying amount of individual receivables is impaired and the Bank does not write off such receivables, or a portion thereof that equals the balance sheet impairment. The Bank assesses the impairment of the carrying 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) using the relevant model reflecting the expected return on the relevant receivable for other receivables. The Bank writes off receivables in the event that no income is anticipated on the given receivables or on the collateral received with regard to the given receivable.
The Bank determines impairment losses arising from individual receivables; (i) for individually assessed receivables, losses from the impairment are equal to the difference between the carrying amount of a receivable and the discounted value of estimated future cash flows; (ii) for receivables assessed using models, losses from the impairment are equal to the multiple of the receivable amount and loss given default.

Impairment Losses on the Portfolio Receivables

The Bank recognises impairment losses on standard receivable portfolios based on an assessment of the portfolio's carrying amount; impairment losses are determined in an amount equalling the impaired carrying amount of the standard receivable portfolio due to events indicating a reduction in anticipated future cash flows from the relevant portfolio.
Impairment losses are assigned to individual portfolios and are not divided or assigned to individual receivables included in the given portfolio.
In reporting the impairment losses related to individual receivable portfolios, the Bank takes into account the time delay between an impairment event's occurrence and the time the Bank obtains information on the impairment event (i.e. when a client's default is identified) – the "incurred loss" concept.

Provisions for Off-Balance Sheet Items

The Bank recognises provisions for selected off-balance sheet items, as follows:

(i) Provisions for off-balance sheet items in respect of the Bank's clients on whom the Bank currently recognises individual balance-sheet receivables meeting the conditions for being classified as receivables with debtor's default. The Bank recognises the impairment losses related to such individual receivables.
(ii) Provisions for selected off-balance sheet items in respect of the Bank's clients on whom the Bank records no balance sheet receivables in the given period; even though, in the event that such receivable existed, the conditions for classification under receivables with a debtor's default would be fulfilled.
(iii) Provisions for selected off-balance sheet items of non-default clients.

The Bank recognises such provisions in the same method as used in reporting impairment losses on receivable portfolios.

(iv) Forbearance

Under forbearance, the Bank classifies loan receivables the payment conditions of which changed after the lending (the changes predominantly include payment deferral, temporary payment

reduction, postponement of the ultimate due date, etc.). These items are recognised in the balance sheet under loan receivables without a debtor's default and loan receivables with a debtor's default.
Loan receivables with a change in the originally-agreed payment conditions are generally classified as receivables with a debtor's default. Following a robust assessment, the Bank may categorise individual receivables as receivables without a debtor's default despite of the change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious according to the Bank's thorough consideration and the Bank does not anticipate incurring loss arising from the future collection of such loan receivables.
The receivables without a debtor's default also include receivables that were classified as receivables with a debtor's default upon the change of the payment conditions and were subsequently transferred into the category of loan receivables without a debtor's default considering the fulfilment of the newly-agreed conditions in line with the Bank's internal rules. This group accounts for the majority of loan receivables reported as Forbearance – receivables without a debtor's default.
Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout and are subject to standard restructuring and workout procedures and monitoring. The exception represents receivables that are not assessed as with a debtor's default upon the change of the payment conditions, which are only treated by Credit Restructuring & Workout after a thorough assessment of the need for using the know-how of this unit. Releasing receivables from the administration of this unit is also considered with respect to the development of individual cases and the need for using the know-how of the Credit Restructuring & Workout staff.
The period for which the client is designated as forborne is referred to as the probation period and lasts no less than two years, counted from the client default end/forbearance if the forbearance was without the client's default. In addition, this period can be terminated only if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days and if the case involves an instalment product, the debt must be reduced by at least 10% during this period.
Due to the size of the forbearance portfolio and the above-specified procedures and practices, we do not identify 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 again as non-default (recognised in the Bank's balance sheet as non-default forbearance – refer to above).

(v) Recovery of Receivables
The Bank has established the Credit Workout & Restructuring Unit which administers the receivables whose recoverability is at risk. 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 credit (comparison of future expenses versus income).

(vi) Risk Management in Subsidiaries
The risk management in subsidiaries follows similar principles as the risk management in the Bank taking into account specific features of products provided by subsidiaries and their portfolios. These specific features primarily include the following:

- Determination of the fair value of financed assets when deciding on the provision of funding;
- Management of risk of a market value change of financed assets during financing;
- Valuation and selling activities after an extraordinary termination of a contract (or due termination of a contract in respect of operating leases) and management of the risk arising from these operations;
- Control activities to prove the connection of the purpose of financing with the existence of the financed asset before the conclusion of the contract and during the contract period (including the prevention against fraudulent activities); and
- Management of the risk of concentration in relation to types of financed assets (classes of assets).

The organisational structure of risk management, risk decision-making committees and system for the allocation of authorities are adjusted to reflect the specific features or products and risks of subsidiaries. This ensures both the independence of risk management from business activities and independence of the persons participating in the valuation of assets and their realisation from the persons having the decision-making authority in the provision of funding.

(c) Market Risks

(i) Trading
The Group holds trading positions in various financial instruments, including financial derivatives. The majority of the Group's business activities are performed in line with the requirements of the Group's customers. Depending on the estimated demand of its customers, the Group holds a certain 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 speculation on the expected future development of financial markets. The Group's business strategy is thus affected by speculation and market-making and its goal is to maximise the net income from trading.

The Group manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for 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 quantitative methods applied in risk management are included in the following section entitled "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 risks to which the Group is exposed through its trading activities, managing the positions resulting from these activities, and also managing these risks. The procedures applied by the Bank to measure and manage these risks are described in detail in the following paragraphs.
The Group is exposed to market risks 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 resulting from the Group's structure of assets and liabilities. The Group monitors interest rate risks by observing the sensitivity of particular assets and liabilities in individual time periods, as expressed by the change in the actual 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 incongruity 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 the 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 pre-conditions for the Value at Risk model have the following limitations:

- The one-day holding period pre-supposes that all the 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 basic determinant of possible future development does not necessarily cover all possible future scenarios, especially crisis scenarios.

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 zero-risk 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 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 the 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).

Back Testing – Value at Risk
The results of this model are back-tested and compared with the results of the actual changes in the 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:

MCZK	At 31 Dec 2016	Average for 2016	At 31 Dec 2015	Average for 2015
Aggregate VaR	115.9	128.2	106.7	106.8
VaR of currency instruments	3.27	6.3	6.52	2.79
VaR of equity instruments	0	0	0	0

Interest Rate Risk

The Group is exposed to interest rate risk as a result of the fact that interest-bearing assets and liabilities have different maturities or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Group is exposed to a 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, etc. The activities in the area of interest risk management are focused on optimising the Group's net interest income in accordance with the strategy approved by the Board of Directors.

Given the development of the market interest rates and the potential decrease to negative values, the Group has already taken measures for certain products to eliminate the decrease in the market interest rate (as the key element of the client rate) to negative values. The Group hereby reconciles client rates relating to assets and liabilities of non-financial clients.

The Group's overall interest rate position as of 31 December 2016 is characterised by greater interest rate sensitivity on the assets side as compared to the liabilities side. This can be seen in the negative aggregate basis point value (BPV) – if the interest rates under individual currencies increased in parallel, there would be a decrease in market revaluation. The Group's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

Interest rate derivatives are generally used to manage the mismatch between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Group's strategy for managing the assets and liabilities approved by the Board of Directors. Part of the Group's income is generated by the intentional incongruity 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%), i.e. it represents the sensitivity of instruments to interest rate risks. The Group set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the "BPV limit").

Stress Testing of Interest Rate Risk

The Group carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the Group's financial results. The stress testing methodology was modified during the year ended 31 December 2016; the Group newly performs group testing on an aggregated basis for the entire interest-sensitive part of the regulatory banking book.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Group's results. The Group uses the euro as the base currency for stress testing. The values as of 31 December 2016 and the maximum and minimum values are translated into CZK using the foreign exchange rate of the Czech National Bank promulgated as of 31 December 2016 and 31 December 2015 (2016: 27.02 CZK/EUR; 2015: 27.025 CZK/EUR). The average values are translated into CZK using the average value of the daily CZK/EUR foreign exchange rates for the particular year (average 2016: 27.033 CZK/EUR; average 2015: 27.28 CZK/EUR).

	Basic stress test		MM stress test
MCZK	**–200bp**	**+200bp**	**+250bp**
*)			
Value at 31 Dec 2016	1 282	(1 878)	(844)
Average for the period	1 742	(2 237)	(1 124)
Maximum value	2 334	(1 878)	(844)
Minimum value	1 282	(2 465)	(1 361)
Value at 31 Dec 2015	1 530	(1 469)	(599)
Average for the year	437	(2 102)	(1 116)
Maximum value	2 178	(1 469)	(599)
Minimum value	132	(3 016)	(1 636)

*) Since 27 October 2016, the results of stress scenarios have been presented in line with the new methodology disclosed above.

On 7 December 2015, stress scenarios for negative market interest rates were introduced.
As a large portion of the market interest rate curve shows negative rates and a further decrease may not be excluded, the Group applies a stress scenario to reflect a possible profit/loss 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.
Due to this change, the result of stress testing with the shift of +/–200bps is approximately symmetric while until 7 December 2015 it was asymmetric because of the applied 0 floor.

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 Hedging
Hedged instruments include financial assets and liabilities recognised at their carrying amounts (except for securities held to maturity) and securities available for sale recognised at their fair values, with changes in fair value recognised in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).
At the inception of the hedged arrangement, the Group performs a 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 the actual interest rate developments, the test of effectiveness is carried out at the last day of each month. The Bank has selected the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of the hedge arrangements.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedged arrangement until the maturity of the hedged instrument, or until the end of the hedge arrangement. 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 total 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%.

Cash Flow Hedging
The Group uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and expenses sensitive to changes in market interest rates. Future anticipated transactions arise from concluded contracts and future transactions established on the basis of 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 BA 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). Second, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (i.e. 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, further 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.

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 profit or loss.
The Group has established a system of currency risk limits based on its net currency exposure in individual currencies. The Group has determined a currency risk limit of MEUR 70 with respect to the total net currency exposure and, with respect to EUR, of MEUR 60 to CZK and MEUR 25 to USD. For other currencies, the Group limits from MEUR 6 to MEUR 20 are valid according to the risk profile of a particular currency.

The following table shows the structure of assets and liabilities by currency:

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2016						
Cash in hand and cash balances	1 865	1 954	160	45	168	4 192
Financial assets at fair value through profit or loss	3 109	4 494	563	3	858	9 027
including:						
– held for trading	3 109	4 494	563	3	858	9 027
– not held for trading	–	–	–	–	–	–
Available-for-sale securities	40 896	38 808	488	–	–	80 192
Securities held to maturity	–	186	–	–	–	186
Receivables from banks	129 422	9 141	823	79	435	139 900
Receivables from clients	185 190	193 596	2 793	2 046	1 947	385 572
Positive fair value of hedging derivatives	2 736	2 424	–	3	–	5 163
Investments in associates	401	–	–	–	–	401
Property and equipment	3 126	1 890	–	–	–	5 016
Intangible assets	1 171	216	–	–	–	1 387
Tax receivables	56	865	–	–	–	921
Non-current assets held for sale	–	4	–	–	–	4
Other assets	1 548	1 090	380	12	51	3 081
Total assets	369 520	254 668	5 207	2 188	3 459	635 042
Deposits from banks	22 969	86 787	5 439	293	36	115 524
Deposits from clients	233 353	123 006	10 755	1 075	2 974	371 163
Debt securities issued	28 782	31 058	267	–	–	60 107
Financial liabilities held for trading	3 883	1 385	350	3	948	6 569
Negative fair value of hedging derivatives	1 105	2 295	17	–	–	3 417
Tax liabilities	1 498	25	–	–	–	1 523
Other liabilities	3 548	4 820	462	7	42	8 879
Provisions	488	468	8	–	5	969
Equity	52 458	14 436	(4)	–	1	66 891
Total liabilities and equity	348 084	264 280	17 294	1 378	4 006	635 042
Gap	21 436	(9 612)	(12 087)	810	(547)	0

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2015						
Cash in hand and cash balances	1 858	2 190	176	44	177	4 445
Financial assets at fair value through profit or loss	4 733	4 154	575	92	13	9 567
including:						
– held for trading	3 200	4 148	575	92	13	8 028
– not held for trading	1 533	6	–	–	–	1 539
Available-for-sale securities	43 674	38 975	–	–	–	82 649
Securities held to maturity	–	186	–	–	–	186
Receivables from banks	96 787	8 569	731	7	517	106 611
Receivables from clients	169 451	174 713	2 706	2 373	2 298	351 541
Positive fair value of hedging derivatives	3 411	1 495	1	–	–	4 907
Investments in associates	401	–	–	–	–	401
Property and equipment	3 390	1 726	–	–	–	5 116
Intangible assets	645	147	–	–	–	792
Tax receivables	66	982	–	–	–	1 048
Non-current assets held for sale	–	23	–	–	–	23
Other assets	1 575	1 055	306	16	46	2 998
Total assets	325 991	234 215	4 495	2 532	3 051	570 284
Deposits from banks	24 252	33 953	871	–	626	59 702
Deposits from clients	223 247	123 303	12 280	815	4 344	363 989
Debt securities issued	33 138	31 657	224	–	–	65 019
Financial liabilities held for trading	3 932	1 722	461	31	890	7 036
Negative fair value of hedging derivatives	854	2 285	–	–	5	3 144
Tax liabilities	1 963	32	–	–	–	1 995
Other liabilities	2 930	3 376	233	8	110	6 657
Provisions	200	1 025	5	–	6	1 236
Equity	46 568	14 935	1	1	1	61 506
Total liabilities and equity	337 084	212 288	14 075	855	5 982	570 284
Gap	(11 093)	21 927	(9 580)	1 677	(2 931)	–

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 some equity risk also arises as a result of the Group's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity Risk

Liquidity risk arises as a result of the manner of financing the Group's activities and managing its positions. It includes both the risk that 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 diverse 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 any 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 Group's Board of Directors.

The Group also holds, as part of its liquidity risk management strategy, 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 using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural).

In the short-term approach, the Group monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. 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 in periods longer than one year. For products with non-specified maturity (i.e. current accounts) the Group has developed a model for their expected residual maturity. The Group again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing).

The Group has drawn up a contingency plan for the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation. Stress tests of short-term liquidity are performed by the Group on a weekly basis. The stress tests verify the Group's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Group. The stress scenarios' results are presented to the ALCO.

The following table shows undiscounted cash flows of assets and liabilities, issued guarantees and provided loan facilities:

MCZK	Carrying amount	Cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2016							
Cash in hand and cash balances	4 192	4 192	4 192	–	–	–	–
Financial assets at fair value through profit or loss	9 027	9 391	507	714	4 720	3 577	(127)
including:							
– held for trading	9 027	9 391	507	714	4 720	3 577	(127)
– not held for trading	–	–	–	–	–	–	–
Available-for-sale securities	80 192	84 371	4 642	12 534	36 599	30 365	231
Securities held to maturity	186	208	2	7	199	–	–
Receivables from banks	139 900	140 018	135 621	3 400	906	–	91
Receivables from clients	385 572	410 132	61 523	60 735	152 653	124 710	10 511
Positive fair value of hedging derivatives	5 163	5 163	48	172	2 698	2 249	(4)
Investments in associates	401	401	–	–	–	–	401
Property and equipment	5 016	5 016	–	–	–	–	5 016
Intangible assets	1 387	1 387	–	–	–	–	1 387
Tax receivables	921	921	–	921	–	–	–
Non-current assets held for sale	4	4	4	–	–	–	–
Other assets	3 081	3 067	1	–	–	–	3 066
Deposits from banks	115 524	115 533	57 627	31 827	22 628	3 446	5
Deposits from clients	371 163	372 157	351 981	15 081	1 285	773	3 037
Debt securities issued	60 107	63 765	1 600	13 035	37 287	11 797	46
Financial liabilities held for trading	6 569	6 570	342	536	3 329	2 363	–
Negative fair value of hedging derivatives	3 417	3 417	29	88	1 933	1 367	–
Tax liabilities	1 523	1 523	–	1 523	–	–	–
Other liabilities	8 879	8 879	1	–	–	–	8 878
Provisions	969	969	–	–	–	–	969
Equity	66 891	66 891	–	–	–	–	66 891
Undrawn loan facilities	115 291	115 291	27 955	41 111	18 160	28 065	–
Bank guarantees	41 499	41 499	3 470	9 456	18 774	1 884	7 915

MCZK	Carrying amount	Cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2015							
Cash in hand and cash balances	4 445	4 445	4 445	–	–	–	–
Financial assets at fair value through profit or loss	9 567	9 920	652	2 080	3 524	3 786	(122)
including:							
– held for trading	8 028	8 361	652	541	3 504	3 786	(122)
– not held for trading	1 539	1 559	–	1 539	20	–	–
Available-for-sale securities	82 649	90 201	1 722	10 020	43 479	34 238	742
Securities held to maturity	186	218	2	7	209	–	–
Receivables from banks	106 611	106 696	101 234	2 410	3 022	–	30
Receivables from clients	351 541	387 728	56 364	59 574	138 024	132 516	1 250
Positive fair value of hedging derivatives	4 907	4 907	37	170	2 488	2 212	–
Investments in associates	401	401	–	–	–	–	401
Property and equipment	5 116	5 116	–	–	–	–	5 116
Intangible assets	792	792	–	–	–	–	792
Tax receivables	1 048	1 048	–	1 048	–	–	–
Non-current assets held for sale	23	23	13	10	–	–	–
Other assets	2 998	2 998	13	–	–	–	2 985
Deposits from banks	59 702	59 724	26 355	11 180	17 782	4 407	–
Deposits from clients	363 989	365 170	335 873	22 764	2 537	912	3 084
Debt securities issued	65 019	70 320	3 885	3 519	42 438	20 285	193
Financial liabilities held for trading	7 036	7 036	467	442	2 929	3 195	3
Negative fair value of hedging derivatives	3 144	3 144	39	76	1 597	1 432	–
Tax liabilities	1 995	1 995	–	1 995	–	–	–
Other liabilities	6 657	6 657	1 044	2	–	–	5 611
Provisions	1 236	1 236	–	–	–	–	1 236
Equity	61 506	61 506	–	–	–	–	61 506
Undrawn loan facilities	114 053	114 053	14 771	51 053	22 575	25 654	–
Bank guarantees	46 255	46 255	3 844	10 455	27 506	4 446	4

(d) Operational Risk

The operational risk is defined as a risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes the legal risk, however, it does not include the strategic or reputation risk. The legal risk includes, among other things, the risk of fines, sanctions or punitive damages resulting from supervision measures as well as private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and controlling activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to a member of the Board of Directors in charge of risk management. The Operational Risk Department is authorised to secure unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company. Operational risk management and monitoring as such is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and it assesses the control and management system's functionality.

The Group continued developing and setting up the comprehensive system for the identification, monitoring and management of operational risk in 2016. In line with the 2016 Operational Risk Management Strategy, the Bank defined its priorities as regards mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Group and the Bank. The operational risk appetite as the operational risk level acceptable by the Bank was measured by means of ELOR (Expected Loss on Revenue) which is an indicator defined as a proportion of anticipated losses arising from operational risk (statistical estimation 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 the UniCredit Group. The system complies with the requirements for capital adequacy management, in accordance with the Basel III regulation. The data acquired through the system is taken into account in calculating the capital requirement as well as in managing operational risk. It serves as a basis for designing processes that reduce the number of particular events and mitigate the consequences (e.g. in preparing process mitigation measures or strategic insurance plan for the Bank). 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 2016, 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 Group 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 the overall awareness of operational risk within the Group and trains the Group's staff both by means of 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 group model is used based on internal and external data, the results of scenario analyses and risk indicator data.

(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 transfer to the Basel III rules did not have a significant impact on the capital adequacy. The original capital (Tier 1) is currently part of Tier 1 common capital (CET1) which is the supreme quality capital. The Group has newly included the capital requirement relating to the risk of the credit valuation adjustment in the capital adequacy; this has no significant impact on the total capital.

Several new requirements were introduced in relation to risk-weighted assets which, in aggregate, had no significant impact on risk-weighted assets. The impact of the increase in the correlation coefficient in exposures to large entities in the financial sector and unregulated financial entities was balanced by the impact of the reduction factor for exposures to small and medium-sized companies.

The Bank's regulatory capital consists of the following:

- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting; minus intangible assets and gaps in the coverage of anticipated losses through adjustments for credit risk using the internal rating based approach;
- Tier 1 (T1) capital creating CET1; and
- Tier 2 (T2) capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

The Group complies with the defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

(f) Market Development in 2016

The growth of the Czech economy slowed down considerably, achieving 2.4% in 2016, primarily as a result of lower investment activity which lacked the previous impetus in the form of tapping EU funds. Export dynamics was also weaker even though, by contrast, a lower volume of investment imports underpinned the contribution of net export to GDP growth. The key driver behind the economic growth (accounting for more than 50%) was household consumption. Household consumption was supported by increasing employment and accelerating salary growth in an environment of a shrinking stock of available workforce as well as low inflation persisting throughout the year. The average unemployment rate stood at 5.5%, a record minimum over the last eight years. Businesses referred primarily to the lack of workforce as being the key obstacle in business development.

Throughout 2016, the CNB continued its exchange rate commitment to prevent the koruna from strengthening against the euro. Pressures on strengthening the crown forced the CNB to intervene in the foreign currency market in all but one month of the year. The volume of the

CNB's foreign currency reserves increased by more than a third during the year, an equivalent of 13% of the GDP. A by-product of the open positions of investors for the strengthening of the crown was demand for the Czech government's crown bonds which kept the yields negative on a substantial part of the curve. Low interest rates had an adverse impact on net interest income in the banking sector but had a positive effect on lending dynamics. The year-on-year growth of the aggregate volume of banking loans accelerated to 7.2%, owing to stronger demand from businesses, households and financial institutions.
The CNB has newly adopted the macroprudential policy tool to avert an excessive growth in mortgage lending.
The Government's economic policy was built around two measures aimed at combating tax evasion – local purchases and sales reporting ('kontrolní hlášení') and electronic records of sales which took effect during the year. Following the implementation of the two measures, continuous data on the state budget indicated an improvement in the payment discipline of VAT payers. Key measures, whose legislative process was completed, also include the Act on Budgetary Responsibility Rules. In social policy, the government used its discretion to determine the valorisation of the percentage assessment of pensions for 2017 by 2.2%, ie above the inflationary increase plus a third of the real wage increase. The government has also decided to make a notable increase in minimum wages of 11% for 2017.
In 2016, the Bank implemented a new stress scenario relating to the impacts of Brexit. Following the Brexit decision, the Bank stopped calculating the scenario but keeps monitoring the situation on financial markets and evaluates the impacts of Brexit-related reports on its risk profile. In view of the minimal exposure to GBP-denominated assets, the Bank considers that the direct impact of negative developments (in respect of Brexit) on the Bank's financial performance would be minimal.

During 2016, the Bank continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk
- More accurate specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
- Change in selected product parameters and credit products in retail banking;
- Strengthening of the procedure for credit fraud identification, monitoring the process related to the loan portfolio (timely identification of the warning signals) and of the process for recovery of loan receivables); and
- Continuous improvement of the Bank's own estimates of risk parameters used in the advanced (IRB) approach to the calculation of the capital requirements for credit risk for the banking portfolio.

(ii) Market Risk
- The internal platform for the calculation of VaR and BPV was improved and recalibrated on an ongoing basis to reflect the current behaviour of financial time series used in calculating market risk indicators.

(iii) Liquidity
- The Bank continued to fine-tune the calculation methodology for the Basel III LCR indicators and implemented new internal liquidity indicators for a more accurate quantification of the liquidity risk. The Bank also implemented new liquidity stress tests that better reflect the current macro and micro economic conditions in which the Bank operates.

41. Related party transactions

Entities are deemed to be entities under special arrangements in the event that one entity is able to control the activities of the other 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 entities. 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 parent companies and fellow subsidiaries as part of the UCI/HVB/BA Group, subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.
The Group has prepared an equity programme for the employees of the UniCredit Group under which the employees may purchase investment shares of the group at a discounted price in the form of discount shares. Discount shares may not be sold over the tying period. Tied shares will be forfeited if the respective employee terminates his/her employment in the group or sells his/her investment shares before the end of the tying period. The provided discount is allocated to individual group companies that are involved in the programme and these companies recognise and defer the discount over the tying period

(a) Transactions with the parent company

UniCredit Bank Austria AG was the Bank's parent company until 30 September 2016, since 1 October 2016 UniCredit S.p.A. has been the Bank's parent company.

(i) Transactions with UniCredit S.p.A

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Receivables from banks	3 451	82
Securities available for sale	1 929	–
Total	**5 380**	**82**
Liabilities		
Deposits from banks	16 534	131
Total	**16 534**	**131**
Off-balance sheet items		
Issued guarantees	347	385
Irrevocable credit facilities	101	101
Total	**448**	**486**

MCZK	2016	2015
Interest and similar income	65	2
Interest and similar expenses	(4)	–
Income from fees and commissions	21	2
Expenses for fees and commissions	(20)	–
General administrative expenses	13	(71)
Total	**75**	**(67)**

(ii) Transactions with UniCredit Bank Austria AG

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Financial assets held for trading	–	1
Receivables from banks	723	3 627
Securities available for sale	–	4 640
Positive fair value of hedging derivatives	55	2
Total	**799**	**8 270**
Liabilities		
Deposits from banks	54 766	23 810
Financial liabilities held for trading	59	5
Negative fair value of hedging derivatives	33	–
Total	**54 858**	**23 815**
Off-balance sheet items		
Issued guarantees	2 949	750
Irrevocable credit facilities	–	–
Total	**2 949**	**750**

MCZK	2016	2015
Interest and similar income	21	110
Interest and similar expenses	(123)	(297)
Income from fees and commissions	15	9
Expenses for fees and commissions	(27)	(40)
Net profit/(loss) from financial assets and liabilities held for trading	(24)	(16)
Net profit/(loss) from the hedging of the risks of changes in fair values	1	–
General administrative expenses	(3)	82
Total	**(140)**	**(152)**

(b) Transactions with other related parties

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Financial assets held for trading	1 036	924
of which:		
UniCredit Bank AG	1 036	924
Receivables from banks	6 587	5 082
of which:		
UniCredit Bank AG	287	1 092
Yapi ve Kredi Bankasi AS	5 524	2 160
UniCredit Bank Hungary Zrt.	25	161
ZAO UniCredit Bank	730	1 652
Receivables from clients	359	221
of which:		
UCTAM CZ	–	136
UCTAM SK	269	–
Board of Directors	2	6
Other executives	87	72
Positive fair value of hedging derivatives	2 023	1 886
of which:		
UniCredit Bank AG	2 023	1 886
Total	**10 005**	**8 113**

MCZK	31 Dec 2016	31 Dec 2015
Liabilities		
Deposits from banks	14 572	4 254
of which:		
UniCredit Luxembourg S.A.	11	27
UniCredit Bank AG	10 288	3 786
UniCredit Bank Hungary Zrt.	4 233	49
Deposits from clients	1 512	1 163
of which:		
UniCredit Leasing (Austria) GmbH	121	129
Pioneer Asset Management a.s.	897	462
Pioneer Investment Company	95	100
UniCredit Business Integrated Solutions S.p.A.	84	220
Board of Directors	88	104
Other executives	82	55
Financial liabilities held for trading	2 027	2 599
of which:		
UniCredit Bank AG	2 025	2 598
Negative fair value of hedging derivatives	2 072	2 026
of which:		
UniCredit Bank AG	2 072	2 026
Total	**20 183**	**10 042**

MCZK	31 Dec 2016	31 Dec 2015
Off-balance sheet items		
Issued guarantees	967	511
of which:		
UniCredit Bank AG	656	427
UniCredit Bank Hungary Zrt.	112	49
Pekao	100	6
Irrevocable credit facilities	287	181
of which:		
UniCredit Bank AG	108	108
UCTAM CZ	103	3
YAO UniCredit Bank (Moscow)	22	22
Board of Directors	1	1
Other executives	10	4
Total	**1 254**	**692**

MCZK	2016	2015
Interest income and similar revenues	386	(62)
of which:		
UniCredit Bank AG	288	(97)
Yapi ve Kredi Bankasi AS	88	15
Interest expenses and similar charges	(13)	(12)
of which:		
UniCredit Leasing (Austria) GmbH	(9)	(10)
UniCredit Bank AG	(3)	(1)
Fee and commission income	54	83
of which:		
UniCredit Bank AG	40	44
Pioneer Asset Management SA, Luxembourg	6	16
Pioneer Asset Management a.s.	1	16
Fee and commission expenses	(5)	(5)
of which:		
UniCredit Bank AG	(1)	(1)
Pekao	(2)	(2)
Net income/(loss) from financial assets and liabilities held for trading	577	(549)
of which:		
UniCredit Bank AG	578	(549)
UniCredit Bank Hungary Zrt.	(1)	(1)
Net income/(loss) from hedging against risk of changes in fair value	(174)	130
of which:		
UniCredit Bank AG	(174)	130
General administrative expenses	(1 478)	(1 369)
of which:		
UniCredit Business Integrated Solutions S.p.A.	(1 475)	(1 379)
Other operating income and expenses	7	10
of which:		
UniCredit Business Integrated Solutions S.p.A.	6	9
Total	**(646)**	**(1 774)**

42. Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair values of financial assets and liabilities that are not reported at fair values in the Group's balance sheet (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual clients are added):

MCZK	31 Dec 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	139 900	139 946	106 611	106 634
Receivables from clients	385 572	389 729	351 541	352 647
Financial liabilities				
Deposits from banks	115 524	115 229	59 702	60 154
Deposits from clients	371 163	371 187	363 989	364 255
Debt securities issued	60 107	61 637	65 019	66 723

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.

Financial assets at fair value based on Levels 1 and 2:

MCZK	Financial assets at fair value through profit or loss		Securities available for sale	Hedging derivatives	Total
	Held for trading	Not held for trading			
31 Dec 2016					
Transfer from Level 1 to Level 2	13	–	609	–	622
Transfers from Level 2 to Level 1	3	–	2 712	–	2 715
Dec 2015					
Transfer from Level 1 to Level 2	4	–	–	–	4
Transfers from Level 2 to Level 1	–	–	180	–	180

For the years ended 31 December 2016 and 31 December 2015, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

The following tables show transfers of financial assets and liabilities reported at fair value from and to Level 3.

MCZK	Financial assets at fair value through profit or loss Held for trading	Not held for trading	Securities available for sale	Hedging derivatives	Total
Opening balance at 1 Jan 2015	**–**	**188**	**110**	**–**	**298**
Addition arising from the merger	–	–	–		
Revaluation gains and losses					–
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	629	–	629
Purchases	–	–	–	–	–
Sales/maturity	–	(188)	(104)	–	(292)
Transfers from/to other levels	–	–	–	–	–
Other	–	–	–	–	–
Closing balance at 31 Dec 2015	**–**	**–**	**635**	**–**	**635**
Total revaluation gains and losses included in profit or loss for the period:					–
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end				–	
Opening balance at 1 Jan 2016	**–**	**–**	**635**	**–**	**635**
Addition arising from the merger	–	–	–		
Revaluation gains and losses					–
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	11	–	11
Purchases	–	–	195	–	195
Sales/maturity	–	–	(626)	–	(626)
Transfers from/to other levels	–	–	(2)	–	(2)
Other	–	–	16	–	16
Closing balance at 31 Dec 2016			**229**		**229**
Total revaluation gains and losses included in profit or loss for the period:					–
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end				–	

In the years ended 31 December 2016 and 2015, the Bank did not record any transfers from and to Level 3 with respect to financial liabilities stated at fair value.

43. Offset of financial assets and financial liabilities

The Group does not offset financial assets and financial liabilities. The below tables provide information on potential offset of financial assets and financial liabilities.

Financial assets that are subject to offset, recoverable framework contracts for offset and similar arrangements:

MCZK	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Relating amounts that are not offset Financial instruments	Obtained cash collateral	Net amount
31 Dec 2016						
Derivatives	3 545	–	3 545	1 674	–	1 871
31 Dec 2015						
Derivatives	5 633	–	5 633	3 173	–	2 460

Financial liabilities that are subject to offset, recoverable framework contracts for offset and similar arrangements:

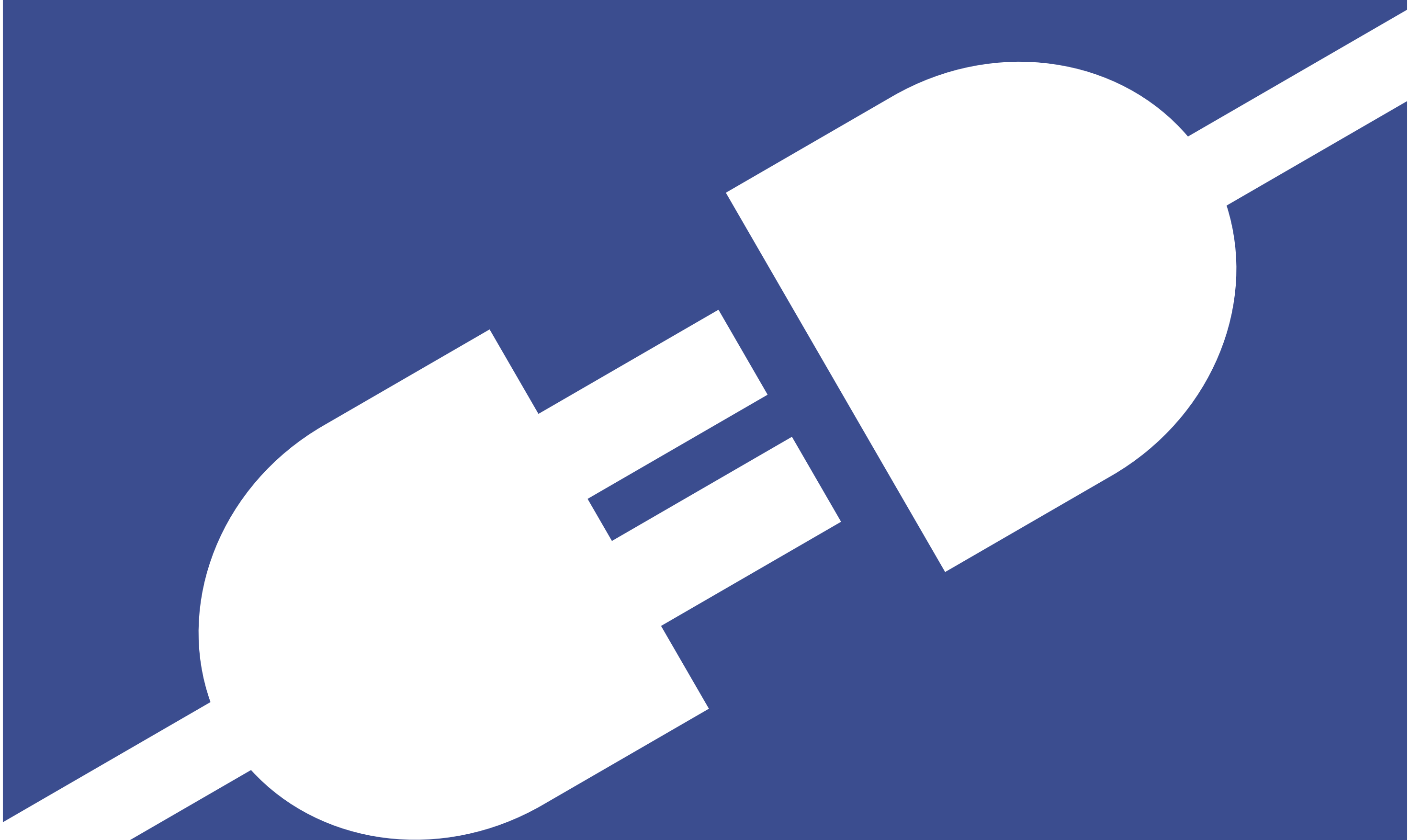
MCZK	Gross reported financial liabilities	Gross offset financial assets	Net reported financial liabilities	Relating amounts that are not offset: Financial instruments	Relating amounts that are not offset: Obtained cash collateral	Net amount
31 Dec 2016						
Derivatives	2 157	–	2 157	1 674	–	483
31 Dec 2015						
Derivatives	3 809	–	3 809	3 173	–	636

44. Subsequent events

In February 2017, CA-Leasing EURO, s.r.o. was sold outside the UniCredit Group.
Except for the above stated event, the Group's management is not aware of any other subsequent events that would require adjustment to these consolidated financial statements.

Approval date:	Stamp and signature of the statutory body:	Individual in charge of the accounting records (name, signature):	Individual in charge of the extraordinary financial statements (name, signature):
28 March 2017	Ing. Jiří Kunert Chairman of the Board of Directors Ljubiša Tešić Member of the Board of Directors	Ing. Jiří Houška	Mgr. Michaela Mrštíková

Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be "One Bank, One UniCredit". We are a true pan-European bank and we work seamlessly across the Group.

Separate financial statements

Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 MCZK	2015 MCZK
Interest income and similar income	5	10 384	11 181
Interest expense and similar charges	5	(1 437)	(2 130)
Net interest income and similar income		**8 947**	**9 051**
Fee and commission income	6	4 645	4 715
Fee and commission expenses	6	(1 124)	(1 141)
Net fee and commission income		**3 521**	**3 574**
Dividend income	7	3	2
Net income/(loss) from financial assets and liabilities held for trading	8	2 133	1 904
Net income/(loss) from hedging against risk of changes in fair value	9	(4)	(9)
Net income/(loss) from the sale of financial assets and liabilities	10	1 049	9
Net income/(loss) from financial assets and liabilities at fair value through profit or loss not held for trading	11	3	(1)
Operating income		**15 652**	**14 530**
Impairment losses on financial assets	12	(1 213)	(1 117)
Administrative expenses	13	(7 296)	(6 950)
Creation and release of provisions		(312)	24
Depreciation and impairment of property and equipment		(228)	(222)
Amortisation and impairment of intangible assets		(16)	(11)
Other operating income and expenses	14	46	31
Operating expenses		**(7 806)**	**(7 128)**
Profit/(loss) from the sale of non-financial assets		179	(14)
Profit before income tax		**6 812**	**6 271**
Income tax	33	(1 493)	(1 238)
Profit after tax		**5 319**	**5 033**
Other comprehensive income			
Items that can be subsequently derecognised to profit or loss			
Reserve from revaluation of hedging instruments:		123	(387)
Changes in net fair values of derivatives in cash flow hedges		203	(357)
Net fair value of derivatives in cash flow hedges transferred to profit or loss		(80)	(30)
Reserve from revaluation of available-for-sale securities		(786)	511
Change in revaluation of available-for-sale securities		(164)	622
Revaluation of available-for-sale securities transferred to profit or loss		(622)	(111)
Foreign exchange rate gains from the consolidation of a foreign branch		(2)	(334)
Other comprehensive income		**(665)**	**(210)**
Total comprehensive income		**4 654**	**4 823**

The notes on pages 97–145 form a part of these financial statements.

Statement of financial position as of 31 December 2016

	Note	31 Dec 2016 MCZK	31 Dec 2015 MCZK
ASSETS			
Cash in hand and cash balances	15	4 192	4 444
Financial assets at fair value through profit or loss, including FA		9 035	9 578
– held for trading	16	9 035	8 039
– not held for trading	16	0	1 539
Available-for-sale securities	17	80 192	82 649
Securities held to maturity	18	186	186
Receivables from banks	19	139 849	106 575
Receivables from clients	20	367 298	329 089
Positive fair value of hedging derivatives	22	5 163	4 907
Equity investments	21	3 979	3 979
Property and equipment	23	1 316	2 032
Intangible assets	24	1 227	663
Tax receivables, including:		756	870
– current income tax	33	248	128
– deferred tax	33	508	742
Non-current assets held for sale		4	23
Other assets	25	2 398	2 223
Total assets		**615 595**	**547 218**
LIABILITIES			
Deposits from banks	26	100 473	40 237
Deposits from clients	27	371 304	364 243
Debt securities issued	28	60 107	65 019
Financial liabilities held for trading	29	6 569	7 036
Negative fair value of hedging derivatives	30	3 417	3 143
Tax liabilities, including:		958	1 462
– current income tax	33	387	693
– deferred tax	33	571	769
Other liabilities	31	8 296	5 990
Provisions	32	936	1 207
Total liabilities		**552 060**	**488 337**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		4 792	5 457
Retained earnings and reserve funds	36	41 174	36 141
Profit for the period		5 319	5 033
Total shareholder‘s equity		**63 535**	**58 881**
Total liabilities and shareholder‘s equity		**615 595**	**547 218**

The notes on pages 97–145 form a part of these financial statements.

Statement of cash flows for the year ended 31 December 2016

	2016 MCZK	2015 MCZK
Net profit for the period	**5 319**	**5 033**
Adjustments for non-cash items		
Impairment of loans and receivables and financial investments	1 213	1 117
Revaluation of securities and derivatives	398	(357)
Creation and release of other provisions	315	(23)
Depreciation and amortisation of property and equipment, and intangible assets	243	233
Profit (loss) from securities available for sale	(1 085)	(16)
Profit (loss) from property and equipment and intangible assets sold	(179)	14
Taxes	1 493	1 238
Other non-monetary changes	600	204
Operating profit before change in operating assets and liabilities	**8 317**	**7 443**
Financial assets and liabilities held for trading	(1 852)	3 561
Receivables from banks	(33 987)	(57 869)
Loans and receivables from clients	(40 147)	(18 668)
Other assets	(168)	(56)
Deposits from banks	60 260	9 882
Deposits from clients	7 204	35 635
Other liabilities	2 237	553
Income tax paid	(1 720)	(1 058)
Net cash flows from operating activities	**144**	**(20 577)**
Acquisition/sale and maturity of securities available for sale and other financial investments	4 240	5 836
Acquisition of a subsidiary	–	(198)
Gains from the sale of property and equipment and intangible assets	833	–
Acquisition of property and equipment and intangible assets	(645)	(512)
Dividends received	3	2
Net cash flows from investment activities	**4 431**	**5 128**
Dividends paid	0	(2 181)
Debt securities issued	(4 827)	17 939
Net cash flows from financial activities	**(4 827)**	**15 758**
Cash and other highly liquid funds at the start of the period	**4 444**	**4 135**
Net cash flows from operating activities	144	(20 577)
Net cash flows from investment activities	4 431	5 128
Net cash flows from financial activities	(4 827)	15 758
Cash and other highly liquid funds at the end of the period	**4 192**	**4 444**
Interest received	10 231	11 466
Interest paid	(1 689)	(2 904)

The notes on pages 97–145 form a part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

MCZK	Issued capital	Share premium	Reserve from revaluation hedging instruments	Reserve from revaluation securities available for sale	exchange rate gains or losses of a foreign branch	Retained earnings and reserve funds Reserve funds	Retained earnings and reserve funds Special-purpose res. fund	Retained earnings	Profit for the period	Equity
Balance as of 31 December 2014	**8 755**	**3 495**	**2 154**	**2 687**	**826**	**3 372**	**11 611**	**18 978**	**4 361**	**56 239**
Transactions with owners, contributions from and distributions to owners										
Allocation of the 2014 profit								4 361	(4 361)	–
Dividend payment								(2 181)		(2 181)
Total comprehensive income for the period										
Net profit for 2015									5 033	5 033
Other comprehensive income										
Change in revaluation of available-for-sale securities										
Change in revaluation of available-for-sale securities reported in other comprehensive income				765						765
Revaluation of available-for-sale securities transferred to profit or loss				(137)						(137)
Deferred tax				(117)						(117)
Changes in net fair values of derivatives in cash flow hedges										
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			(442)							(442)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(36)							(36)
Deferred tax			91							91
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(334)					(334)
Other comprehensive income for the period			**(387)**	**511**	**(334)**					**(210)**
Balance as of 31 December 2015	**8 755**	**3 495**	**1 767**	**3 198**	**492**	**3 372**	**11 611**	**21 158**	**5 033**	**58 881**
Transactions with owners, contributions from and distributions to owners										
Allocation of the 2015 profit								5 033	(5 033)	–
Dividend payment										–
Total comprehensive income for the period										
Net profit for 2016									5 319	5 319
Other comprehensive income										
Change in revaluation of available-for-sale securities										
Change in revaluation of available-for-sale securities reported in other comprehensive income				(215)						(215)
Revaluation of available-for-sale securities transferred to profit or loss				(768)						(768)
Deferred tax				197						197
Changes in net fair values of derivatives in cash flow hedges										
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			252							252
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(95)							(95)
Deferred tax			(34)							(34)
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(2)					(2)
Other comprehensive income for the period			**123**	**(786)**	**(2)**					**(665)**
Balance as of 31 December 2016	**8 755**	**3 495**	**1 890**	**2 412**	**490**	**3 372**	**11 611**	**26 191**	**5 319**	**63 535**

The notes on pages 97–145 form a part of these financial statements.

Notes to the financial statements (separate)

1. Introduction

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Bank") was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company.
Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.
As part of restructuring in the 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 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 the 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, the UniCredit Group had the opportunity to reduce the complexity of its organisational structure and the level of management efforts as a result of establishing one local management team overseeing both markets.
The Bank increased its share capital for the purposes of the merger. A number of minority shareholders of UniCredit Bank Slovakia a.s. exercised their right to sell the shares of the dissolving bank, other minority shareholders utilised the right to exchange the shares for newly issued shares of the Bank. The successor bank took over the capital of the dissolving bank of MCZK 11,611 and allocated it to the special-purpose reserve fund in EUR that can be used only to offset losses.
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:
  1. In foreign-exchange currency products;
  2. In forward and contract options, including foreign currency and interest rate contracts; and
  3. 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.

2. Basis for the preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
These financial statements were prepared based on the going concern assumption.
These financial statements are separate financial statements prepared in accordance with the requirements of Act 563/1991 Coll., on Accounting. The Bank's ultimate owner is UniCredit S.p.A, Milan, which consolidates the entire group in accordance with International Financial Reporting Standards as adopted by the European Union.

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

The financial statements were prepared on the fair value principle for financial derivatives, financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, except for those whose fair value measurement cannot be reliably determined. The methods for determining fair value are presented in Note 3(b)(v). Recognised assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. Other financial assets and liabilities and non-financial assets and liabilities are measured at amortised cost or at historical cost.

The Bank also prepares the consolidated financial statements.

On 14 February 2014, the Bank signed a contract for the purchase of the 100% equity investment in UniCredit Leasing CZ, a.s. of MCZK 3,211 and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. with the cost of MEUR 16. The contracts were signed between the Bank and UniCredit Leasing SpA.; these are transactions under common control. Both entities were sold to the Bank due to the reorganisation of the equity investments in the Group. Principal activities of both entities include lease and instalment sale.

The Bank subsequently transferred a 91.2% equity investment in UniCredit Leasing Slovakia, a.s. (the purchased equity investment of 71.3% and the equity investment of 19.9% that was held by the Bank already at the end of 2013 and reported as part of 'Available-for-sale securities') as a non-cash investment in the share capital of UniCredit Leasing CZ, a.s. and the investment of the Bank in UniCredit Leasing CZ, a.s. consequently increased by MCZK 570 on 18 April 2014 (refer to Note 21).

On 20 January 2015, the acquisition of the 100% equity investment in Transfinance, a.s. was completed. The entity was acquired from an owner outside the UniCredit Group and the investment amounted to MCZK 198. The principal activities of the acquired entity include the financing, collection and securing of short-term receivables of clients from various industry segments. The objective of this acquisition for the Bank primarily involves further extending the range of products and services of corporate banking to include factoring that is intended primarily for small and medium sized companies. The name of the acquired entity changed to UniCredit Factoring Czech Republic and Slovakia, a.s. in May 2015.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(a) Functional Currency and Foreign Currency Translation

The Czech crown is the functional currency in these financial statements. 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 profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch".

Figures in brackets represent negative amounts.

Transactions in foreign currencies (ie other than functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank and ruling 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 ruling 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 ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as "Net income/loss from financial assets and liabilities held for trading".

(b) Financial Assets and Liabilities

(i) Classification

Financial assets and liabilities at fair value through profit or loss include instruments classified as held for trading and/or instruments designated by the Bank as at fair value through profit or loss upon initial recognition.

Trading financial assets and liabilities are those held by the Bank principally for the purpose of short-term profit taking. These assets and liabilities include investments in debt instruments and shares, certain purchased loans and derivative contracts that are not designated as hedging instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

Financial assets designated by the Bank upon initial recognition as at fair value through profit or loss are included within "Financial assets not held for trading".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on markets. Loans and receivables are mainly those created by the Bank providing money to a borrower other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and non-bank customers and unquoted bonds purchased upon primary issue.

Held-to-maturity assets are financial assets with fixed or pre-defined income and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are included in "Held-to-maturity assets".

Available-for-sale assets are financial assets that are not classified as financial assets recognised at fair value through profit or loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are included in "Available-for-sale securities".

(ii) Recognition of Financial Assets

Financial assets at fair value through profit or loss are recognised on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss on the trade date.

Available-for-sale financial assets are recognised on the settlement date in the Bank's accounting books. Any gains or losses arising from changes in the fair value of the assets are recognised in other comprehensive income from the trade date.

Held-to-maturity assets are recognised on the settlement date in the Bank's accounting books.

The Bank initially recognises loans and receivables on their origination dates.

(iii) Measurement of Financial Assets and Liabilities

Financial assets are measured initially at fair value, including (in the case of financial assets not at fair value through profit or loss) transaction costs.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, in which case such instrument is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortised cost, including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including the relevant initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Upon initial recognition, deposits from banks and clients and securities issued are recognised at fair value. They are subsequently reported at amortised cost.

(iv) Day 1 Profit/Loss

In the event that the transaction price differs from the fair value of a financial asset or liability measured at fair value, the difference between these values (profit or loss) is reported in profit or loss. The Bank typically does not conduct this type of transaction.

(v) Fair Value Measurement Principles

The fair value of financial assets and liabilities is based on their quoted market price at the balance sheet date without any 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.

Where discounted cash flow techniques are used, estimated future cash flows are based on the 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.

The revaluation of bonds in the Bank's portfolio is carried out on a daily basis using available market rates quoted by market participants by means of 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 there is no market price 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 Note 3g (ii)).

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

Financial assets and liabilities are recognised at fair value 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.

Fair Value Adjustments

The Bank utilises other fair value adjustments for the fair values of financial assets and financial liabilities to reflect reality as faithfully as possible:

Credit Valuation Adjustment

The Credit Valuation Adjustment (CVA) is reflected in the valuation of derivatives such that the resulting fair value of derivatives takes into account the counterparty risk and the Bank's credit quality. The Bank uses the same group standard for calculating CVA on the basis of the inputs as follows:

- Anticipated profile of the exposure from derivatives is estimated on the basis of the stochastic Monte Carlo simulation;
- Simulated exposures from derivatives take into account Specific Wrong Way Risk;
- Depending on the type of the derivative counterparty, CVA is calculated as:
  - Unilateral CVA – the calculation is based on historical PD and PGD (this relates to non-financial counterparties and counterparties that do not have own CDS tradable on the market);
  - Bilateral CVA – the calculation is based on PD and LGD derived from quoted CDS; and
- CVA is not calculated for counterparties/clients for which PD=1 (ie the client is in default) to prevent the costs of credit risk from being included twice in an already-recognised provision.

OIS Adjustment

The Bank applies the OIS (overnight index swap) effect to collateralised exposures in financial instruments (derivatives, repo etc) denominated in EUR. The OIS effect is added to the yield curve in EUR so that the resulting fair value of the respective financial instruments takes into account the actual value of OIS. This adjustment is recognised in the Bank's profit and loss account.

FVA/AVA

Quoted market exchange rates, yield curves, spreads etc ("market factors" in general) do not need to accurately reflect, at every moment, the conditions under which the Bank may liquidate its positions in financial instruments. This may result from larger than standard traded volumes which the Bank would like to realise on financial markets, stress periods on financial markets, periods with below-average market liquidity etc. In these situations the realised fair value could be lower than implied by quoted market factors. Therefore, in line with IFRS and CRR, the Bank applies FVA which adds a surcharge to quoted market factors arising from:

- Liquidity;
- Uncertainty regarding price/ valuation model applied to the financial instrument; and
- Credit risk.

The Bank recognises the determined FVA value in the profit and loss account.

In addition to FVA, additional valuation adjustment (AVA) is also determined by the Bank with respect to market factors. AVA is defined as a difference between the fair value reported in the Bank's balance sheet including FVA and prudent valuation (PV). PV represents a highly unlikely (but fair) value of market factors which may occur on the market upon the sale of financial assets due to stress on financial markets.

(vi) Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of financial assets and liabilities held for trading are recognised directly in profit or loss as "Net income/loss from financial assets and liabilities held for trading". Interest income from financial assets held for trading is recognised in profit or loss as "Interest income and similar income".

Gains and losses arising from a change in the fair value of other financial assets and liabilities designated upon initial recognition at fair value through profit or loss not held for trading are recognised directly in profit or loss as "Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading". The interest income from financial assets and liabilities at fair value through profit or loss not held for trading is recognised in profit or loss as "Interest and similar income".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and become the equity item "Reserves from revaluation of available-for-sale securities". When the financial assets are sold, transferred or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to profit or loss as "Net income from the sale of financial assets and liabilities". Interest income from available-for-sale debt securities is recognised in the income statement as "Interest income and similar income". The accounting for impairment of available-for-sale assets is described in Note 3(g).

Gains and losses arising from financial assets and liabilities carried at amortised cost are recognised in profit or loss when the financial asset or liability is derecognised or impaired (see Note 3(g)), and through the amortisation process.

(vii) Derecognition

A financial asset is derecognised when the Bank loses the contractual rights to the cash flow from an asset or the Bank transfers the

financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or are surrendered.
A financial liability is derecognised when it is settled.
Available-for-sale assets and assets recognised at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised at the settlement date. The Bank uses accounting methods to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognised on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

(c) Participation Interests

Controlling interest means a participation interest where the Bank factually or legally has a direct or indirect controlling interest in the governance of the company (this means the Bank's ability to participate in the financial and operational management of the company and to gain benefits from the activities). This participation interest results from a share in the registered capital or from contract or statutes without regard to the total size of the participation interest.
Substantial interest means a participation interest where the Bank factually or legally has a direct or indirect substantial interest in the company's governance and operations (this means the Bank's ability to participate in financial and operational guidance of the company but without a controlling interest). This participation interest results from a share in the registered capital (more than 20%) or from contract or statutes without regard to the total size of the participation interest.
Controlling and substantial interests are valued at acquisition price less losses arising from the impairment of these participation interests.
Participation interests are shown within “Participation interests”.

(d) Derivatives

(i) Hedging Derivatives

Hedging derivatives are carried at fair value. 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
- In the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in profit or loss 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 and similar income” or “Interest expense and similar charges”.
If the 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 and becomes the equity item “Reserves from revaluation of hedging instruments”.
The ineffective part of the hedge is recognised in profit or loss.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the aforementioned 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 profit or loss.

(ii) Embedded Derivatives

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 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 not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

(e) Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.

As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Bank recognises a liability to either banks or customers in the amount of this compensation.
Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognised in the Bank's statement of financial position.
As a result of the cash collateral provided in respect of securities borrowed/purchased under securities lending arrangements or resale agreements, the Bank recognises loans and advances to either banks or customers. The receivables are recorded as collateralised by the underlying security.
In the case of the sale of a security acquired on the basis of securities lending arrangements or repurchase agreements, the Bank derecognises the securities acquired in such manner from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the balance sheet. This payable is reported under "Financial liabilities held for trading".
Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognised on an accrual basis over the period of the transactions and are recognised in profit or loss in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities may be offset 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 reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

(g) Impairment

Assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and the impairment of the asset is recognised in profit or loss.

(i) Loans and Receivables and Held-to-Maturity Assets

Loans and receivables and held-to-maturity assets are presented at amortised cost, ie net of impairment losses for uncollectibility.
Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets in order to reduce these assets to their recoverable amounts. The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument's original effective interest rate.
Collective impairment losses of portfolios of standard loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.
The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit rating of the underlying customers. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.
When a loan is known to be uncollectible, all the necessary legal steps have been taken and the final loss has been determined, the loan is written off directly and any previously unrecognised loss is recognised in profit or loss under "Impairment losses on financial assets". Any consideration received in respect of a loan written off is recognised in profit or loss under "Other operating income".
If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss, the impairment loss is reversed through profit or loss in "Impairment of loans and receivables".

(ii) Available-for-sale Financial Assets

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognised in other comprehensive income, the cumulative loss is reclassified to profit or loss and recognised in "Impairment losses on financial assets". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent of the impairment. Any additional impairment loss is recognised in profit or loss. Impairment losses recognised in profit or loss arising from investment in equity instruments classified as available-for-sale are not reversed through profit or loss.

(h) Property and Equipment and Intangible Assets

Property and equipment and intangible assets are assets which are held in order to pursue banking activities and which may be used for a period of longer than one year.
Property and equipment and 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 periods (over respective estimated useful lives) for individual categories of property and equipment and intangible assets 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 the 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
- Software and intangible assets 2–6 years or in accordance with the contract
- Low value tangible assets 2–3 years

Both tangible and 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.

The gains and losses on disposal are determined based on the net book value and are included in other operating income or expenses.

The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised.

Property and equipment, which the Bank intends to sell within 12 months, is classified as "Non-current assets held for sale". Such property and equipment is reclassified at the lower of its carrying amount or its sales value less disposal costs.

(i) Leases

The Bank concluded mainly operating lease contracts. Total payments related to these contracts are included in "Administrative expenses" evenly over the period of the lease contract.

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

(j) Provisions

Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions 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.

(k) Interest Income and Expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. In the current environment of negative interest rates, negative interest income is presented in income with the negative sign. Negative interest expense is presented in interest expense with the opposite sign.

(l) Fee and Commission Income and Expense

Fee and commission income and expense 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/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognised when the corresponding service is provided or completed.

(m) Dividend income

Dividend income is recognised in profit or loss in "Dividend income" on the date that the dividend is declared.

(n) Deferred Bonuses

The Bank accounts for deferred bonuses on the accrual basis of accounting.

(o) 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, which is further adjusted by tax allowances and relevant credits. The tax payable or receivable is calculated using the tax rate valid at the year-end and reported in the expected amount of the settlement with the tax authorities.

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

(p) Contingent Assets and Liabilities

A contingent asset/liability is a potential asset/liability that arises from past events and whose existence will be only confirmed 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 balance sheet but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50%, the Bank will recognise a provision. Where the likelihood of an inflow of economic benefits is almost 100%, the Bank will recognise an asset and revenue.

(q) 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. In 2016, the structure of internal organisation and the composition of reported segments changed.

The Bank's primary segment reporting is broken down by types of clients, 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 takes in especially the following products and services: providing banking services to companies and public institutions, including loans, 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 clients, investment advisory, and consulting on mergers and acquisitions.

Other includes banking activities that are not included within the aforementioned segments.

(r) Standards and Interpretations Effective in the Current Period

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (Effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 Equity Method in Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2016); and
- Annual Improvements to IFRSs 2012 – 2014 Cycle (Effective for annual periods beginning on or after 1 January 2016) which include amendments to a number of IFRSs as changes in methods of disposal in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, servicing contracts and applicability of the amendment to IFRS 7 on offsetting disclosure to condensed interim financial statements in IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1), discount rate: regional market issue in IAS 19 Employee Benefits and disclosure information included in the interim financial report in IAS 34 Interim Financial Reporting.

(s) Standard and Interpretations Issued by the IASB and Adopted by the EU that are Not Yet Effective

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards which are not yet in force and were not used in preparing these financial statements but which are already approved and will have an impact on the Bank's financial statements in the future. The Bank is currently analysing the impacts arising from the adoption of these standards. The Bank plans to implement these standards at the date they become effective.

- *IFRS 9 "Financial Instruments*" is effective for annual periods beginning on or after 1 January 2018 and replaces *IAS 39 "Financial Instruments: Recognition and Measurement"*. IFRS 9 includes requirements for initial recognition, measurement and derecognition of financial assets and liabilities and hedge accounting. The IFRS 9 implementation project is currently underway in the Bank with regard to classification, measurement and impairment.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets. The current model based on portfolios according to IAS 39 will be abolished and financial assets will be newly classified on the basis of the business model for financial asset management and characteristics of contractual cash flows (the "SPPI test"). Through these criteria, the Bank defines measurement categories as follows:

- Financial assets at amortised cost ("AC");
- Financial assets at fair value through profit or loss ("FVTPL"); and
- Financial assets at fair value through other comprehensive income ("FVOCI").

All loans are held by the Bank under a business model designed to hold financial assets to collect contractual cash flows ("held to collect"). Based on the result of the SPPI test, loans may be classified as either AC or FVTPL. The portfolio analysis is ongoing at present but the Bank anticipates that the vast majority of the loan portfolio will meet the SPPI test and will therefore be classified as AC, ie will continue to be presented on a practically identical basis.

Other financial instruments, namely securities, are held under a business model designed to collect contractual cash flows or to sell financial assets ("held to collect" and "held to collect and sell"). These assets may see minor changes in the presentation as a result of a change in classification in specific cases.

Impairment – the key impact relates to the change in the concept of estimating losses on impairment of financial assets from the current "incurred loss" concept to the "expected credit loss" concept.

The Bank anticipates that the new concept will accelerate the recognition of impairment losses on financial assets and will lead to greater provisioning at the initial recognition date.
Other requirements of IFRS 9 in this area include calculating impairment not only by reference to historical information but also on the basis of current and future prospective macroeconomic or other bank-specific information. The methodology for using this information is currently being internally analysed and fine-tuned.
For reporting and provisioning purposes, IFRS 9 introduces a three-level model that takes into account changes in credit quality since initial recognition ("staging"):

- Level 1 includes financial assets the credit risk of which has not increased significantly since initial recognition and assets with low credit risk at the balance sheet date. The 12-month expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets. The Bank anticipates that this category will include the vast majority of standard receivables.
- Level 2 includes financial assets the credit risk of which has increased significantly since initial recognition but for which there is no objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is still calculated on the basis of the gross carrying amount of assets. The Bank anticipates that this category will include receivables whose risk profile has deteriorated since the origination date (this will be managed both on a qualitative and quantitative basis, specific parametrisation is subject to ongoing analyses and model development.
- Level 3 includes financial assets for which there is objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category will include receivables with default.

This new segmentation also determines the approach to calculating provisions, specifically:

- Level 1 receivables will be provisioned as equal to the calculated expected loss of the given product.
- For Level 2 receivables, the LtEL ("life time expected loss") is introduced representing the modelled expected loss reflecting aggregate life time of the given product. This calculation will be based on the corresponding life-time parameters which are currently being developed/calibrated. In line with the concept, the Bank takes into account available information in developing models while also closely cooperating with the Group in developing a consistent interpretation of the methodology.
- For Level 3 receivables, the Bank does not anticipate any significant changes in the logics of the calculation as compared to the current approach to provisioning receivables in default (the split into the individual and collective approach to calculating provisions will remain unchanged).

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activities. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities. IFRS 9 generally expands and simplifies the possibility of applying hedge accounting by, for example, enabling a broader inclusion of non-financial assets or derivatives among hedged items and simplifying the assessment of hedge effectiveness. As a result, the Bank anticipates applying hedge accounting in a wider scope following the adoption of IFRS 9.
The Bank expects that the current and planned hedge accounting arrangements will be subordinated to IFRS 9 as a whole. Given the delayed application of part of IFRS 9 in respect of macro hedge accounting, it will be possible to follow the guidance under IAS 39 on hedge accounting until approximately 2020.
Own credit risk – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.
The Bank will not early-adopt IFRS 9, hence it will apply the requirements of the standard from 1 January 2018.

The expected timeline of the implementation is as follows:

- 2016 to the 2nd quarter of 2017: finalisation of the IFRS 9 impact analysis, development of Group-wide methodology and application of the local solution;
- 1st quarter of 2017 – start of user testing; and
- 2nd – 4th quarter of 2017: calibration of models for calculating impairment and accounting models, adjustment of internal and group-wide methodologies, continuance of user testing, parallel run of the old IAS 39 model and the new model under IFRS 9.

The Bank will not restate previous periods. The Bank plans on preparing and disclosing the following reconciliations:

- Reconciliation of financial assets per the portfolios defined in IAS 39 as of 31 December 2017 and per the new portfolios defined in IFRS 9 as of 1 January 2018; and
- Reconciliation of the amount of provisions defined in IAS 39 as of 31 December 2017 and defined in IFRS 9 as of 1 January 2018 by class of financial assets.

In view of the complexity of the change arising from IFRS 9 and given the pending implementation projects, the Bank presently does not calculate the expected impact of the initial application of IFRS 9 on the financial statements.
The Bank anticipates that the key impact will relate to increased provisioning levels since IFRS 9 requires recognising provisions for expected losses even on assets for which there is no objective evidence of impairment at the financial statements date.
Upon initial recognition as of 1 January 2018, the effect of changes

in impairment of financial assets will be charged against equity. Ongoing changes subsequent to 1 January 2018 arising from the new provisioning requirements will be reported in the statement of income.

In respect of regulatory capital planning pursuant to Basel III, a one-off decrease is expected to occur as of 1 January 2018. This will be due to the non-recurring reduction of the amount of retained earnings brought forward which was one of the key components of the CET1 capital.

Note: Based on the discussion paper issued by the BCBS in October 2016[1], the impact of IFRS 9 on the CET1 capital is expected to be distributed over multiple years. A new draft of CRR 2[2] dated November 2016 foresees the distribution of the impact of additional provisioning under IFRS 9 over a period of five years.

The impacts disclosed above are estimates only and may be subject to change during the implementation.

- *IFRS 15 "Revenue from Contracts with Customers"* (effective for annual periods beginning on or after 1 January 2018).

(t) Standards and Interpretations Published by the IASB, but not yet Adopted by the European Union

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016). The European Union decided not to commence the approval process of the interim standard and await the final standard;
- IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Effective for annual periods beginning on or after a date to be determined);
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 7 Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2017);
- Clarifications to IFRS 15 Revenue from Contracts with Customers;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2018);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Effective for annual periods beginning on or after 1 January 2017);

1 Discussion paper: Regulatory treatment of accounting provisions (D385) a Consultative document: Regulatory treatment of accounting provisions – interim approach and transitional arrangements (D386).

2 REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018); and
- Amendments to IAS 40: Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018).

(u) 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 Bank has adopted the method of carrying amounts of the acquired business and concurrently reports these transactions prospectively, ie without adjustments in comparative periods.

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 40).

The presentation of the separate financial statements in conformity with IFRS requires the Bank's management to make 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 specifically relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions, are based on the information available at the balance sheet date.

(a) Key Sources of Estimation Uncertainty

(i) Impairment

Assets accounted for at amortised cost are evaluated for impairment. The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Collectively assessed impairment covers credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations of credit risk, and other economic factors. In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based upon historical experience and current economic conditions. The accuracy in quantifying the impairment depends upon how well the Bank is able to estimate these future cash flows for specific counterparties and the quality in establishing the models' parameters.

(ii) Determining Fair Values

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy, Note 3(b) (v). 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.

(b) Critical Accounting Judgements in Applying the Bank's Accounting Policies

(i) Financial Asset and Liability Classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances; the Bank confirms that the assumptions disclosed in Note 3(b) (i) have been met.

(ii) Hedge Accounting

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

(iii) Change in Accounting Policy

There were no changes in accounting policies during the years ended 31 December 2016 and 31 December 2015.

(iv) Effect of the Changes in Accounting Standards in these Financial Statements

During the years ended 31 December 2016 and 31 December 2015, the Bank did not identify any changes of financial reporting standards that would significantly affect the Bank's financial statements.

5. Net interest income and similar income

MCZK	2016	2015
Interest income and similar income		
Balances with central banks	56	33
Receivables from banks	157	128
Receivables from clients	8 326	9 031
Available-for-sale securities	1 312	1 453
Securities held to maturity	9	10
Financial assets at fair value through profit or loss held for trading	17	27
Financial assets at fair value through profit or loss not held for trading	–	10
Net interest income from hedging derivatives	507	489
Interest income and similar income	**10 384**	**11 181**
Interest expense and similar charges		
Deposits from central bank	(5)	(7)
Deposits from banks	48	(87)
Deposits from clients	(509)	(849)
Debt securities issued	(969)	(1 186)
Financial liabilities held for trading	(2)	(1)
Interest expense and similar charges	**(1 437)**	**(2 130)**
Net interest income and similar income	**8 947**	**9 051**

6. Net fee and commission income

MCZK	2016	2015
Fee and commission income from		
Securities transactions	5	4
Management, administration, deposit and custody services	696	653
Loans	1 674	1 628
Payment services	798	765
Account administration	511	514
Payment cards	854	1 034
Other	107	117
Fee and commission income	**4 645**	**4 715**
Fee and commission expenses from		
Securities transactions	(8)	(10)
Management, administration, deposit and custody services	(72)	(71)
Loans	(412)	(237)
Payment services	(46)	(26)
Payment cards	(577)	(773)
Other	(9)	(24)
Fee and commission expenses	**(1 124)**	**(1 141)**
Net fee and commission income	**3 521**	**3 574**

7. Dividend income

MCZK	2016	2015
Dividend income		
Shares classified as available-for-sale securities	3	2
Total dividend income	**3**	**2**

8. Net income/loss from financial assets and liabilities held for trading

MCZK	2016	2015
Net realised and unrealised gain/(loss) from securities held for trading	87	93
Net realised and unrealised gain/(loss) from derivatives held for trading	701	1 410
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 345	401
Net trading income/loss	**2 133**	**1 904**

9. Net income/loss from hedging against risk of changes in fair value

MCZK	2016	2015
Hedging instruments	(158)	156
Hedged instruments	154	(165)
Net income/loss from hedging against risk of changes in fair value	**(4)**	**(9)**

10. Net income/loss from the sale of financial assets and liabilities

MCZK	2016	2015
Receivables from clients	(1)	1
Available-for-sale securities	1 085	16
Debt securities issued	(35)	(8)
Net income/loss from the sale of financial assets and liabilities	**1 049**	**9**

The income from financial assets available for sale predominantly includes income arising from an international transaction – transformation of Visa Europe in which the Bank held an equity interest.

11. Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading

MCZK	2016	2015
Debt securities	3	(1)
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	**3**	**(1)**

12. Impairment losses on financial assets

MCZK	2016	2015
Receivables from clients	(1 130)	(1 162)
Provision for off-balance sheet items	(80)	45
Available-for-sale securities	(3)	–
Total	**(1 213)**	**(1 117)**

13. Administrative expenses

MCZK	2016	2015
Personnel expenses		
Wages and salaries paid to employees	(2 201)	(2 158)
Social costs	(758)	(739)
Other	(101)	(83)
	(3 060)	(2 980)
Other administrative expenses		
Rent and building maintenance	(634)	(599)
Information technologies	(1 186)	(1 178)
Promotion and marketing	(448)	(438)
Consumables used	(70)	(79)
Audit, legal and advisory services	(157)	(144)
Administrative and logistic services	(476)	(452)
Deposits and transactions insurance	(531)	(459)
Services	(275)	(287)
Other	(459)	(334)
	(4 236)	**(3 970)**
Total administrative expenses	**(7 296)**	**(6 950)**

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

MCZK	31 Dec 2016	31 Dec 2015
Short-term employee benefits	185	168
Post-employment benefits	–	–
Other long-term employee benefits	34	34
Termination benefits	–	–
Share-based payments	–	–
Total	**219**	**202**

Information on equity-based bonuses is included in Note 35.

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

	31 Dec 2016	31 Dec 2015
Employees	3 003	2 952
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	33	29

A summary of operating leases is presented in the following table:

2016 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	380	1 427	–
2015 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	324	1 246	–

14. Other operating income and expenses

MCZK	2016	2015
Income from rent	29	31
Other income	51	148
Total other operating income	**80**	**179**
Taxes	(2)	(3)
Fines and penalties	(15)	(13)
Other	(17)	(132)
Total other operating expenses	**(34)**	**(148)**
Total other operating income and expenses	**46**	**31**

15. Cash in hand and cash balances

MCZK	31 Dec 2016	31 Dec 2015
Cash in hand	4 083	4 353
Other balances with central banks	109	91
Total	**4 192**	**4 444**

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds.

16. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	2 803	13	–	2 816
Shares	–	–	–	–
Derivatives	39	6 180	–	6 219
Total	**2 842**	**6 193**	**–**	**9 035**
31 Dec 2015				
Debt securities	1 607	4	–	1 611
Shares	–	–	–	–
Derivatives	36	6 392	–	6 428
Total	**1 643**	**6 396**		**8 039**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Government sector	2 816	1 611
Shares		
Financial services	–	–
Other	–	–
Total	**2 816**	**1 611**

(b) Not Held for Trading

(i) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	–	–	–	–
Total	**–**	**–**	**–**	**–**
31 Dec 2015				
Debt securities	–	1 539	–	1 539
Total	**–**	**1 539**	**–**	**1 539**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Financial services	–	6
Government sector	–	1 533
Other	–	–
Total	**–**	**1 539**

17. Available-for-sale securities

The Bank has no Italian, Spanish, Irish, Portuguese or Greek state bonds in its portfolios.

(a) Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Debt securities	65 539	14 424	–	79 963
Shares	–	–	229	229
Total	**65 539**	**14 424**	**229**	**80 192**
31 Dec 2015				
Debt securities	64 906	17 108	4	82 018
Shares	–	–	631	631
Total	**64 906**	**17 108**	**635**	**82 649**

(b) Securities by Type of Issuer

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Banking	12 240	12 927
Governments and central banks	57 759	59 824
Other public sector	2 185	2 215
Other	7 779	7 052
Shares		
Investment funds	–	–
Other	229	631
Total	**80 192**	**82 649**

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2016	Net book value 2015	Share of the Bank at 31 Dec 2016	Share of the Bank at 31 Dec 2015
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**		

18. Securities held to maturity

(a) By type of security

MCZK	31 Dec 2016	31 Dec 2015
Debt securities	186	186
Total	**186**	**186**

(b) Securities by activities of issuers

MCZK	31 Dec 2016	31 Dec 2015
Debt securities		
Governments and central banks	186	186
Other	–	–
Total	**186**	**186**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2016	31 Dec 2015
Current accounts	1 153	1 678
Term deposits	6 830	44 277
Loans	7 977	6 415
Reverse repurchase commitments (see Note 37)	117 501	46 000
Obligatory minimum reserves	6 388	8 205
Total	**139 849**	**106 575**

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

MCZK	31 Dec 2016	31 Dec 2015
Czech Republic	127 896	96 664
Other EU countries	5 499	5 945
Other	6 454	3 966
Total receivables from banks	**139 849**	**106 575**

20. Receivables from clients

(a) Analysis of Net Receivables from Clients, by Type

MCZK	Non-default	Default	Total
31 Dec 2016			
Current accounts (overdrafts)	35 257	474	35 731
Reverse repurchase commitments (see Note 37)	–	–	–
Resident mortgage loans	90 932	696	91 628
Other mortgage loans	62 473	1 902	64 375
Credit cards and consumer loans	11 723	107	11 830
Factoring	4 714	116	4 830
Bills of exchange	–	–	–
Other loans	156 921	1 983	158 904
Total	**362 020**	**5 278**	**367 298**
31 Dec 2015			
Current accounts (overdrafts)	32 709	585	33 294
Reverse repurchase commitments (see Note 37)	–	–	–
Resident mortgage loans	80 590	1 644	82 234
Other mortgage loans	55 428	2 377	57 805
Credit cards and consumer loans	10 955	138	11 093
Factoring	4 505	101	4 606
Bills of exchange	–	–	–
Other loans	138 156	1 901	140 057
Total	**322 343**	**6 746**	**329 089**

The Bank uses the 'client default' definition in line with the CNB's Regulation 163/2014 Coll./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.

(b) Classification of Receivables from Clients and Impairment

MCZK	Gross value	Impairment of individual receivables	Impairment of portfolios of receivables	Net value
31 Dec 2016				
Standard	356 947	–	(1 353)	355 594
Watch	6 695	–	(269)	6 426
Substandard	5 758	(2 966)	–	2 792
Doubtful	927	(570)	–	357
Loss	6 991	(4 862)	–	2 129
Total	**377 318**	**(8 398)**	**(1 622)**	**367 298**
31 Dec 2015				
Standard	315 647	–	(1 352)	314 295
Watch	8 356	–	(308)	8 048
Substandard	4 388	(1 527)	–	2 861
Doubtful	2 556	(1 054)	–	1 502
Loss	8 447	(6 064)	–	2 383
Total	**339 394**	**(8 645)**	**(1 660)**	**329 089**

The following table presents a summary of gross receivables according to internal rating:

MCZK	31 Dec 2016	31 Dec 2015
Receivables without default		
Internal rating 1	6 571	7 421
Internal rating 2	10 029	9 765
Internal rating 3	43 091	22 984
Internal rating 4	108 348	103 805
Internal rating 5	119 094	99 686
Internal rating 6	55 874	56 938
Other internal rating	18 742	21 164
Receivables without internal rating	1 893	2 240
Total	**363 642**	**324 003**
Receivables with default	13 676	15 391
Total	**377 318**	**339 394**

The Bank regularly classifies its receivables. The categories used for classification consider the Bank's analysis as to the probability of repayment and analysis of the borrower's behaviour (number of days payments are past due, financial performance, etc.).
In 2015, the methodology of calculating provisions was revised, giving rise to, inter alia, a change in the guidance in applying the method of impairment calculation (individually vs using the model). The Bank assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realised collateral); in respect of clients in default with exposure above MEUR 1 on an individual basis, other clients using the relevant model.

The following table summarises gross non-default loan receivables based on the number of days past due.

MCZK	31 Dec 2016	31 Dec 2015
Non-default receivables, gross		
Due receivables	361 790	322 033
1 – 30 days past due	1 840	1 959
31– 90 days past due	12	11
91 – 180 days past due	–	–
More than 180 days past due	–	–
Total	**363 642**	**324 003**

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

MCZK	31 Dec 2016	31 Dec 2015
Financial institutions	40 412	33 378
Non-financial institutions	223 590	202 519
Government sector	1 656	1 734
Individuals and others	101 640	91 458
Total	**367 298**	**329 089**

(d) Analysis of Gross Receivables from Clients, by Type of Collateral Provided and Classification

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
31 Dec 2016						
Bank and similar guarantee	8 483	26	3	1	–	8 513
Mortgage	82 721	1 794	864	156	653	86 188
Corporate guarantee	2 728	15	–	–	–	2 743
Other security	5 762	460	121	47	171	6 561
Unsecured	257 253	4 400	4 770	723	6 167	273 313
Total	**356 947**	**6 695**	**5 758**	**927**	**6 991**	**377 318**
31 Dec 2015						
Bank and similar guarantee	7 022	18	2	–	–	7 042
Mortgage	72 744	2 466	809	415	1 672	78 106
Corporate guarantee	581	10	9	–	–	600
Other security	3 678	456	396	349	94	4 973
Unsecured	231 622	5 406	3 172	1 792	6 681	248 673
Total	**315 647**	**8 356**	**4 388**	**2 556**	**8 447**	**339 394**

The item “Unsecured” includes, among other things, receivables arising from project funding that are secured by real estate collateral in the nominal value of MCZK 53,723 (as of 31 December 2015: MCZK 41,068). In the case of the project funding of commercial real estate (IPRE), the collateral quality is taken into account in determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

(e) Analysis of Net Receivables from Clients, by Region

MCZK	31 Dec 2016	31 Dec 2015
Czech Republic	227 371	199 014
Slovakia	120 256	106 291
Other EU countries	14 800	19 350
Other	4 871	4 434
Total	**367 298**	**329 089**

(f) Analysis of Net Receivables from Clients, by Business Activity

MCZK	31 Dec 2016	31 Dec 2015
Real estate services	72 829	60 963
Financial services	40 412	33 414
Wholesale	17 736	18 393
Households (individuals)	98 846	88 692
Retail (entrepreneurs)	7 243	7 910
Leasing and rental	5 842	4 156
Automotive industry	8 775	6 484
Power industry	27 237	29 885
Other	88 378	79 192
Total receivables from clients	**367 298**	**329 089**

(g) Analysis of Forbearance

The Bank's approach to forbearance reporting is disclosed in Note 40 (b) (iv) – Financial Risk Management.

Analysis of forborne receivables by sectors:

MCZK	Gross non-default receivables	Gross default receivables	Total gross forbearance	Impairment of non-default receivables	Impairment of default receivables	Total impairment of forbearance	Net forbearance
31 December 2016							
Non-financial institutions	8 360	2 400	10 760	(143)	(1 246)	(1 389)	9 371
Government sector	–	–	–	–	–	–	–
Other financial institutions	8	–	8	–	–	–	8
Individuals and others	61	63	124	(4)	(16)	(20)	104
Total	**8 429**	**2 463**	**10 892**	**(147)**	**(1 262)**	**(1 409)**	**9 483**
31 December 2015							
Non-financial institutions	1 490	2 849	4 339	(74)	(1 380)	(1 454)	2 885
Government sector	–	–	–	–	–	–	–
Individuals and others	5	70	75	–	(14)	(14)	61
Total	**1 495**	**2 919**	**4 414**	**(74)**	**(1 394)**	**(1 468)**	**2 946**

Net forbearance represented 2.6% of the total receivables from clients as of 31 December 2016 (2015: 0.9%).

The table below provides an analysis of forborne receivables by days after the due date:

MCZK	Gross forbearance	Impairment of forbearance	Net forbearance
31 December 2016			
Non-default receivables			
Before due	7 054	(88)	6 966
Past due	1 375	(59)	1 316
Total non-default forbearance	**8 429**	**(147)**	**8 282**
Default receivables			
0 to 90 days past due	1 742	(667)	1 075
91 to180 days past due	298	(146)	152
181 days to 1 year past due	17	(14)	3
Over 1 year past due	406	(435)	(29)
Total default forbearance	**2 463**	**(1 262)**	**1 201**
Total	**10 892**	**(1 409)**	**9 483**
31 December 2015			
Non-default receivables			
Before due	209	(9)	200
Past due	1 286	(65)	1 221
Total non-default forbearance	**1 495**	**(74)**	**1 421**
Default receivables			
Up to 90 days past due	1 818	(691)	1 127
91 to180 days past due	57	(3)	54
181 days to 1 year past due	186	(63)	123
Over 1 year past due	858	(637)	221
Total default forbearance	**2 919**	**(1 394)**	**1 525**
Total	**4 414**	**(1 468)**	**2 946**

The table below shows movements in gross forbearance:

MCZK	
Balance at 1 January 2015	6 532
Transfer to forbearance	930
Additions	99
Write-offs	(292)
Settled	(904)
Transfer from forbearance	(1 951)
Total forbearance as of 31 December 2015	**4 414**
Balance at 1 January 2016	4 414
Transfer to forbearance	8 073
Additions	–
Write-offs	(157)
Settled	(379)
Transfer from forbearance	(1 050)
Other	(9)
Total forbearance as of 31 December 2016	**10 892**

During 2016, the Bank undertook a one-off retroactive review of its activities performed over the last two years that could meet the characteristics for classification as non-default forbearance. This resulted in a major increase in the category of such receivables.

The table below shows movements in the impairment of forbearance:

MCZK	
Balance at 1 January 2015	(1 577)
Transfer to forbearance	(351)
Charge during the current year	(181)
Release during the current year	150
Receivables written off – use	292
Transfer from forbearance	199
Total impairment forbearance as of 31 December 2015	**(1 468)**
Balance at 1 January 2016	(1 468)
Transfer to forbearance	(647)
Charge during the current year	(69)
Release during the current year	159
Receivables written off – use	132
Transfer from forbearance	482
Other	2
Total impairment forbearance as of 31 December 2016	**(1 409)**

(h) Impairment of Receivables from Clients

MCZK	
Balance as of 1 Jan 2015	(10 451)
Charge during the current year	(3 795)
Release during the current year	2 633
Net effect on profit or loss	(1 162)
Receivables written off – use	1 267
FX differences	41
Total impairment of receivables from clients as of 31 Dec 2015	**(10 305)**

MCZK	
Balance as of 1 Jan 2016	(10 305)
Charge during the current year	(2 883)
Release during the current year	1 753
Net effect on profit or loss	(1 130)
Receivables written off – use	1 353
FX differences	62
Total impairment of receivables from clients as of 31 Dec 2016	**(10 020)**

21. Equity investments

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2016	Net book value 2015	Share of the Bank at 31 Dec 2016	Share of the Bank at 31 Dec 2015
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**		

22. Positive fair value of hedging derivatives

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Fair value hedging	–	122	–	122
Cash flow hedging	–	5 041	–	5 041
Total	**–**	**5 163**	**–**	**5 163**
31 Dec 2015				
Fair value hedging	–	240	–	240
Cash flow hedging	–	4 667	–	4 667
Total	**–**	**4 907**	**–**	**4 907**

23. Property and equipment

Movements in Property and Equipment

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2015	**3 758**	**476**	**882**	**6**	**5 122**
Accumulated depreciation and impairment at 1 Jan 2015	(1 837)	(400)	(686)	(4)	(2 927)
Net Book Value at 1 Jan 2015	**1 921**	**76**	**196**	**2**	**2 195**
Additions	149	30	190	2	371
Disposals	–	–	–	–	–
Depreciation charges	(147)	(15)	(59)	(1)	(222)
Transfers to assets held for sale	(23)	–	–	–	(23)
Other and FX rate gains or losses	(124)	(17)	(147)	(1)	(289)
Net Book Value at 31 Dec 2015	**1 776**	**74**	**180**	**2**	**2 032**
Cost at 31 Dec 2015	2 927	436	743	6	4 112
Accumulated depreciation and impairment at 31 Dec 2015	(1 151)	(362)	(563)	(4)	(2 080)

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2016	**2 927**	**436**	**743**	**6**	**4 112**
Accumulated depreciation and impairment at 1 Jan 2016	(1 151)	(362)	(563)	(4)	(2 080)
Net Book Value at 1 Jan 2016	**1 776**	**74**	**180**	**2**	**2 032**
Additions	88	8	45	16	157
Disposals	(661)	–	–	–	(661)
Depreciation charges	(146)	(10)	(58)	(14)	(228)
Transfers to assets held for sale	(4)	–	–	–	(4)
Other and FX rate gains or losses	30	(33)	(38)	61	20
Net Book Value at 31 Dec 2016	**1 083**	**39**	**129**	**65**	**1 316**
Cost at 31 Dec 2016	2 036	206	611	238	3 091
Accumulated depreciation and impairment at 31 Dec 2016	(953)	(167)	(482)	(173)	(1 775)

In February 2016, management of the Bank approved the sale and leaseback of a building with the net book value of MCZK 629, which was subsequently transferred to "Non-current assets held for sale". The transaction was conducted during 2016.

24. Intangible assets

Movements in Intangible Assets

MCZK	Software	Other	Total
Cost at 1 Jan 2015	**859**	**8**	**867**
Accumulated amortisation and impairment at 1 Jan 2015	(853)	(8)	(861)
Net Book Value at 1 Jan 2015	**6**	**–**	**6**
Additions	652	80	732
Disposals	–	–	–
Amortisation charges	(11)	–	(11)
Other	(4)	(60)	(64)
Net Book Value at 31 Dec 2015	**643**	**20**	**663**
Cost at 31 Dec 2015	1 476	27	1 503
Accumulated amortisation and impairment at 31 Dec 2015	(833)	(7)	(840)
Cost at 1 Jan 2016	**1 476**	**27**	**1 503**
Accumulated amortisation and impairment at 1 Jan 2016	(833)	(7)	(840)
Net Book Value at 1 Jan 2016	**643**	**20**	**663**
Additions	565	–	565
Disposals	–	–	–
Amortisation charges	(16)	–	(16)
Other	35	(20)	15
Net Book Value at 31 Dec 2016	**1 227**	**–**	**1 227**
Cost at 31 Dec 2016	2 073	–	2 073
Accumulated amortisation and impairment at 31 Dec 2016	(846)	–	(846)

Software includes assets of MCZK 1,174 (2015: MCZK 639) acquired primarily in respect of the implementation of a new banking system which are not brought into use and hence not amortised.

25. Other assets

MCZK	31 Dec 2016	31 Dec 2015
Deferred expenses and accrued income	265	349
Prepayments made in relation to cash additions to ATMs and cash registers	1 151	1 033
Trade receivables	314	385
Receivables from securities	201	92
Clearing and settlement accounts	473	374
Other	11	16
Total	**2 415**	**2 249**
Impairment of other assets	(17)	(26)
Net other assets	**2 398**	**2 223**

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2016	31 Dec 2015
Deposits from central banks	11 889	11 899
Current accounts	7 033	11 506
Loans	1 329	3 022
Term deposits	39 210	7 540
Repurchase commitments (see Note 37)	41 012	6 270
Total	**100 473**	**40 237**

The Bank currently uses the European Central Bank's currency instrument TLTRO II ("Targeted Long-term Refinancing Operation") in the amount of MEUR 440. The Bank drew this tranche in June 2016, it will mature in June 2020 and is reported in the line "Deposits from central banks". TLTRO II has the characteristics of a long-term repo transaction and as such it is secured by collateral accepted by the Eurosystem. The funding obtained through this instrument is used to refinance largely corporate loans in Slovakia.

27. Deposits from clients

Analysis of Deposits from Clients by Type

MCZK	31 Dec 2016	31 Dec 2015
Current accounts	322 807	299 810
Term deposits	40 877	54 144
Repurchase commitments (see Note 37)	4 653	7 208
Other	2 967	3 081
Total	**371 304**	**364 243**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2016	31 Dec 2015
Mortgage bonds	49 183	51 661
Structured bonds	8 170	7 809
Zero coupon bonds	1 664	1 844
Other issued debt securities	1 090	3 705
Total	**60 107**	**65 019**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 8,512 (at 31 December 2015: MCZK 8,406). The positive fair value of these derivatives of MCZK 17 is reported under "Financial assets held for trading" (at 31 December 2015: MCZK 11); the negative fair value of these derivatives of MCZK 293 is recognised under "Financial liabilities held for trading" (at 31 December 2015: MCZK 338).

29. Financial liabilities held for trading

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Liabilities from short sales	1 033	–	–	1 033
Derivatives	–	5 536	–	5 536
Total	**1 033**	**5 536**	**–**	**6 569**
31 Dec 2015				
Liabilities from short sales	926	–	–	926
Derivatives	–	6 110	–	6 110
Total	**926**	**6 110**	**–**	**7 036**

30. Negative fair value of hedging derivatives

Based on the Quality of the Input Data Used for Valuation at Fair Value

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2016				
Fair value hedging	–	1 044	–	1 044
Cash flow hedging	–	2 373	–	2 373
Total	**–**	**3 417**	**–**	**3 417**
31 Dec 2015				
Fair value hedging	–	1 017	–	1 017
Cash flow hedging	–	2 126	–	2 126
Total	**–**	**3 143**	**–**	**3 143**

31. Other liabilities

MCZK	31 Dec 2016	31 Dec 2015
Deferred income and accrued expenses	932	1 160
Trade payables	794	832
Payables to employees	724	618
Unsettled security transactions	89	19
Clearing and settlement accounts	5 678	3 251
Other	79	110
Total other liabilities	**8 296**	**5 990**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2016	31 Dec 2015
Provisions for off-balance sheet credit items	542	1 128
Legal disputes	68	63
Provision for restructuring	10	16
Other	316	–
Total provisions	**936**	**1 207**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
Balance at 1 Jan 2015	1 173
Charge during the year	197
Usage during the year	–
Release during the year	(242)
Other – FX rate gains or losses	–
Total provisions for off-balance sheet credit items at 31 Dec 2015	**1 128**
Balance at 1 Jan 2016	1 128
Charge during the year	296
Usage during the year	(667)
Release during the year	(216)
Other – FX rate gains or losses	1
Total provisions for off-balance sheet credit items at 31 Dec 2016	**542**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance at 1 Jan 2015	86	25	10	121
Charge during the year	5	2	–	7
Usage during the year	–	(6)	–	(6)
Release of redundant provisions and other	(28)	(5)	(10)	(43)
Total other provisions at 31 Dec 2015	**63**	**16**	**–**	**79**
Balance at 1 Jan 2016	63	16	–	79
Charge during the year	7	–	315	322
Usage during the year	(3)	(1)	(1)	(5)
Release of redundant provisions and other	1	(5)	2	(2)
Total other provisions at 31 Dec 2016	**68**	**10**	**316**	**394**

33. Income tax

(a) Tax in Profit or Loss

MCZK	31 Dec 2016	31 Dec 2015
Current tax payable	(1 363)	(1 219)
Prior year tax	69	(14)
Deferred tax	(199)	(5)
Total income tax	**(1 493)**	**(1 238)**

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:

MCZK	31 Dec 2016	31 Dec 2015
Profit/loss for the year before tax	6 812	6 271
Tax calculated using the tax rate of 19%	(1 294)	(1 191)
Impact of prior years on the current tax payable	69	(14)
Non-taxable income	89	147
Tax non-deductible expenses	(116)	(138)
Impact of prior years on the deferred tax	(83)	(9)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(49)	(33)
Unrecognised temporary differences in deferred tax	(80)	–
Impact of a change in the Slovak tax rate	(28)	–
Other	(1)	1
Total income tax	**(1 493)**	**(1 238)**

The effective tax rate of the Bank is 21.9% (2015: 19.7%).

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1,036 (2015: MCZK 651), made an additional payment of MCZK 685 (at 31 December 2015: the Bank made an additional payment of MCZK 407) and reports an income tax liability of MCZK 387 to the tax authority in the Czech Republic (at 31 December 2015: a liability of MCZK 693) and a receivable of MCZK 248 from the tax authority in the Slovak Republic (at 31 December 2015: a receivable of MCZK 128).

(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.

In 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. With regard to the Slovak Republic, the net balance is a net deferred tax asset while in the Czech Republic, the net balance is a net deferred tax liability.

Management of the Bank believes that the Bank will be able to fully recover deferred tax assets reported as of 31 December 2016 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

MCZK	31 Dec 2016		31 Dec 2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	24	–	19	–
Impairment of loans and off-balance sheet items	516	–	724	–
Differences arising from the net book values of assets	18	–	6	–
Reserve from revaluation of hedging instruments	–	(11)	21	–
Reserve from revaluation of available-for-sale securities	–	(54)	–	(62)
Other	15	–	34	–
Deferred tax liability/asset	573	(65)	804	(62)
Net deferred tax asset	**508**		**742**	

(ii) Net Deferred Tax Liability

MCZK	31 Dec 2016		31 Dec 2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	83	(3)	77	(3)
Impairment of loans and off-balance sheet items	249	–	244	–
Differences arising from the net book values of assets	2	–	2	–
Reserve from revaluation of hedging instruments	–	(434)	–	(432)
Reserve from revaluation of available-for-sale securities	–	(477)	–	(666)
Other	9	–	9	–
Deferred tax liability/asset	343	(914)	332	(1 101)
Net deferred tax liability		**(571)**		**(769)**

The Bank additionally carries the following deferred tax assets which are not recognised and accounted for on the grounds of prudence: arising from non-tax deductible provisions recognised by the Czech Bank of MCZK 67, non-tax deductible provisions recognised by the Slovak branch of MCZK 22 and provisions for loan receivables of MCZK 17 recognised by the Slovak branch.

34. Issued capital and share premium

The recorded, issued and fully paid capital of the Bank amounted to MCZK 8,755 as of 31 December 2016 and 2015.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2016				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2015				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99.96
Minority shareholders		5	12	0.04
Total		**8 755**	**3 495**	**100.00**

As part of restructuring in the 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 holding 100% of the Bank's shares.

(b) Capital Breakdown

	31 Dec 2016 Number of shares	31 Dec 2016 MCZK	31 Dec 2015 Number of shares	31 Dec 2015 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 2016 and 31 December 2015, the Bank held no treasury shares.

35. 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.

36. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

MCZK	31 Dec 2016	31 Dec 2015
Reserve funds	3 372	3 372
Special-purpose reserve fund	11 611	11 611
Retained earnings	26 191	21 158
Total	**41 174**	**36 141**

As part of the cross-border merger in 2013, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank.

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

(a) Reverse Repurchase Transactions

MCZK	31 Dec 2016	31 Dec 2015
Receivables from banks	117 501	46 000
Fair value of securities received	116 305	45 138
Receivables from clients	–	–
Fair value of securities received	–	–

Securities received as collateral as part of reverse repurchase transactions of MCZK 12,393 and securities received as part of collateral exchange of MCZK 393 are further provided as collateral under repurchase transactions (as of 31 December 2015: a total of MCZK 8,177).

(b) Repurchase Transactions

MCZK	31 Dec 2016	31 Dec 2015
Deposits from banks	41 012	6 270
Fair value of securities provided	44 596	6 939
Deposits from clients	4 653	7 208
Fair value of securities provided	4 653	7 206

38. Contingent liabilities, contingent assets and financial derivatives

In the ordinary course of business, the Bank conducts various financial transactions that are not reported on the face of the Bank's balance sheet and that are designated as off-balance sheet financial instruments. Unless stated otherwise, the information below represents the nominal values of the off-balance sheet transactions.

(a) Contingent Liabilities

Legal Disputes
As of 31 December 2016, the Bank assessed the legal disputes in which it acted as a defendant. The Bank established provisions for these legal disputes (see Note 32). 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
The Czech tax legislation has significantly changed over the last years. As such, many complicated legislation areas remained unresolved, due to which the interpretation of taxation authorities in specific cases may not be anticipated. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations get adopted in practice or in the event that official interpretations are available.

Liabilities arising from Guarantees, Credit Commitments and Other Contingent Liabilities
Contingent liabilities predominantly include amounts of undrawn credit commitments. Credit commitments issued by the Bank include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include credits and guarantees 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. Liabilities arising from financial guarantees include irrevocable confirmations made by the Bank to perform payments, under the condition that the terms defined under individual guarantee certificates are met. As such confirmations bear similar risk as credits, the Bank creates the relevant provisions using a similar algorithm as for credits (see Note 40).
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 that 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 Note 40).
The Bank created provisions for off-balance sheet items to cover losses incurred and arising from the impairment of the off-balance sheet items due to credit risk. As of 31 December 2016, the aggregate provisions amounted to MCZK 542 (as of 31 December 2015: MCZK 1,128), see Note 32 (a).

MCZK	31 Dec 2016	31 Dec 2015
Letters of credit and financial guarantees	41 687	46 332
Other contingent liabilities (undrawn credit facilities)	130 331	124 042
Total	**172 018**	**170 374**

Values Taken into Administration and Management

MCZK	31 Dec 2016	31 Dec 2015
Bonds	474 869	513 180
Shares	205 853	206 615
Depository notes	21 489	29 932
Total values taken into administration and management	**702 211**	**749 727**

(b) Contingent Assets

The Bank had an option to draw a credit line provided by the Council of Europe Development Bank (CEDB) amounting to MCZK 405.3 (MEUR 15) with the latest maturity of seven years from the time of drawing. This credit line is purpose-bound for the refinancing of credits that fulfil the conditions of the CEDB. The Bank additionally has an option to draw a credit line from Oesterreichische Kontrollbank AG Bank of MCZK 1,444.8 (MEUR 42.4) with the maximum maturity on 30 June 2029 depending on the maturity of loans refinanced from this credit line and a credit line from The Export-Import Bank of The Republic of China of MCZK 222.9 (MUSD 8.7) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2016			
Trading instruments – interbank market (OTC)			
Options	91 311	863	(833)
Interest rate swap contracts	307 009	3 165	(3 024)
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	43 043	1 457	(1 242)
Term currency transactions	77 620	589	(334)
Other instruments	1 357	106	(103)
Total	**520 340**	**6 180**	**(5 536)**
Trading instruments – stock exchange			
Futures	1 587	39	–
Total trading instruments	**521 927**	**6 219**	**(5 536)**
Hedging instruments			
Interest rate swap contracts	265 427	4 383	(3 328)
Cross currency swap contracts	43 864	780	(89)
	46	–	–
Total hedging instruments	**309 337**	**5 163**	**3 417**

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2015			
Trading instruments – interbank market (OTC)			
Options	57 515	740	(727)
Interest rate swap contracts	262 962	3 279	(3 113)
Forward rate agreements (FRA)	11	–	–
Cross currency swap contracts	30 845	1 906	(1 683)
Term currency transactions	63 352	273	(396)
Other instruments	2 074	194	(191)
Total	**416 759**	**6 392**	**(6 110)**
Trading instruments – stock exchange			
Futures	1 556	36	–
Total trading instruments	**418 315**	**6 428**	**(6 110)**
Hedging instruments			
Interest rate swap contracts	201 738	4 328	(3 099)
Cross currency swap contracts	35 297	579	(44)
Total hedging instruments	**237 035**	**4 907**	**(3 143)**

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

MCZK	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2016				
Trading instruments				
Interest rate instruments	58 023	203 316	85 831	347 170
Equity instruments	1 420	14 129	874	16 423
Currency instruments	104 849	44 111	6 430	155 390
Other	1 241	116	–	1 357
Total	**165 533**	**261 672**	**93 135**	**520 340**
Hedging instruments				
Interest rate instruments	17 071	173 026	75 330	265 427
Currency instruments	11 333	25 046	7 531	43 910
Total	**28 404**	**198 072**	**82 861**	**309 337**

MCZK	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2015				
Trading instruments				
Interest rate instruments	57 911	151 239	72 676	281 826
Equity instruments	848	12 727	2 443	16 018
Currency instruments	86 496	16 048	14 297	116 841
Other	1 636	438	–	2 074
Total	**146 891**	**180 452**	**89 416**	**416 759**
Hedging instruments				
Interest rate instruments	19 573	109 885	72 280	201 738
Currency instruments	8 810	10 052	16 435	35 297
Total	**28 383**	**119 937**	**88 715**	**237 035**

39. Segment reporting

The Bank presents the segment information based on performance criteria as disclosed in Note 3 (q).
The structure of internal organisation and reported segments was revised in the year ended 31 December 2016.
The information as of 31 December 2015 is presented in line with the newly-defined segments.

(a) Segment Information by Client Category

MCZK	Retail and private banking	Corporate and investment banking	Other	Total
At 31 Dec 2016				
Net interest and dividend income	2 865	6 148	(63)	8 950
Other net income	1 444	3 385	1 873	6 702
Depreciation/impairment losses of property and equipment and intangible assets	(136)	(36)	(72)	(244)
Impairment of assets and provisions	11	(1 536)	–	(1 525)
Segment expenses	(3 424)	(3 205)	(442)	(7 071)
Profit before tax	760	4 756	1 296	6 812
Income tax			(1 493)	(1 493)
Result of segment	760	4 756	(197)	5 319
Segment assets	100 391	501 585	13 619	615 595
Segment liabilities	141 330	372 815	37 915	552 060

The segment “Other” includes the effect arising from an international transaction – transformation of Visa Europe, in which the Bank held an investment, and the gain on the sale of a building. The income tax for all segments is presented in the segment “Other”.

Total assets include CZK 140 billion relating to the Slovak branch (2015: CZK 138 billion). The Slovak branch reported operating income of CZK 3.7 billion for 2016 (2015: CZK 3.8 billion).
The Bank does not have a client or a group of clients that would comprise more than 10 percent of the Bank's income.

MCZK	Retail and private banking	Corporate and investment banking	Other	Total
At 31 Dec 2015				
Net interest and dividend income	2 964	5 734	354	9 053
Other net income	2 098	3 251	128	5 477
Depreciation/impairment losses of property and equipment and intangible assets	(170)	(31)	(32)	(233)
Impairment of assets and provisions	1	(1 080)	(14)	(1 093)
Segment expenses	(3 888)	(2 339)	(706)	(6 933)
Profit before tax	1 005	5 535	(269)	6 271
Income tax	–	–	(1 238)	(1 238)
Result of segment	1 005	5 535	(1 507)	5 033
Segment assets	92 972	439 741	13 505	547 218
Segment liabilities	147 600	301 527	39 210	488 337

40. 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 risks as a result of its trading activities, providing credits, hedging transactions, and investment and mediation activities.
Credit risk is managed both on the level of individual clients (transactions) and on the portfolio level.
The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. All these departments are organisationally independent of the business divisions and are directly accountable to a member of the Board of Directors in charge of the risk management division.
Under its credit policy, the Bank defines the general principles, methods and instruments applied in identifying, measuring and managing credit risk. The definition of the Bank's credit policy is rendered by the Strategic Credit Risk Management department. The policy is reviewed by this department on a regular basis, minimally once a year.
The Bank defines in its internal guidelines the approval competencies for credit deals, including the definition of responsibilities and competencies of the Credit Committee.

(i) Credit Risk Management on the Level of Individual Clients

The credit risk on the level of individual clients is managed by analysing clients' financial health and determining the limits of credit exposure. The analysis is focused on clients' position in the relevant market, rating of their financial statements, prediction of future liquidity, and the like. The result of this analysis is, among other things, to establish a rating that reflects the probability of clients' default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is rendered both prior to granting a credit and during the credit arrangements with clients.
The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc). To classify clients into individual rating classes, the Bank assesses (apart from the number of days past due with regard to overdue receivables, if any) the financial indicators related to the client (such as the structure of and proportion between the balance sheet, the income statement, and the cash flow statement), management quality, ownership structure, individual clients' market position, reporting quality, production equipment, account-use history, etc. Clients with default receivables are always assigned to one of the classes from 8–, 9 or 10.
For receivables from individuals, the ability of the client to fulfil his or her obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring). The Bank likewise sets and regularly updates the probability of client default – natural entities, using the behavioural scoring method.

A client's final rating combines both application and behavioural components. As an additional source of information for assessing a client's financial standing, the Bank uses information provided by credit registries.

In accordance with its credit risk management strategy, prior to providing credits, the Bank requires collateral for its credit receivables (according to the client's financial health and the character of the given transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of property. In determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing collateral and the nominal value of the collateral, ie expert appraisals made by a special department of the Bank.

The realisable value of collateral is determined based on this value by applying the adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management on the Portfolio Level

This level of credit risk management principally includes reporting on the credit portfolio including analyses and monitoring of 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 anticipated losses from its credit exposure. The expected loss is calculated based on the internal estimates of risk parameters, ie 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 monthly basis, in accordance with the applicable decree of the Czech National Bank.

The Bank assesses on a regular basis whether any impairment of receivables has occurred. If any such impairment is identified, the Bank reports impairment losses for individual accounts receivable or receivable portfolios, in accordance with IFRS.

Impairment Losses on Individual Receivables

Impairment losses related to individual receivables in default are recognised in the event that the carrying amount of individual receivables is impaired and the Bank does not write off such receivables, or a portion thereof that equals the balance sheet impairment. The Bank assesses the impairment of the carrying 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) using the relevant model reflecting the expected return on the relevant receivable for other receivables.

The Bank writes off receivables in the event that no income is anticipated on the given receivables or on the collateral received with regard to the given receivable.

The Bank determines impairment losses arising from individual receivables; (i) for individually assessed receivables, losses from the impairment are equal to the difference between the carrying amount of a receivable and the discounted value of estimated future cash flows; (ii) for receivables assessed using models, losses from the impairment are equal to the multiple of the receivable amount and loss given default.

Impairment Losses on the Portfolio Receivables

The Bank recognises impairment losses on without-default receivable portfolios based on an assessment of the portfolio's carrying amount; impairment losses are determined in an amount equalling the impaired carrying amount of the without-default receivable portfolio due to events indicating a reduction in anticipated future cash flows from the relevant portfolio.

Impairment losses are assigned to individual portfolios and are not divided or assigned to individual receivables included in the given portfolio.

In reporting the impairment losses related to individual receivable portfolios, the Bank takes into account the time delay between an impairment event's occurrence and the time the Bank obtains information on the impairment event (i.e. when a client's default is identified) – the "incurred loss" concept.

Provisions for Off-Balance Sheet Items

The Bank recognises provisions for selected off-balance sheet items, as follows:

(i) Provisions for off-balance sheet items in respect of the Bank's clients on whom the Bank currently recognises individual balance-sheet receivables meeting the conditions for being classified as receivables with debtor's default. The Bank recognises the impairment losses related to such individual receivables.

(ii) Provisions for selected off-balance sheet items in respect of the Bank's clients on whom the Bank records no balance sheet receivables in the given period; even though, in the event that such receivable existed, the conditions for classification under receivables with debtor's default would be fulfilled.

(iii) Provisions for selected off-balance sheet items relating to clients without default.

The Bank recognises such provisions on the same basis as used in reporting impairment losses on receivable portfolios.

(iv) Forbearance

Under forbearance, the Bank classifies loan receivables the payment conditions of which changed after the lending (the changes predominantly include payment deferral, temporary payment reduction, postponement of the ultimate due date, etc.). These items are recognised in the balance sheet under loan receivables without a debtor's default and loan receivables with a debtor's default.

Loan receivables with a change in the originally-agreed payment conditions are generally classified as receivables with a debtor's default. Following a robust assessment, the Bank may categorise individual receivables as receivables without a debtor's default despite of the change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious according to the Bank's thorough consideration and the Bank does not anticipate incurring loss arising from the future collection of such loan receivables.

The receivables without a debtor's default also include receivables that were classified as receivables with a debtor's default upon the change of the payment conditions and were subsequently transferred into the category of loan receivables without a debtor's default considering the fulfilment of the newly-agreed conditions in line with the Bank's internal rules.

Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout and are subject to standard restructuring and workout procedures and monitoring. The exception represents receivables that are not assessed as with a debtor's default upon the change of the payment conditions, which are only treated by Credit Restructuring & Workout after a thorough assessment of the need for using the know-how of this unit. Releasing receivables from the administration of this unit is also considered with respect to the development of individual cases and the need for using the know-how of the Credit Restructuring & Workout staff.

The period for which the client is designated as forborne is referred to as the probation period and lasts no less than two years, counted from the client default end/forbearance if the forbearance was without the client's default. In addition, this period can be terminated only if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days and if the case involves an instalment product, the debt must be reduced by at least 10% during this period.

Due to the size of the forbearance portfolio and the above-specified procedures and practices, we do not identify 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 again as non-default (recognised in the Bank's balance sheet as non-default forbearance – refer to above).

(v) Recovery of Receivables

The Bank has established the Credit Workout & Restructuring Unit which administers the receivables whose recoverability is at risk. 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 credit (comparison of future expenses versus income).

(c) Market Risks

(i) Trading

The Bank holds trading positions in various financial instruments, including financial derivatives. The majority of the Bank's business activities are performed in line with the requirements of the Bank's customers. Depending on the estimated demand of its customers, the Bank holds a certain 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 speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by speculation and market-making and its goal is to maximise the net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for 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 quantitative methods applied in risk management are included in the following section entitled "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 risks to which the Bank is exposed through its trading activities, managing the positions resulting from these activities, and also managing these risks. 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 risks 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 resulting from the Bank's structure of assets and liabilities.

The Bank monitors interest rate risks by observing the sensitivity of particular assets and liabilities in individual time periods, as expressed by the change in the actual 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 incongruity 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 the 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 pre-conditions for the Value at Risk model have the following limitations:

– The one-day holding period pre-supposes that all the 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 basic determinant of possible future development does not necessarily cover all possible future scenarios, especially crisis scenarios.

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 zero-risk 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 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 the 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).

Back Testing – Value at Risk

The results of this model are back-tested and compared with the results of the actual changes in the 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 reported by the Bank.

MCZK	At 31 Dec 2016	Average for 2016	At 31 Dec 2015	Average for 2015
Aggregate VaR	119.5	129.7	109.2	107.1
VaR of currency instruments	2.8	4.5	4.9	2.4
VaR of equity instruments	–	–	–	–

Interest Rate Risk

The Bank is exposed to interest rate risk as a result of the fact that interest-bearing assets and liabilities have different maturities or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Bank is exposed to a 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, etc. The activities in the area of interest risk management are focused on optimising the Bank's net interest income in accordance with the strategy approved by the Board of Directors.

Given the development of the market interest rates and the potential decrease to negative values, the Bank has already taken measures for certain products to eliminate the decrease in the market interest rate (as the key element of the client rate) to negative values. The Bank hereby reconciles client rates relating to assets and liabilities of non-financial clients.

The Bank's overall interest rate position as of 31 December 2016 is characterised by greater interest rate sensitivity on the assets side as compared to the liabilities side. This can be seen in the negative aggregate basis point value (BPV) – if the interest rates under individual currencies increased in parallel, there would be a decrease in market revaluation. The Bank's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

Interest rate derivatives are generally used to manage the mismatch between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for managing the assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional incongruity 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%), i.e. it represents the sensitivity of instruments to interest rate risks.
The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the "BPV limit").

Stress Testing of Interest Rate Risk
The Bank carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the Bank's financial results. The stress testing methodology was modified during the year ended 31 December 2016; the Group newly performs group testing on an aggregated basis for the entire interest-sensitive part of the regulatory banking book.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.
The following table shows the impact of the parallel shift of the yield curve on the Bank's results. The Bank uses the euro as the base currency for stress testing. The values as of 31 December 2016 and the maximum and minimum values are translated into CZK using the foreign exchange rate of the Czech National Bank promulgated as of 31 December 2016 and 31 December 2015 (2016: 27.02 CZK/EUR; 2015: 27.025 CZK/EUR). The average values are translated into CZK using the average value of the daily CZK/EUR foreign exchange rates for the particular year (average 2016: 27.033 CZK/EUR; average 2015: 27.28 CZK/EUR).

	Basic stress test		MM stress test
MCZK	**–200bp**	**+200bp**	**+250bp**
*)			
Value at 31 Dec 2016	1 144	(1 750)	(784)
Average for the period	1 598	(2 104)	(1 058)
Maximum value	2 184	(1 750)	(784)
Minimum value	1 144	(2 361)	(1 307)
Value at 31 Dec 2015	1 422	(1 369)	(554)
Average for the year	402	(1 957)	(1 043)
Maximum value	2 000	(1 369)	(554)
Minimum value	111	(2 883)	(1 569)

*) Since 27 October 2016, the results of stress scenarios have been presented in line with the new methodology disclosed above.

Since 7 December 2015, stress scenarios for negative market interest rates have been also implemented.
As a large portion of the market interest rate curve shows negative rates and a further decrease may not be excluded, the Bank applies a stress scenario to reflect a possible profit/loss 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. This change caused that the result of the stress testing from the shift of +/–200 bps was approximately symmetrical at the year-end while it had been non-symmetrical until 7 December 2015 due to the application of the floor at 0.

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 Hedging
Hedged instruments include financial assets and liabilities recognised at their carrying amounts (except for securities held to maturity) and securities available for sale recognised at their fair values, with changes in fair value recognised in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).
At the inception of the hedged arrangement, the Bank performs a 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 the actual interest rate developments, the test of effectiveness is carried out at the last day of each month. The Bank has selected the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of the hedge arrangements.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedged arrangement until the maturity of the hedged instrument, or until the end of the hedge arrangement. 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 total 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%.

Cash Flow Hedging

The Bank uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and expenses sensitive to changes in market interest rates. Future anticipated transactions arise from concluded contracts and future transactions established on the basis of 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 BA 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). Second, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (i.e. 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, further 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.

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 profit or loss.

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 30 with respect to the total net currency exposure and to individual main currencies (CZK, EUR), and of MEUR 20 to the USD. For other currencies, the limits from MEUR 0.2 to MEUR 5 are valid according to the risk profile of a particular currency.

The following table shows the structure of assets and liabilities by currency:

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2016						
Cash in hand and cash balances	1 865	1 954	160	45	168	4 192
Financial assets at fair value through profit or loss, including FA	3 117	4 494	563	3	858	9 035
of which:						
– held for trading	3 117	4 494	563	3	858	9 035
– not held for trading	–	–	–	–	–	–
Available-for-sale securities	40 896	38 808	488	–	–	80 192
Securities held to maturity	–	186	–	–	–	186
Receivables from banks	129 374	9 138	823	79	435	139 849
Receivables from clients	180 665	180 872	2 793	1 021	1 947	367 298
Positive fair value of hedging derivatives	2 736	2 424	–	3	–	5 163
Equity investments	3 979	–	–	–	–	3 979
Property and equipment	475	841	–	–	–	1 316
Intangible assets	1 079	148	–	–	–	1 227
Tax receivables	–	756	–	–	–	756
Non-current assets held for sale	–	4	–	–	–	4
Other assets	1 208	747	380	12	51	2 398
Total assets	365 394	240 372	5 207	1 163	3 459	615 595

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2016						
Deposits from banks	15 548	79 450	5 439	–	36	100 473
Deposits from clients	233 331	123 422	10 755	822	2 974	371 304
Debt securities issued	28 782	31 058	267	–	–	60 107
Financial liabilities held for trading	3 883	1 385	350	3	948	6 569
Negative fair value of hedging derivatives	1 105	2 295	17	–	–	3 417
Tax liabilities	958	–	–	–	–	958
Other liabilities	3 236	4 549	462	7	42	8 296
Provisions	468	455	8	–	5	936
Equity	50 200	13 338	(4)	–	1	63 535
Total liabilities and equity	337 511	255 952	17 294	832	4 006	615 595
Gap	27 883	(15 580)	(12 087)	331	(547)	0

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2015						
Cash in hand and cash balances	1 857	2 190	176	44	177	4 444
Financial assets at fair value through profit or loss, including FA	4 744	4 154	575	92	13	9 578
of which:						
– held for trading	3 211	4 148	575	92	13	8 039
– not held for trading	1 533	6	–	–	–	1 539
Available-for-sale securities	43 674	38 975	–	–	–	82 649
Securities held to maturity	–	186	–	–	–	186
Receivables from banks	96 758	8 562	731	7	517	106 575
Receivables from clients	162 739	160 164	2 706	1 182	2 298	329 089
Positive fair value of hedging derivatives	3 411	1 495	1	–	–	4 907
Equity investments	3 979	–	–	–	–	3 979
Property and equipment	1 164	868	–	–	–	2 032
Intangible assets	578	85	–	–	–	663
Tax receivables	–	870	–	–	–	870
Non-current assets held for sale	–	23	–	–	–	23
Other assets	1 346	509	306	16	46	2 223
Total assets	320 250	218 081	4 495	1 341	3 051	547 218
Deposits from banks	13 687	25 053	871	–	626	40 237
Deposits from clients	223 057	123 747	12 280	815	4 344	364 243
Debt securities issued	33 138	31 657	224	–	–	65 019
Financial liabilities held for trading	3 932	1 722	461	31	890	7 036
Negative fair value of hedging derivatives	854	2 284	–	–	5	3 143
Tax liabilities	1 462	–	–	–	–	1 462
Other liabilities	2 513	3 126	233	8	110	5 990
Provisions	183	1 013	5	–	6	1 207
Equity	44 827	14 051	1	1	1	58 881
Total liabilities and equity	323 653	202 653	14 075	855	5 982	547 218
Gap	(3 403)	15 428	(9 580)	486	(2 931)	–

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 some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity Risk
Liquidity risk arises as a result of the manner of financing the Bank's activities and managing its positions. It includes both the risk that 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 diverse 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 any 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. The Bank also holds, as part of its liquidity risk management strategy, 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 using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Bank monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. 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 in periods longer than one year. For products with non-specified maturity (i.e. current accounts) the Bank has developed a model for their expected residual maturity. The Bank again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing).
The Bank has drawn up a contingency plan for the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation.
Stress tests of short-term liquidity are performed by the Bank on a weekly basis. The stress tests verify the Bank's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Bank. The stress scenarios' results are presented to the ALCO.

The following table shows undiscounted cash flows of assets and liabilities, issued guarantees and provided loan facilities:

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2016							
Cash in hand and cash balances	4 192	4 192	4 192	–	–	–	–
Financial assets at fair value through profit or loss, including FA	9 035	9 399	507	714	4 720	3 585	(127)
of which:							
– held for trading	9 035	9 399	507	714	4 720	3 585	(127)
– not held for trading	–	–	–	–	–	–	–
Available-for-sale securities	80 192	84 371	4 642	12 534	36 599	30 365	231
Securities held to maturity	186	208	2	7	199	–	–
Receivables from banks	139 849	139 967	135 570	3 400	906	–	91
Receivables from clients	377 318	391 856	60 833	53 080	146 875	121 073	9 995
Positive fair value of hedging derivatives	5 163	5 163	48	172	2 698	2 249	(4)
Equity investments	3 979	3 979	–	–	–	–	3 979
Property and equipment	1 316	1 316	–	–	–	–	1 316
Intangible assets	1 227	1 227	–	–	–	–	1 227
Tax receivables	756	756	–	756	–	–	–
Non-current assets held for sale	4	4	4	–	–	–	–
Other assets	2 398	2 383	1	–	–	–	2 382
Deposits from banks	100 473	100 476	57 006	25 220	17 261	984	5
Deposits from clients	371 304	371 442	352 083	15 090	872	360	3 037
Debt securities issued	60 107	63 765	1 600	13 035	37 287	11 797	46
Financial liabilities held for trading	6 569	6 570	342	536	3 329	2 363	–
Negative fair value of hedging derivatives	3 417	3 417	29	88	1 933	1 367	–
Tax liabilities	958	958	–	958	–	–	958
Other liabilities	8 296	8 680	1	–	–	–	8 679
Provisions	936	936	–	–	–	–	936
Equity	63 535	63 535	–	–	–	–	63 535
Undrawn loan facilities	41 687	41 687	3 470	9 456	18 962	1 884	7 915
Bank guarantees	130 331	130 331	27 955	42 479	18 160	41 737	–

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2015							
Cash in hand and cash balances	4 444	4 444	4 444	–	–	–	–
Financial assets at fair value through profit or loss, including FA	9 578	9 931	652	2 080	3 524	3 797	(122)
of which:							
– held for trading	8 039	8 372	652	541	3 504	3 797	(122)
– not held for trading	1 539	1 559	–	1 539	20	–	–
Available-for-sale securities	82 646	90 201	1 722	10 020	43 479	34 238	742
Securities held to maturity	186	218	2	7	209	–	–
Receivables from banks	106 575	106 660	101 198	2 410	3 022	–	30
Receivables from clients	339 394	365 275	55 921	51 819	128 626	127 659	1 250
Positive fair value of hedging derivatives	4 907	4 907	37	170	2 488	2 212	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property and equipment	2 032	2 032	–	–	–	–	2 032
Intangible assets	663	663	–	–	–	–	663
Tax receivables	870	870	–	870	–	–	–
Non-current assets held for sale	23	23	13	10	–	–	–
Other assets	2 223	2 223	13	–	–	–	2 210
Deposits from banks	40 237	40 260	25 377	4 999	8 483	1 401	–
Deposits from clients	364 243	364 516	336 155	22 733	2 137	407	3 084
Debt securities issued	65 019	70 320	3 885	3 519	42 438	20 285	193
Financial liabilities held for trading	7 036	7 036	467	442	2 929	3 195	3
Negative fair value of hedging derivatives	3 143	3 143	39	76	1 597	1 431	–
Tax liabilities	1 462	1 462	–	1 462	–	–	–
Other liabilities	5 990	5 990	1 044	2	–	–	4 944
Provisions	1 207	1 207	–	–	–	–	1 207
Equity	58 881	58 881	–	–	–	–	58 881
Undrawn loan facilities	124 042	124 042	14 771	52 971	22 675	33 625	–
Bank guarantees	46 332	46 332	3 844	10 532	27 506	4 446	4

(d) Operational Risk

The operational risk is defined as a risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes the legal risk, however, it does not include the strategic or reputation risk. The legal risk includes, among other things, the risk of fines, sanctions or punitive damages resulting from supervision measures as well as private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and controlling activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to a member of the Board of Directors in charge of risk management. The Operational Risk Department is authorised to secure unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company. Operational risk management and monitoring as such is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and it assesses the control and management system's functionality.

The Bank continued developing and setting up the comprehensive system for the identification, monitoring and management of operational risk in 2016. In line with the 2016 Operational Risk Management Strategy, the Bank defined its priorities as regards mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Group and the Bank. The operational risk appetite as the operational risk level acceptable by the Bank was measured by means of ELOR (Expected Loss on Revenue) which is an indicator defined as a proportion of anticipated losses arising from operational risk (statistical estimation 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 the UniCredit Group. The system complies with the requirements for capital adequacy management, in accordance with the Basel

III regulation. The data acquired through the system is taken into account in calculating the capital requirement as well as in managing operational risk. It serves as a basis for designing processes that reduce the number of particular events and mitigate the consequences (e.g. in preparing process mitigation measures or strategic insurance plan for the Bank). 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 2016, 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 the overall awareness of operational risk within the Bank and trains the Bank's staff both by means of 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 group model is used based on internal and external data, the results of scenario analyses and risk indicator data.

(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 transfer to the Basel III rules did not have a significant impact on the Bank's capital adequacy. The original capital (Tier 1) is currently part of Tier 1 common capital (CET1) which is the supreme quality capital. The Bank has newly included the capital requirement relating to the risk of the credit valuation adjustment in the capital adequacy; this has no significant impact on the total capital.
Several new requirements were introduced in relation to risk-weighted assets which, in aggregate, had no significant impact on risk-weighted assets. The impact of the increase in the correlation coefficient in exposures to large entities in the financial sector and unregulated financial entities was balanced by the impact of the reduction factor for exposures to small and medium-sized companies.

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.

(f) Market Development in 2016

The growth of the Czech economy slowed down considerably, achieving 2.4% in 2016, primarily as a result of lower investment activity which lacked the previous impetus in the form of tapping EU funds. Export dynamics was also weaker even though, by contrast, a lower volume of investment imports underpinned the contribution of net export to GDP growth. The key driver behind the economic growth (accounting for more than 50%) was household consumption. Household consumption was supported by increasing employment and accelerating salary growth in an environment of a shrinking stock of available workforce as well as low inflation persisting throughout the year. The average unemployment rate stood at 5.5%, a record minimum over the last eight years. Businesses referred primarily to the lack of workforce as being the key obstacle in business development.
Throughout 2016, the CNB continued its exchange rate commitment to prevent the koruna from strengthening against the euro. Pressures on strengthening the crown forced the CNB to intervene in the foreign currency market in all but one month of the year. The volume of the CNB's foreign currency reserves increased by more than a third during the year, an equivalent of 13% of the GDP. A by-product of the open positions of investors for the strengthening of the crown was demand for the Czech government's crown bonds which kept the yields negative on a substantial part of the curve. Low interest rates had an adverse impact on net interest income

in the banking sector but had a positive effect on lending dynamics. The year-on-year growth of the aggregate volume of banking loans accelerated to 7.2%, owing to stronger demand from businesses, households and financial institutions. The CNB has newly adopted the macroprudential policy tool to avert an excessive growth in mortgage lending.
The Government's economic policy was built around two measures aimed at combating tax evasion – local purchases and sales reporting ('kontrolní hlášení') and electronic records of sales which took effect during the year. Following the implementation of the two measures, continuous data on the state budget indicated an improvement in the payment discipline of VAT payers. Key measures, whose legislative process was completed, also include the Act on Budgetary Responsibility Rules. In social policy, the government used its discretion to determine the valorisation of the percentage assessment of pensions for 2017 by 2.2%, ie above the inflationary increase plus a third of the real wage increase. The government has also decided to make a notable increase in minimum wages of 11% for 2017.
In 2016, the Bank implemented a new stress scenario relating to the impacts of Brexit. Following the Brexit decision, the Bank stopped calculating the scenario but keeps monitoring the situation on financial markets and evaluates the impacts of Brexit-related reports on its risk profile. In view of the minimal exposure to GBP-denominated assets, the Bank considers that the direct impact of negative developments (in respect of Brexit) on the Bank's financial performance would be minimal.

During 2016, the Bank continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk

- More accurate specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
- Change in selected product parameters and credit products in retail banking;
- Strengthening of the procedure for credit fraud identification, monitoring the process related to the loan portfolio (timely identification of the warning signals) and of the process for recovery of loan receivables);
- Continuous improvement of the Bank's own estimates of risk parameters used in the advanced (IRB) approach to the calculation of the capital requirements for credit risk for the banking portfolio.

(ii) Market Risk

- The internal platform for the calculation of VaR and BPV was improved and recalibrated on an ongoing basis to reflect the current behaviour of financial time series used in calculating market risk indicators.

(iii) Liquidity

- The Bank continued to fine-tune the calculation methodology for the Basel III LCR indicators and implemented new internal liquidity indicators for a more accurate quantification of the liquidity risk. The Bank also implemented new liquidity stress tests that better reflect the current macro and micro economic conditions in which the Bank operates.

41. Related party transactions

Entities are deemed to be entities under special arrangements in the event that one entity is able to control the activities of the other 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 entities. 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 parent companies and fellow subsidiaries as part of the UCI/HVB/BA Group, subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.
The Group has prepared an equity programme for the employees of the UniCredit Group under which the employees may purchase investment shares of the group at a discounted price in the form of discount shares. Discount shares may not be sold over the tying period. Tied shares will be forfeited if the respective employee terminates his/her employment in the group or sells his/her investment shares before the end of the tying period. The provided discount is allocated to individual group companies that are involved in the programme and these companies recognise and defer the discount over the tying period.

(a) Transactions with the parent company

UniCredit Bank Austria AG was the Bank's parent company until 30 September 2016, since 1 October 2016 UniCredit S.p.A. has been the Bank's parent company.

(i) Transactions with UniCredit S.p.A

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Receivables from banks	3 451	82
Securities available for sale	1 929	–
Total	**5 380**	**82**
Liabilities		
Deposits from banks	16 534	131
Total	**16 534**	**131**
Off-balance sheet items		
Issued guarantees	112	385
Irrevocable credit facilities	185	101
Total	**297**	**486**
Interest and similar income	65	2
Interest and similar expenses	(4)	
Income from fees and commissions	21	–
Expenses for fees and commissions	(20)	–
General administrative expenses	15	(69)
Total	**77**	**(67)**

(ii) Transactions with UniCredit Bank Austria AG

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Financial assets held for trading	–	1
Receivables from banks	722	3 612
Securities available for sale	–	4 640
Positive fair value of hedging derivatives	55	–
Total	**777**	**8 253**
Liabilities		
Deposits from banks	48 475	14 595
Financial liabilities held for trading	59	5
Negative fair value of hedging derivatives	33	–
Total	**48 567**	**14 600**
Off-balance sheet items		
Issued guarantees	2 949	750
Irrevocable credit facilities	–	–
Total	**2 949**	**750**
Interest and similar income	288	110
Interest and similar expenses	55	(14)
Income from fees and commissions	–	9
Expenses for fees and commissions	(26)	(24)
Net profit from financial assets and liabilities held for trading	(24)	(16)
General administrative expenses	–	82
Total	**293**	**147**

MCZK	31 Dec 2016	31 Dec 2015
Assets		
Financial assets held for trading	1 067	934
of which:		
UniCredit Bank AG	1 036	924
Receivables from banks	6 587	5 082
of which:		
UniCredit Bank AG	287	1 092
Yapi ve Kredi Bankasi AS	5 524	2 160
UniCredit Bank Hungary Zrt.	25	161
ZAO UniCredit Bank	730	1 652
Receivables from clients	31 023	22 928
of which:		
UniCredit Leasing Group	29 608	22 202
UCTAM CZ	–	136
UniCredit Factoring Czech Republic and Slovakia, a.s.	1 057	505
Board of Directors	2	6
Other executives	87	72
Positive fair value of hedging derivatives	2 013	1 889
of which:		
UniCredit Bank AG	2 023	1 886
Total	**40 690**	**30 833**

MCZK	31 Dec 2016	31 Dec 2015
Liabilities		
Deposits from banks	14 572	4 255
of which:		
UniCredit Luxembourg S.A.	11	27
UniCredit Bank AG	10 288	3 786
UniCredit Bank Hungary Zrt.	4 233	49
Deposits from clients	2 186	1 995
of which:		
UniCredit Leasing Group	793	961
Pioneer Asset Management a.s.	897	462
Pioneer Investment Company	95	100
UniCredit Business Integrated Solutions S.p.A.	84	220
Board of Directors	88	104
Other executives	82	55
Financial liabilities held for trading	2 027	2 599
of which:		
UniCredit Bank AG	2 025	2 598
Negative fair value of hedging derivatives	2 072	2 026
of which:		
UniCredit Bank AG	2 072	2 026
Total	**20 857**	**10 875**

MCZK	31 Dec 2016	31 Dec 2015
Off-balance sheet items		
Issued guarantees	1 155	589
of which:		
UniCredit Bank AG	656	427
UniCredit Factoring Czech Republic and Slovakia a.s.	187	77
UniCredit Bank Hungary Zrt.	112	49
ZAO UniCredit Bank	20	–
Irrevocable credit facilities	15 326	10 165
of which:		
UniCredit Leasing Group	13 233	7 522
UniCredit Bank AG	–	108
ZAO UniCredit Bank	–	22
UniCredit Factoring Czech Republic and Slovakia a.s.	1 806	2 467
Board of Directors	1	1
Other executives	10	4
Total	**16 481**	**10 754**

MCZK	2016	2015
Interest income and similar income	310	102
of which:		
UniCredit Bank AG	21	(97)
UniCredit Leasing Group	190	164
Interest expenses and similar charges	(16)	(15)
of which:		
UniCredit Bank AG	(3)	(1)
UniCredit Leasing Group	(12)	(13)
Fee and commission income	115	123
of which:		
UniCredit Bank AG	40	44
UniCredit Bank Hungary Zrt.	46	3
UniCredit Leasing Group	4	39
Pioneer Asset Management SA, Luxembourg	6	16
Fee and commission expenses	(5)	(5)
of which:		
UniCredit Bank AG	–	(1)
Pekao	(2)	(2)
Net income from financial assets and liabilities held for trading	558	(550)
of which:		
UniCredit Bank AG	558	(549)
Net income from hedging against risk of changes in fair value	(172)	130
of which:		
UniCredit Bank AG	(174)	130
General administrative expenses	(1 508)	(1 385)
of which:		
UniCredit Business Integrated Solutions S.p.A.	(1 475)	(1 379)
Total	**(718)**	**(1 600)**

42. Fair value of financial assets and financial liabilities

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 balance sheet (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual counterparties are added):

MCZK	31 Dec 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	139 849	139 895	106 575	106 598
Receivables from clients	367 298	371 978	329 089	327 197
Financial liabilities				
Deposits from banks	100 473	100 272	40 237	39 936
Deposits from clients	371 304	371 304	364 243	364 498
Debt securities issued	60 107	61 637	65 019	66 723

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.

Financial assets at fair value based on Levels 1 a 2:

MCZK	Financial assets at fair value through profit or loss		Securities available for sale	Hedging derivatives	Total
	Held for trading	Not held for trading			
31 Dec 2016					
Transfer from Level 1 to Level 2	13	–	609	–	622
Transfers from Level 2 to Level 1	3	–	2 712	–	2 715
31 Dec 2015					
Transfer from Level 1 to Level 2	4	–	–	–	4
Transfers from Level 2 to Level 1	–	–	180	–	180

For the years ended 31 December 2016 and 31 December 2015, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

The following table shows transfers of financial assets reported at fair value from and to Level 3.

MCZK	Financial assets at fair value through profit or loss		Securities available for sale	Hedging derivatives	Total
	Held for trading	Not held for trading			
Opening balance at 1 Jan 2015	**–**	**188**	**110**	**–**	**298**
Addition arising from the merger	–	–	–	–	–
Revaluation gains and losses					
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	629	–	629
Purchases	–	–	–	–	
Sales/maturity	–	(188)	(104)	–	(292)
Transfers from/to other levels	–	–	–	–	–
Other	–	–	–	–	
Closing balance at 31 Dec 2015	**–**	**–**	**635**	**–**	**635**
Total revaluation gains and losses included in profit or loss for the period:			–		
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end				–	
Opening balance at 1 Jan 2016	**–**	**–**	**635**	**–**	**635**
Addition arising from the merger	–	–	–	–	–
Revaluation gains and losses					
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	11	–	11
Purchases	–	–	195	–	195
Sales/maturity	–	–	(626)	–	(626)
Transfers from/to other levels	–	–	(2)	–	(2)
Other	–	–	16	–	16
Closing balance at 31 Dec 2016	**–**	**–**	**229**	**–**	**229**
Total revaluation gains and losses included in profit or loss for the period:				–	
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end				–	

In the years ended 31 December 2016 and 2015, the Bank did not record any transfers from and to Level 3 with respect to financial liabilities at fair value.

43. Offset of financial assets and financial liabilities

The Bank does not offset financial assets and financial liabilities. The below tables provide information on potential offset of financial assets and financial liabilities.

Financial assets that are subject to offset, recoverable framework contracts for offset and similar arrangements:

MCZK	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Relating amounts that are not offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2016						
Derivatives	3 545	–	3 545	1 674	–	1 871
31 Dec 2015						
Derivatives	5 633	–	5 633	3 173	–	2 460

Financial liabilities that are subject to offset, recoverable framework contracts for offset and similar arrangements:

MCZK	Gross reported financial liabilities	Gross offset financial assets	Net reported financial liabilities	Relating amounts that are not offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2016						
Derivatives	2 157	–	2 157	1 674	–	483
31 Dec 2015						
Derivatives	3 809	–	3 809	3 173	–	636

44. 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.

Approval date:	Stamp and signature of the statutory body:	Individual in charge of the accounting records (name, signature):	Individual in charge of the extraordinary financial statements (name, signature):
21 February 2017	Ing. Jiří Kunert Chairman of the Board of Directors Ljubiša Tešić Member of the Board of Directors	Ing. Jiří Houška	Mgr. Michaela Mrštíková

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

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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 2016, 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 2016, 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 2016, 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 2016, 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 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.

<table>
<tr><th>Key audit matter</th><th>Related audit procedures</th></tr>
<tr><td colspan="2">Impairment of receivables from clients</td></tr>
<tr><td>(See Notes 20 and 40(b) to the Consolidated and Separate Financial Statements for the details)
At 31 December 2016, gross receivables from clients (hereinafter "receivables") were CZK 397 850 million and CZK 377 318 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 12 278 million and CZK 10 020 for the Group and the Company respectively were recorded. The directors exercise significant judgment when determining both when and how much to record as impairment.

The Group uses following methods to assess the amount of impairment:
1. For receivables in default with exposure above 1 MEUR or equivalent, the impairment is assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually including the estimated value from the collateral foreclosure and expected duration of the recovery process etc.
2. For smaller, individually not significant receivables in default where the receivables are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios) the impairment is calculated by models using expected return.
3. Impairment losses on the portfolio receivables are calculated for losses that have been incurred but have not been identified at the year-end. Impairment losses on the portfolio receivables are held against non-default loans across all segments and calculated using models based on probabilities of default and loss given default as well as emergence periods between the impairment event occurring and an individual (1.) or model impairment for receivables in default (2.) being recognised.

Because of the significance of these judgements and the size of loans and advances to customers, the audit of impairment of receivables from customers is a key audit matter.</td><td>We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (IAS 39).

<u>Testing of internal controls</u>
We tested the design and operating effectiveness of the key internal controls to determine which receivable from customers are impaired and the amount of impairment for those assets. Our procedures included testing:
• System-based and manual controls over the timely recognition of impaired receivables;
• Controls over the impairment calculation and impairment recording;
• Controls over collateral valuation estimate;
• The governance process of management validation of impairment calculations; and
• IT controls relating to access rights and change management of relevant IT applications

<u>Identification of receivables in default</u>
We tested a sample of receivables (including loans that had not been identified by management as potentially defaulted) to form our own assessment as to whether default events had occurred and to assess whether impairments had been identified in a timely manner.

<u>Impairment determined individually (1.)</u>
For individually assessed receivables we selected a sample of customers and, where we deemed them to be impaired, tested the estimation of the future expected cash flows from customers including testing the cash flows from the realisation of collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral or to assess the estimates of future cash flows. In some cases, particularly in respect of commercial real estate, we assessed the appropriateness of valuations and estimates used by the Group. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the impairment on that basis and compared the results in order to evaluate management estimate.</td></tr>
</table>

	Impairment determined using statistical models (2. and 3.) For the impairment determined by models used by the Group, we were assessing for selected internal models the model methodology, the internal validation reports and results of the models back-testing. We assessed whether the modelling assumptions used considered all relevant risks, and whether the additional adjustments to reflect un-modelled risks were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the customers as well as our own knowledge of practices used by other similar banks. On a sample basis, we evaluated the appropriateness of risk parameters used in the calculation of impairment.
Key audit matter	**Related audit procedures**
Interest and fee income recognition	
(See Notes 5 and 6 to the Consolidated and Separate Financial Statements for the details) For the year ended 31 December 2016 interest income and similar income comprised of CZK 11 832 million and CZK 10 384 million for the Group and the Company respectively. Fee and commission income for the same period comprised of CZK 5 018 million and CZK 4 645 million for the Group and the Company respectively with the main source being receivables from clients, loans and payment cards. These are the main contributors to the net operating income of the Group and the Company affecting the profitability. While interest income is accrued over the expected life of the financial instrument, the recognition of fee income depends on the nature of the fees as follows : • Fees that are directly attributable to the financial instrument are accrued 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, a high volume of individually small transactions which depends 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 tested the design and operating effectiveness of the key internal controls and focused on : • Assessment of interest/fees recognition during new product validation; • Interest/fee inputs on customer loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees; • Recording of fee and interest income and management oversight; and • IT controls relating to access rights and change management of relevant IT applications. We performed the following procedures with regard to interest and fees revenue recognition: 1) We evaluated the accounting treatment performed by the Company in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39). We focused our testing on challenging 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 assessed the completeness and accuracy of data used for the calculation of interest using data analytics. 3) We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.

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, Supervisory Board and Audit Committee 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 and the Audit Committee are 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

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 2016 which is included in this annual report on pages 175 to 186. 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 2016 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

In Prague on 26 April 2017

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Deloitte

Statutory auditor:

Diana Rádl Rogerová
registration no. 2045

D. Rádl Rogerová

Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.

Supplementary information

published pursuant to Section 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended

1. Basic data

Business name:	UniCredit Bank Czech Republic and Slovakia, a.s.
Registered office:	Želetavská 1525/1, 140 92 Prague 4, Czech Republic
Company ID No.:	64948242
Companies register:	recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, file 3608
Tax ID No.:	CZ699001820
Date of incorporation:	1 January 1996, for an indefinite period
Legal form:	joint-stock company
Internet address:	www.unicreditbank.cz
E-mail:	info@unicreditgroup.cz
Phone:	+420955911 111
Fax:	+420 221 112 132
LEI:	KR6LSKV3BTSJRD41IF75

UniCredit Bank Czech Republic and Slovakia, a.s. ("UniCredit Bank") is a joint-stock company incorporated according to Czech law.

As at 1 December 2013, UniCredit Bank merged with UniCredit Bank Slovakia, a.s., a joint-stock company incorporated according to Slovak law, having its registered office in Bratislava, Šancová 1/A, PC 813 33, Company ID No.: 00 681 709, recorded in the Companies Register maintained by the District Court Bratislava I, Section Sa, File No. 34/B. As a result of this cross-border transformation through merger pursuant to Section 61 of Act No. 125/2008 Coll. on Transformations of Commercial Companies and Cooperatives as amended and Section 69aa of the Slovak Act No. 513/1991 Coll., Commercial Code, as amended, UniCredit Bank Slovakia a.s. was dissolved and its assets were transferred to UniCredit Bank.
UniCredit Bank fulfils all of its obligations in a due and timely manner. No changes have occurred in the past that could be of material significance in evaluating the issuer's solvency.
In carrying out its activities in the Czech market, UniCredit Bank is governed by Czech legal regulations, in particular the Banking Act, the Civil Code, the Act on Business Corporations and regulations governing operations in the banking and capital markets.
In the Slovak market, where UniCredit Bank has operated since 1 December 2013 through its organisational unit, the Bank is also governed by applicable Slovak legal regulations.

2. Persons responsible for the audit of the financial statements

Person in charge:	Diana Rádl Rogerová
License No.:	2045
Domicile/Place of business:	Karolinská 654/2, 186 00 Prague 8
Auditor:	Deloitte Audit s. r. o.
License No.:	079
Registered office:	Nile House, Karolinská 654/2, 186 00 Prague 8 – Karlín

3. Information about UniCredit Bank as an issuer of registered securities

3.1 History and development of the issuer

UniCredit Bank Czech Republic and Slovakia, a.s., launched its activities in the Czech market on 5 November 2007. Its name was changed after it merged with the Slovak UniCredit Bank Slovakia, a.s., as at 1 December 2013. UniCredit Bank Czech Republic, a.s., itself was established through the merger of HVB Bank Czech Republic, a.s., and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, PC 113 80, Company ID No.: 000 01 368, recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, File No. 1350, were assumed by the successor company, HVB Bank Czech Republic, a.s., as a result of the merger.

HVB Bank Czech Republic, a.s., was established by the merger of HypoVereinsbank CZ, a.s., and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s., were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the Companies Register maintained by the Municipal Court in Prague, Section B, File 3608.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Companies Register maintained by the Municipal Court in Prague in Section B, File No. 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorisation to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatisation of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an

85.16% share in the issued capital of Živnostenská banka, a.s., from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

UniCredit Bank Czech Republic and Slovakia, a.s., is a strong and rapidly developing bank offering a wide range of quality products to both corporate and private clients in the Czech Republic and Slovakia. It is one of the strongest banks in both markets in the area of project, structured and syndicated corporate finance.
The bank has also built an extraordinarily strong position in acquisition financing and ranks first in commercial real estate financing. Among other services, UniCredit Bank's clients can utilise services to obtain project financing from the EU structural funds offered through UniCredit Bank's European Competence Centre.
In the area of services for private clients, UniCredit Bank plays a significant role in the market of private banking or securities and, in the retail segment, it is a significant player in the field of consumer loans, mortgages, and credit cards. It is doing very well in serving clients in freelance professions (doctors, judges, attorneys-at-law, notaries, etc.). The Bank's Competence Centre for Freelance Professions is devoted to these clients.

UniCredit Bank Czech Republic and Slovakia, a.s., operates in all regional cities in both countries and currently has 161 branches and 414 ATMs.

The merged Bank holds more than 10.3% of the market share with its balance sheet sum totalling more than CZK 615.5 billion (non-consolidated data) and is the fourth largest bank in the Czech Republic and the largest in Slovakia. The Bank is a universal bank, providing the services of small, commercial and investment banking in Czech crowns as well as in foreign currencies to local and foreign clients mainly in the Czech Republic, in Slovakia and, further, in other EU countries.

3.2 Issued share capital

The Bank's share capital amounts to CZK 8,754,617,898 divided as follows:

a) 100 registered shares, each with a nominal value of CZK 16,320,000;
b) 200 registered shares, each with a nominal value of CZK 13,375,000;
c) 436,500 registered shares, each with a nominal value of CZK 10,000;
d) 10 registered shares, each with a nominal value of CZK 7,771,600; and
e) 106,563 registered shares, each with a nominal value of CZK 46.00.

All the aforementioned shares are registered to the shareholder's account maintained by the 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 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.

To transfer shares of UniCredit Bank, prior approval of the Supervisory Board is required. Voting rights pertaining to these shares are in no way limited.

The sole shareholder of UniCredit Bank is UniCredit S.p.A., having its registered office at 00100 Rome, Via Alessandro Specchi 16, Republic of Italy, Reg. No.: 00348170101.

In accordance with UniCredit Bank's Articles of Association, a sole shareholder may only influence the Bank's activities using the weight of its votes.

The company uses standard statutory mechanisms to prevent a shareholder's potential misuse of its position. UniCredit Bank is not party to a controlling contract or a contract for the 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 the controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the Report on Relations between the controlled entity and other entities controlled by the same controlling entity (Report on Relations between the related entities). No agreements that could lead to a change of control over the issuer are known.

3.3 Additional information

In accordance with the Bank's Articles of Association, the members of the Board of Directors are elected and dismissed by the Supervisory Board. UniCredit Bank has no special rules for changing the Articles of Association.

Currently there exist no authorisations or special powers of the Board of Directors in terms of Section 118, par. 5h) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended. UniCredit Bank has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.

There are no programmes in UniCredit Bank that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions.

UniCredit Bank has concluded no significant contracts that will take effect, change or expire in case of a change in the control of the issuer as a result of a takeover bid.

4. Summary of business activities

4.1 Scope of business activities:
The company's business activities include banking transactions and provision of financial services fully in accordance with Banking Act No. 21/1992 Coll., as amended, and Act No. 219/1995 Coll., the Foreign Exchange Act, as amended, i. e.

a) receiving deposits from the public;
b) granting loans;
c) investing in securities on its own account;
d) finance lease;
e) operating a system of payments and clearing;
f) issuing and administering payment products;
g) granting guarantees;
h) opening letters of credit;
i) administering cash collection;
j) providing investment services:
- main investment service pursuant to Section 8, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), receipt of and conveying instructions related to investment instruments on the 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 the 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 the 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 the 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 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
- 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, credit cover, sales ledger management;
- Global Investment Strategy – strategic advisory for Capital market investments;
- Open architecture of investment products;

Launching new products or activities

The year 2016 represented another successful year for Corporate and Investment Banking. We continued to reinforce our strong position in corporate banking in the Czech and Slovak market. We did well in the acquisition of new clients, owing to the provision of comprehensive services and high flexibility to our clients.

In 2016, in line with our long-term strategy focused on small and medium-sized enterprises, the largest Small Business clients from retail were transferred to the corporate banking division in order to also ensure the quality and comprehensiveness of services for smaller companies, thus reinforcing our overall position within this segment.

As regards acquiring – card acceptance at the bank's payment terminals, we managed to adequately transform regulatory measures into the dynamics of our commercial growth. In connection with innovations, where we were awarded the Innovative Bank of 2016 by MasterCard, we managed to make another massive penetration into the retail and catering sector, resulting in buoyant growth in revenues and an extension of the payment terminal network by more than 5 thousand terminals.

Retail banking

- Accounts for individual clients, U Konto account, Dětské konto account, U Konto Premium account, U Konto TANDEM account, U konto pro mladé account, accounts for small enterprises;
- Mortgage loans and consumer loans, 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 co-operation with Pioneer Investments);
- Insurance products (property insurance, life insurance, CPI);
- Internet, telephone and mobile banking;
- Cash and money changing operations and supplementary services.

Launching new products and activities

In 2016 we extended our product offer with a special PRESTO Loan for Housing and continued in the successful concept of loan optimisation. We also launched special loans for small companies (PRESTO Business and Business Kontokorent).

As regards mortgage loans for individuals, we came to market with the unique concept of „all for one price", where we offered the same interest rate for a variable rate and the 3- and 5-year fixation. In an environment of very low interest rates, we offered our clients certainty in the form of long-term rates and also focused on the offer of 7- and 10-year fixation for our clients.

In the Czech Republic, we introduced an upgraded online banking application and we also upgraded our mobile banking as regards fingerprint authorisation for transactions. Thus, UniCredit Bank again confirmed its role of innovator in the banking market.

Both in the Czech Republic and Slovakia, the U Konto was awarded Account of the Year. We also created its clone – U Konto Tandem, which allows couples free-of-charge account keeping when they meet the requirements together.

Innovations were also made to investments – we offered our clients the Health Care structured bond and Emerging Market Bonds Short-Term Fond. Our product offer was extended by building savings and U5 – insurance of account balance. In the autumn of 2016, we planed a new programme of regular savings on the market – U Invest Plus, providing our clients with more flexible solutions and helping them increase their assets in a simple and systematic manner.

We made a fundamental change to our Small Business service model. We made the strategic decision to focus on small companies and entrepreneurs, streamlining the product offer for this segment using simple and prompt internal processes which may be effectively processed by all branches. Within this initiative, new account and credit product packages were introduced.

In 2016 we also prepared a special Member Get Member campaign, rewarding our retail clients who became ambassadors of our products.

Accounts

We launched a clone of our successful U Konto package – a U Konto TANDEM package, which is designed for couples, offering them the same advantages as the U Konto. U Konto TANDEM offers two separate accounts, but the couple meets the requirement for crediting their accounts with at least CZK 12,000/EUR 400 per month together. Both accounts enjoy all benefits – U Konto TANDEM allows for free-of-charge withdrawals from ATMs in the Czech Republic and abroad, i.e. not only within UniCredit Group. Further, it includes an embossed payment card, Internet banking including mobile Smart Banking and all electronic transactions (outgoing and incoming).

Investments and deposits
In order for our offer to keep pace with current market challenges, we simplified it, focusing on actively managed, highly diverse and flexible investment solutions. This applies to both one-off and regular investments.

Insurance
In order to meet the needs of our clients and further offer a wide range of insurance products, we developed and launched several new products in 2016, including U5 – a unique life insurance cross-selling product on the Czech market. Further, we used new distribution platforms, such as online channels and telemarketing.

Payment cards
In the last quarter of 2016, we introduced 3D Secure payments on the market, providing our clients with a high level of protection when shopping online. This service has already been available in the Czech Republic and this project is one of the examples of harmonisation of products and processes between the Czech and Slovak bank.

Owing to the “U-šetřete” loyalty programme, our clients can get a discount with more than 200 retailers in the Czech Republic. We are constantly working on new campaigns and on ways to provide our clients with attractive partners with whom they can enjoy benefits in an easy and simple way using their credit or debit card.

Small enterprises and entrepreneurs
We created a new portfolio of credit products, reflecting the new service model and our clients’ needs. We made fundamental changes in the internal credit process, e.g. the power to approve credit requests was delegated to branch managers, which reduced the period of time necessary for the Bank’s decision. We plan to continue further credit process optimisation in 2017 as well.

We made a fundamental change to our Small Business service model. We made the strategic decision to focus on small companies and entrepreneurs, streamlining the product offer for this segment using simple and prompt internal processes which may be effectively processed by all branches. Within this initiative, new account and credit product packages were introduced.

Online sale
We continued to reinforce our position of a leading bank in online sales. On both markets, we introduced the possibility of taking out a mortgage entirely online. This innovation enabled our clients to refinance their existing mortgages anywhere and at any time in an easy and convenient manner – from the comfort of their home, easily, quickly and with express online approval within 48 hours after the submission of documents. Moreover, clients have their own online bankers available to accompany them throughout the process. The responses on the market have been quite positive and online mortgage refinancing was highly rated by independent experts.

We also launched an innovative project with several strategic partners regarding the online sale of banking products to their customers with a very positive economic result. Our goal is to develop this concept further.

Our public websites in both countries were completely redesigned, with emphasis on a modern design and intuitive navigation. We focused, in particular, on simplified calculators, which allow our clients to easily choose the top product which meets their specific needs.

Online transactions
We brought further improvements and simplification to our clients who conduct online transactions. As the first bank on both markets (Czech Republic and Slovakia), we introduced an option for fingerprint logon as well as fingerprint payment authorisation in Smart Banking.

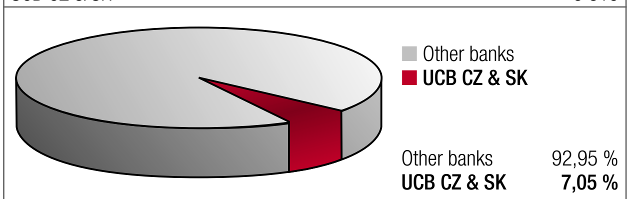
Instead of entering a PIN in order to log on to the application and authorise payments, clients may use the fingerprint feature on their smartphones, which considerably helps clients obtain prompt and easy access to their accounts and make payments.

In order to further improve online transactions in the Czech Republic, we launched a new online banking service with a modern design and innovative features, such as the Personal Finance Manager or MyGoal. Navigation and user interface were significantly upgraded, making the use of online banking considerably easier. The Personal Finance Manager feature helps clients better understand their expenses and the MyGoal feature helps them save money for their wishes and goals. In 2017, the new online banking will be gradually launched in Slovakia, too.

4.3 Competitive position of the issuer
All charts below provide non-consolidated data.

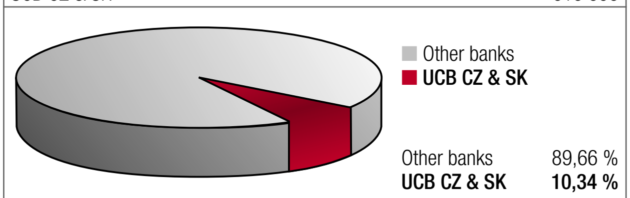
(i) Profit after tax

Profit after tax (MCZK)	2016
Banking sector CZ	75 500
UCB CZ & SK	5 319



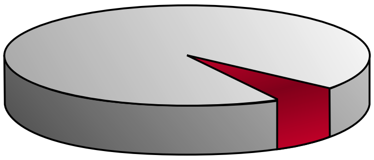
(ii) Total net assets

Total assets (MCZK)	as at 31 Dec 2016
Banking sector CZ	5 955 000
UCB CZ & SK	615 595



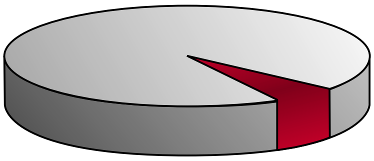
(iii) Gross receivables from clients in CR*

Receivables from clients (MCZK)	as at 31 Dec 2016
Banking sector CZ	2 950 343
UCB CZ & SK	261 544



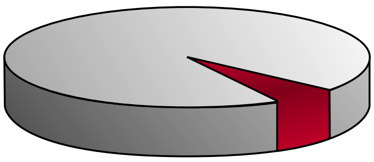
(iv) Gross receivables from clients in SR***

Receivables from clients (MCZK)		as at 31 Dec 2016
Banking sector SR	50 499 mil. EUR**	1 364 480
UCB CZ & SK		115 774



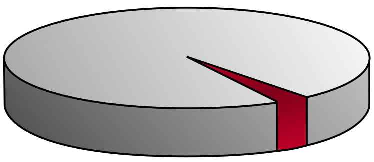
(v) Liabilities to clients in CR*

Liabilities to clients CR (MCZK)	as at 31 Dec 2016
Banking sector CZ	3 988 490
UCB CZ & SK	292 753



(vi) Liabilities to clients in SR***

Liabilities to clients SR (MCZK)		as at 31 Dec 2016
Banking sector SR	53 418 mil. EUR**	1 443 362
UCB CZ & SK		78 551



* 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 CZK 27.025/EUR as at 31 December 2016.
*** 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 a strong pan-European Group with a simple commercial banking model drawing strength from its Corporate & Investment

Bank, delivering its unique Western, Central and Eastern European network to its extensive 25-million-strong client franchise. UniCredit offers local expertise as well as international reach. We support our clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to another 18 countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia, and Turkey.

6. Information on trends

Since the date of presenting the last financial statements, no substantial negative changes have occurred to the issuer's outlook.

7. Competence of UniCredit Bank's bodies, composition of the Board of Directors, Supervisory Board, and Audit Committee, and description of their decision-making procedures

7.1 General Meeting

The General Meeting of Shareholders is the Bank's supreme body. It decides all matters of the Bank falling under its competence by law or under the Bank's 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) deciding on 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.

7.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of UniCredit Bank, and as at 31 December 2016 it had seven members. Members of the Board of Directors exercise their functions in person. Members of the Board of Directors are elected by the Supervisory Board for a period of three years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office. Only persons meeting the relevant legal requirements may be appointed as members of the Board of Directors. The Board of Directors makes decisions in the form of resolutions, usually adopted at its meetings. The Board of Directors shall have a quorum if an absolute majority of all its members is present. The approval of an absolute majority of the Board members present is required for a resolution to be valid. In the event of a parity of votes, the presiding member of the meeting shall have the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members to simultaneously see and hear one another during the meeting (i.e. via videoconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The competence of the Board of Directors especially includes the following:

a) to organise the Bank's day-to-day activities and direct its business activities,

b) to convene the General Meeting and implement its decisions,
c) to submit to the General Meeting
   – at least once a year, a report on business activities, the state of the Bank's property; the report forms a part of the Bank's annual report,
   – regular, extraordinary, consolidated or interim financial statements along with a proposal for distribution of profits or settlement of loss, and to process these documents,
d) to publish the key data from the financial statements (such as total assets, total liabilities, equity, profit before tax, profit after tax) and the report of the bank's business activities and the state of the bank's property in a way applicable to convening a General Meeting, no later than 30 days before the date of the annual General Meeting, including information as to where the financial statements are available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the bank's website the financial statements are available in accordance with Sec 436, par. 1, second sentence of the Act on Business Corporations,
e) to decide on the establishment and cancellation of the bank's branches,
f) to appoint and dismiss the Bank's managers,
g) to exercise the rights of an employer,
h) to issue, if it deems fit, rules of procedure for the Board of Directors, which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to prior approval by the Supervisory Board,
i) to grant and withdraw authorisations to act on behalf of the Bank and powers of attorney to the Bank's representatives,
j) in accordance with generally binding legal regulations, establish mandatory funds of the Bank in cooperation with the Supervisory Board and define how such funds are to be created and used,
k) to sign the contract on the statutory audit with the auditor appointed by the General Meeting,
l) to establish committees of the Bank and define their tasks,
m) to appoint and dismiss the Bank's proxies with the prior approval of the Supervisory Board, and
n) to discharge other responsibilities stipulated by law or by the Articles of Association.

Ing. JIŘÍ KUNERT
Chairman of the Board of Directors and CEO responsible for the Bank's overall results and for managing the Chief Operating Officer and the Chief Risk Officer. He also reports to the Bank's Board of Directors for the management of finance, human resources and legal issues.
Work address: Želetavská 1521/1, Prague 4
Domicile: Prague 4 – Záběhlice, Jihovýchodní III 789/60, PC 141 00
Born: 31 January 1953

PAOLO IANNONE
Vice-Chairman of the Board of Directors, responsible for managing and supervising the Bank's business activities and coordinating the activities of the Bank's other departments so that they contribute to achieving the Bank's business results to as great an extent as possible, whether directly or indirectly.
Work address: Želetavská 1521/1, Prague 4
Domicile: Prague 4 – Michle, Baarova 1540/48, PC 140 00
Born: 15 December 1960

Ing. ALEŠ BARABAS
Member of the Board of Directors and Chief Risk Officer, responsible for preparing the Bank's credit policy, maintaining the quality of the loan portfolio, managing all activities in the area of credit risks and adhering to the limits set by banking regulations, as well as for managing activities in the area of market and operational risks.
Work address: Želetavská 1521/1, Prague 4
Domicile: U Dubu 1371, Prague 4
Born: 28 March 1959

Ing. DAVID GRUND
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: K lukám 702, Šestajovice
Born: 24 February 1955

GIOVANNI GUIDI
Member of the Board of Directors and Director of the Retail and Private Banking Division.
Work address: Želetavská 1521/1, Prague 4
Domicile: Truhlářská 1109/5, Nové Město, 110 00 Prague 1
Born: 12 February 1954

LJUBIŠA TEŠIĆ
Member of the Board of Directors and Chief Financial Officer
Work address: Želetavská 1521/1, Prague 4
Domicile: 1024 Budapest, Bimbo UT 1236, Hungary
Born: 6 August 1976

Ing. MIROSLAV ŠTROKENDL
Member of the Board of Directors and Head of Branch Slovakia
Work address: Šancová 1/A, 813 33 Bratislava
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic
Born: 12 November 1958

Changes in the Board of Directors in 2016
As at 14 March 2016, Mgr. Jakub Dusílek, MBA, resigned from his office of member of the Board of Directors. As at 9 June 2016, Giovanni Guidi was elected to the Board of Directors.
As at 1 November 2016, Gregor Peter Hofstätter-Pobst resigned and was replaced by Ljubiša Tešić.

7.3 Supervisory Board of UniCredit Bank

The Supervisory Board has nine members, of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Act on Business Corporations with reference to the Act on Transformations of Commercial Companies and Cooperatives. Members of the Supervisory Board exercise their functions in person. Members of the Supervisory Board are elected for a 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. The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to be valid. In the event of a parity of votes, the Chairman shall cast the deciding vote. If the Chairman is not present, the Vice-Chairman shall have the deciding vote in the event of a parity of votes.

If all members so agree, the Supervisory Board may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all members of the Supervisory Board to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The Supervisory Board established the Remuneration Committee, which consists of three members of the Supervisory Board (Mirko Bianchi till 20 December 2016, Heinz Meidlinger and Miloš Bádal). The competence of the Remuneration Committee includes the preparation of draft resolutions on remuneration, including those adopted by the Bank's Supervisory Board and having an impact on the obligor's risks and risk management. When preparing those resolutions, the Remuneration Committee takes into consideration the long-term interests of the Bank's shareholders, investors and other stakeholders and the public interest.

The remuneration of managers responsible for risk management, internal audit and compliance functions is under the direct supervision of the Remuneration Committee.

The Supervisory Board further established the Appointment Committee, which consists of three members of the Supervisory Board (Mirko Bianchi till 20 December 2016, Heinz Meidlinger and Miloš Bádal). The competence of the Appointment Committee includes the selection and submitting for approval by the Supervisory Board candidates for vacancies in the Board of Directors. In the discharge of this task the Appointment Committee assesses, inter alia, proper proportion in competence, skills and diversity in composition of the bank's body as a whole. The Appointment Committee develops draft job descriptions including skills required for the position and estimates the time schedule for meeting the goals related to the exercise of the office. Additionally, the Appointment Committee recommends the target gender proportion in the Board of Directors and the principles as to how the share of the less represented gender in the Board of Directors can be increased to match the target goal;

a) regularly, at least on an annual basis, evaluates the structure, size, composition and activities of the Board of Directors and submits recommendations to the Supervisory Board regarding amendments, if any,
b) regularly, at least on an annual basis, evaluates the integrity, professional competence and skill of each member of the Board of Directors and the Board of Directors as a whole and submits the evaluation reports to the Supervisory Board,
c) regularly reviews policies of the Board of Directors as to the selection and appointment of a candidate to top management and submits recommendations to the Supervisory Board.

The Supervisory Board further established the Risk Management Committee, which consists of three members of the Supervisory Board (Enrico Minniti till 20 December 2016, Susanne Malibas and Heinz Meidlinger). The competence of the Risk Management Committee includes, in particular, the following activities:

a) provides consulting to the Supervisory Board as to the Bank's overall present and future approach to risk management, the risk management strategy and the level of acceptable risk and assists in the Supervisory Board's reviews over implementation of the aforementioned strategy by the top management; which is without prejudice to the Board of Directors' general responsibility for risk management; and
b) examines whether valuation of assets, liabilities and off-balance sheet items reflected in the offer to the clients fully complies with the Bank's business model and its risk management strategy. If the existing risks are not properly reflected in prices in accordance with the existing business model, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

The Supervisory Board:

a) reviews the specific directions of the Bank's activities and business policy and supervises its implementation,
b) is authorised to verify any steps taken in the Bank's affairs,
c) reviews regular, extraordinary and consolidated financial statements, and, as the case may be, the interim financial statements, as well as the proposal for the distribution of profits or settlement of loss and presents its opinion to the General Meeting,
d) is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities,
e) monitors whether accounting records are properly maintained in accordance with reality and whether the Bank's business activities comply with legal regulations and the Articles of Association,
f) convenes the General Meeting if the Bank's interests so require and proposes necessary measures to be taken by the General Meeting,
g) appoints one of its members to represent the Bank in proceedings held before courts and other authorities against a member of the Board of Directors,

h) issues, if it is deemed appropriate, rules of procedure for the Supervisory Board, which may not contradict the Articles of Association,
i) approves the rules of procedure (if any) for the Board of Directors,
j) elects and dismisses members of the Board of Directors. New members of the Board of Directors are elected from among candidates who may be nominated by any member of the Supervisory Board. Removal of members of the Board of Directors from their office is also decided by the Supervisory Board upon motion of any member of the Supervisory Board,
k) nominates candidates for Chairman and Vice-Chairman of the Board of Directors,
l) stipulates general terms and conditions for the Bank's activities and terms and conditions for maintaining its credit risk exposure in accordance with decrees of the Czech National Bank and legal norms published in the Collection of Laws of the Czech Republic,
m) approves the establishment and dissolution of the Bank's subsidiaries and on their transfer to other entities,
n) approves management agreements concluded between the Bank and members of its Board of Directors and any payments to be made by the Bank to the members of its Board of Directors pursuant to Section 61, par. 1 of the Act on Business Corporations,
o) decides on remuneration of members of the Board of Directors and stipulates rules for remunerating the Director of the Internal Audit Department,
p) establishes committees of the Supervisory Board and defines their responsibilities,
q) oversees the effectiveness and efficiency of the Bank's management and control system,
r) gives prior approval to the appointment and dismissal of the Bank's proxies,
s) can ask the Chairman of the Audit Committee to convene a meeting of the Audit Committee, and
t) discharges further responsibilities stipulated by law, the Articles of Association and the Group's rules.

HEINZ MEIDLINGER
Vice-Chairman of the Supervisory Board
Born: 6 September 1955
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Austria

SUSANNE MALIBAS
Born: 14 July 1967
Domicile: Vienna, Pfarrwiesengasse 21/6, A–1190, Austria

BENEDETTA NAVARRA
Born: 24 March 1967
Domicile: 00187 Rome, Via del Gambero 23, Italy

EVA MIKULKOVÁ
Born: 29 January 1957
Domicile: Kladno, Kročehlavy, Dlouhá 512

Ing. JANA SZÁSZOVÁ
Born: 17 January 1963
Domicile: Bratislava, Hany Meličkovej 2989/18, 84105, Slovakia

Mgr. MILOŠ BÁDAL
Born: 11 April 1970
Domicile: Podhorská 88/19, Motol, 150 00 Prague 5

Changes in the Supervisory Board in 2016
As at 20 December 2016, Mirko Bianchi, Enrico Minniti and Csilla Ihász resigned from their office of member of the Supervisory Board. As of 31 December 2016, these changes were not reflected in the Business Register.

7.4 Audit Committee

1. The Audit Committee is an independent committee with the task of overseeing, monitoring and advising in matters of concern regarding accounting and financial reporting, the internal control, audit and risk management, the external audit, and monitoring compliance with laws, the Bank's regulations and the Code of Conduct.
2. 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. The majority of the members of the Audit Committee must be independent from the Bank and must have at least 3 years of practical experience in accounting or statutory auditing.
3. The Audit Committee can order inspections and specifically focused audit investigation of the Bank's functions, other Bank's 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.
4. Without prejudice to the responsibilities of the Board of Directors and Supervisory Board members, the Audit Committee in particular shall:
   a) monitor the procedure of preparing the financial statements and consolidated financial statements,
   b) assess the effectiveness and efficiency of the Bank's internal control system, internal audit and risk management system,
   c) monitor the statutory audit process for the financial statements and consolidated financial statements,
   d) assess the independence of the statutory auditor and audit company, in particular, provision of supplementary services to the Bank which go above the scope of the annual audit, and
   e) recommend an auditor to be appointed by the General Meeting.
5. 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.

6. The Audit Committee appoints and dismisses a chairman from among its members. The Chairman coordinates and plans the activities of the Audit Committee, convenes and chairs meetings.
7. The Auditor shall keep the Audit Committee informed, by reports submitted on an ongoing basis, of material facts resulting from the statutory audit, mainly of material defects in the internal control system with respect to the preparation process for the financial statements or consolidated financial statements.

A detailed description of the Audit Committee's functions, its procedures for organisation, convening the meetings and adoption of resolutions is provided in the Audit Committee's Rules of Procedure approved by the General Meeting.

STEFANO COTINI
Chairman of the Audit Committee
Born: 31 March 1951
Domicile: Viale Zugna 6, 38068 Rovereto Tn, Italy

HEINZ MEIDLINGER
Born: 6 September 1955
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Austria

BENEDETTA NAVARRA
Born: 24 March 1967
Domicile: 00187 Rome, Via del Gambero 23, Italy

Changes in the Audit Committee in 2016
There were no changes in the Audit Committee in 2016.

7.5 Conflicts of interest at the level of management and supervisory bodies:

The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest. The main activities carried out by the members of managing and control bodies of the issuer outside the issuer are not significant for the issuer.

7.6 Information on company management and administration codes

The Bank adopted no company management and administration code. The Bank complies with the rules of conduct established by UniCredit Group.

8. Legal and arbitration proceedings

As at 31 December 2016, the Bank reviewed the pending legal disputes against the Bank and created provisions for the litigation. In addition to those disputes, the Bank was also subject to other claims resulting from the Bank's regular business activities. The Bank is not, and during the past 12 months was not, involved in any judicial, administrative or arbitration proceedings which, in the Bank's opinion, could have, or in the past 12 months had, a material impact on the Bank's financial situation or profitability.

9. Material change in the issuer's financial situation

Since the publishing date of the audited financial statements for the year ended 31 December 2016, no significant change has occurred in the financial situation of the issuer.

10. Received Loans from multilateral development banks and international organizations

Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	EUR 17,143 thousand
Interest rate:	3M EURIBOR + 0.33%
Loan origination date:	28 July 2014
Maturity date:	27 July 2021
Collateral:	Collateralised by bonds
Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	EUR 17,163 thousand
Interest rate:	3M EURIBOR + 0.03%
Loan origination date:	16 November 2015
Maturity date:	16 November 2022
Collateral:	Collateralised by bonds
Creditor:	**The Export-Import Bank of The Republic of China**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	USD 1,307 thousand
Interest rate:	6M USD LIBOR + 0.75%
Loan origination date:	5 June 2014

Maturity date:	5 June 2019
Collateral:	No collateral
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 15,000 thousand
Interest rate:	3M EURIBOR + 0.421%
Loan origination date:	29 June 2011
Maturity date:	29 June 2018
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 9,311 thousand
Interest rate:	3M EURIBOR + 0.559%
Loan origination date:	30 September 2011
Maturity date:	30 September 2023
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 4,000 thousand
Interest rate:	0.809%
Loan origination date:	22 January 2014
Maturity date:	31 December 2018
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 6,562.5 thousand
Interest rate:	0.41%
Loan origination date:	28 August 2014
Maturity date:	31 August 2018
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 10,000 thousand
Interest rate:	3M EURIBOR + 0.066%
Loan origination date:	29 September 2014
Maturity date:	29 September 2017
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 7,500 thousand
Interest rate:	0.229%
Loan origination date:	25 November 2015
Maturity date:	30 November 2018
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 13,000 thousand
Interest rate:	0.150%
Loan origination date:	26 February 2015
Maturity date:	26 February 2020
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.

Loan amount:	EUR 9,375 thousand
Interest rate:	0.003%
Loan origination date:	29 April 2015
Maturity date:	30 April 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 10,500 thousand
Interest rate:	0.326%
Loan origination date:	29 June 2015
Maturity date:	30 June 2020
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 206,137.5 thousand
Interest rate:	0.787%
Loan origination date:	22 January 2014
Maturity date:	22 January 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 634,866 thousand
Interest rate:	0.545%
Loan origination date:	10 September 2014
Maturity date:	10 September 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	EUR 7,200 thousand
Interest rate:	0.524%
Loan origination date:	10 September 2014
Maturity date:	10 September 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 248,940 thousand
Interest rate:	0.297%
Loan origination date:	15 December 2014
Maturity date:	12 December 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 193,760 thousand
Interest rate:	0.188%
Loan origination date:	26 February 2015
Maturity date:	26 February 2020
Collateral:	Collateralised by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	EUR 7,000 thousand
Interest rate:	0.177%
Loan origination date:	26 February 2015
Maturity date:	26 February 2020
Collateral:	Collateralised by bonds
Total loans as at 31 December 2016	**CZK 4,793,649 thousand**

11. Material contracts

UniCredit Bank has not concluded any such contracts which could give rise to an obligation or a claim of any member of the Group that would be material to the Bank's ability to settle its liabilities to securities holders based on the issued securities.

12. Third party information and experts' opinions and declarations of any interests

The annual report does not include any representations or report of an entity acting as an expert. Additionally, it does not include any information from a third party, unless expressly stated otherwise.

13. Total amount of outstanding bond issues

Total amount of outstanding bond issues, including EUR and USD bonds converted using the CNB exchange rate valid as at 31 December 2016: CZK 60,106,913,950.

13.1 Information on the number of shares issued by the issuer and which are under the ownership of the issuer's managers, including persons close to these persons

The number of shares issued by the issuer under the ownership of managers or persons close to these persons is zero. There are no options or comparable investment instruments, the values of which relate to shares or similar securities representing an ownership interest in the issuer.

14. Principles of remunerating the issuer's managers

Remuneration policy

The remuneration policy for managers is established in accordance with "UniCredit Group's Remuneration Policy" and with Decree No. 163/2014 Coll. and consists of the basic salaries policy, the "Group Incentive System", and the benefits system. The key pillars of the remuneration policy are: clear and transparent governance, compliance with regulatory requirements & ethical rules, continuous monitoring of market trends & practices, sustainable pay for sustainable performance and motivation & retention of all employees with particular focus on promising staff members and those who are critical for fulfilling the company mission.

Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Remuneration Committee") approves the remuneration for members of the Board of Directors for each calendar year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group. The Remuneration Committee consisted of Mirko Bianchi (till 20 December 2016), Heinz Meidlinger and Miloš Bádal in 2016. Starting from May 2014, in line with the new civil code, members of the Board of Directors perform work according to the Agreement on the Discharge of Office of Members of the Board of Directors and receive remuneration that is set as a fixed amount paid monthly, an annual variable bonus, and are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for executing their offices; remuneration to the Bank's foreign executive managers (members of the Board of Directors) is provided by the parent company. These remuneration costs are accounted for by the parent company and included in the remuneration summary.

Contractual salaries of the Bank's executive managers

The contractual salaries are defined on the basis of the value of a job position within the classification system of top managing positions in UniCredit Group ("Global Job Model"), the key abilities of the executive manager and a market comparison with other entities on the financial and banking markets in the Czech Republic, within UniCredit Group, and in Central and Eastern Europe.

Changes in the contractual salaries of the Bank's members of the Board of Directors, Head of Compliance, and Head of Internal Audit are approved by the Remuneration Committee each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group.

Variable annual bonuses of the Bank's executive managers

The target variable bonus of the Bank's members of the Board of Directors is approved by the Remuneration Committee on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group. The target variable bonus of each executive manager is determined individually and comprises 50–100% of his or her annual contractual salary. A portion of the remuneration is in the form of shares and non-monetary instruments.

UniCredit Group's "2016 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee of UniCredit Bank Czech Republic, a.s., as a binding regulation for the variable bonuses of executive managers.

The variable bonus amount thereof and method of payment are established in accordance with the System using the following components:

1. **"Bonus pool";**
2. **"Entry Conditions";**
3. **"Performance & Risk Factor Adjustments";**
4. **"Performance Screen";**
5. **"Bonus cap";**
6. **"Compliance Assessment", "Continuous Employment Condition" and "Claw Back";**
7. **"Personal hedging".**

Ad 1.
Bonus pool is based on Country risk-adjusted results. Bonus pool is defined in the budget phase for each Country as a percentage of the respective funding KPI, considering: historical data analysis, expected profitability, business strategy and market context/external benchmarking.

Ad 2.
Specific indicators are set as "Entry Conditions", measuring annual profitability, solidity and liquidity results. The "Entry Conditions" is 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 to regulatory requirements, in case the "Entry Conditions" are not met, a Zero Factor will apply to the Executives/Identified Staff population.

In case the Entry Conditions are met, the Zero Factor is not activated, and further adjustments are performed pursuant to Performance & Risk Factor Adjustments.

Ad 3.
Performance & Risk Factor Adjustments ensures that the bonus pools are aligned with the overall performance and risk assessment.

Application of the "Performance & Risk Factor Adjustments" parameters affirms, reduces or entirely terminates an executive manager's bonus payment.

In accordance with applicable regulatory requirements, final evaluation of sustainable performance parameters and risk-reward, alignment is reviewed by the Remuneration Committee and defined under the responsibility and governance of the Board of Directors.

In 2016, Entry conditions were defined using the following parameters:

Group	Local
Net Operating Profit (NOP)	Net Operating Profit (NOP)
Net Profit (NP)	Net Profit (NP)
capital adequacy indicator (Core Tier 1 Ratio)	
short-term liquidity indicator, i.e. cash horizon	

A Zero Factor is applied in years of deferred bonus. The Zero Factor confirms or entirely cancels payment of deferred portions of the bonus. The Remuneration Committee approves the level of fulfilment of the Zero Factor conditions each year and the release or cancellation of deferred bonus payment based on a proposal from UniCredit Group's Board of Directors.

Ad 4.
The "Performance Screen" is a table of the executive managers' performance objectives set each year by the Remuneration Committee. The performance objectives are closely related to the Bank's strategic plan. The Remuneration Committee approves the level of their fulfilment based on the proposal of the executive managers' direct superiors for each calendar year and each executive manager separately.

The "Performance Screen" should contain at least 4 performance goals (it is recommended to use no more than 6) of which at least half is sustainable. The executive managers may have assigned other goals 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 2016 included, for example:

- economic profit (EVA),
- gross operating profit, and
- average probability of default of managerial portfolio.

Other goals were quantitative and qualitative and differed for each individual executive manager depending on the priorities of the segment for which the particular executive manager is responsible.

Ad 5.
The Capital Requirements Directive (CRD IV) approved by the European Parliament introduced a cap on bonuses with an effective date of 1 January 2014. The bonus cap has been set at a one-time yearly fixed compensation, with the possibility to increase it to two-times yearly fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. For the company Control Functions, a more conservative approach applies, providing for a bonus cap set at one-time yearly fixed compensation, or in any case a more stringent approach if set by regulators.

Ad 6.
Any payment of the variable component of remuneration for an executive manager is subject to the "Compliance Assessment", which confirms, reduces or entirely cancels the payment to which an employee is entitled in each year of deferred remuneration. An executive manager's direct superior shall assess whether the executive manager acted in accordance with the principles of UniCredit Group's Integrity Charter and Articles of Association during the evaluated period;

whether he or she committed serious errors, including errors which could have a tangible impact on banking risk or the balance sheet; as well as whether or not he or she breached legal norms, UniCredit Group's rules or UniCredit Bank's internal regulations, regardless of whether a disciplinary hearing is taking place or other disciplinary sanctions have already been imposed. This evaluation is carried out by the executive manager's direct superior and approved by the Remuneration Committee.

As with the evaluation of individual performance objectives, this assessment may reduce or entirely cancel (depending on the gravity of the violation) the potential variable remuneration.

The "Continuous Employment Condition" stipulates that an employee is entitled to payment of the variable remuneration component or its deferred part only if he or she is an employee of the Bank or another company within UniCredit Group at the time of payment.

Any remuneration that a worker can get in any year pursuant to the System are subject to the Clawback application in compliance with the legislation in force, including payment of remunerations effected on a basis later proved to be incorrect.

Ad 7.

Executive managers are required to undertake not to use personal hedging strategies on remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Involvement in any form of hedging transaction shall be considered a breach of Compliance policies and therefore any right to receive variable remuneration pursuant to the System shall expire.

Bonus Plan

Payment of the bonus for the given period (2016) is spread out over a multiple-year period:

Executive Vice-Presidents and Senior Positions

– The first part (2017) 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 two-year retention period.
– The second part (2018) is payable in cash and comprises 10% of the bonus established for the given period.
– The third part (2019) 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 (2020) 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 (2021) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
– The sixth part (2022) is payable in cash and comprises 20% of the bonus established for the given period.
– In 2018-2022, each bonus payment is subject to the Zero Factor application.
– 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.

Senior Vice-Presidents & Other Identified Staff

– The first part (2017) is payable one half in cash and one half in non-monetary instruments, comprising 60% of the bonus established for the given period; non-monetary instruments are subject to a two-year retention period.
– The second part (2018) is payable in cash and comprises 10% of the bonus established for the given period.
– The third part (2019) 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 (2020) 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.
– In 2018-2021, each bonus payment is subject to the Zero Factor application.
– 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.

Local Incentive System

– The first part (2017) is payable in cash and comprises 40% of the bonus established for the given period.
– The second part (2018) is payable in cash and comprises 20% of the bonus established for the given period; it is subject to the Zero Factor application in the second year, which confirms, reduces or entirely cancels the entitlement to payment of the second portion of the bonus.
– The third part (2019) is payable in non-monetary instruments and comprises 20% of the bonus established for the given period; it is subject to further Zero Factor application in the third year, which confirms, reduces or entirely cancels the entitlement to payment of the third portion of the bonus.
– The fourth part (2020) is payable in non-monetary instruments and comprises 20% of the bonus established for the given period; it is subject to further Zero Factor application in the fourth year, which confirms, reduces or entirely cancels the entitlement to payment of the fourth portion of the bonus.
– 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 Remuneration Committee approves the fulfilment of the payment conditions each year and the release of the deferred bonus payment on the bases of a proposal from UniCredit Group's Board of Directors.

Benefits of the Bank's executive managers

Benefits are defined in accordance with the priorities of UniCredit Group's human resources strategy and the classification of the manager's position into a pre-defined employee benefits category.

- The following benefits are provided to executive managers by virtue of their Agreement on discharge of office of members of the Board of Directors with the Bank: contribution to supplementary pension insurance, contribution to capital life insurance.
- By virtue of their managerial position, executive managers are provided a company car for business as well as private purposes.
- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers receive benefits connected with their long-term stay abroad.

The aforementioned benefits are provided in the form of non-monetary fulfilment, and their aggregate amount is included in the remuneration summary.

Supervisory Board

The Supervisory Board consists of nine persons, of which three are employed by the issuer and receive a salary for activities performed for the issuer on the basis of an employment contract in accordance with the Labour Code. Members of the Supervisory Board, if they are at the same time employed by any company of UniCredit Group (including the issuer), are not entitled to remuneration for executing their offices.

Fixed contractual remuneration may only be agreed on with those members of the Supervisory Board who at the same time do not hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire period of office of the Supervisory Board member, and is approved based on the proposal of the Bank's Board of Directors at the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received payment by virtue of their employment contracts in accordance with the Labour Code, and by one foreign member of the Supervisory Board with whom the shareholder agreed fixed contractual remuneration based on the aforementioned regulations. The remaining members of the Supervisory Board are not remunerated by the issuer.

The remuneration policy in the case of Supervisory Board members who are employed with UniCredit Bank Czech Republic and Slovakia, a.s., is approved by the Bank's Board of Directors at the proposal of the Bank's Human Resources Department, and the benefits are provided in accordance with the valid Collective Agreements concluded between the Bank and its trade unions in particular countries.

The principles of remuneration to members of the Supervisory Board employed within the Bank and the components of their remuneration, which are paid to them by virtue of their employment contracts including the 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" of Supervisory Board members who are employed with the issuer are dependent on the job positions they perform by virtue of their employment contracts in accordance with the Labour Code and in no way relate to the execution of the office of Supervisory Board member. The amounts of the final annual variable bonuses paid to members of the Supervisory Board who are employed with the issuer are proposed and approved by their direct superiors according to the issuer's organizational structure.

Audit Committee

The Audit Committee consists of three persons, none of whom are employed by the issuer. Fixed contractual remuneration may be agreed for executing the office of Audit Committee member. The remuneration is valid for the entire period of office of the Audit Committee member, and is approved based on the proposal of the Bank's Board of Directors at the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.
In 2016, the aforementioned fixed contractual remuneration was agreed with two members of the Audit Committee, and the total amount thereof is stated in the remuneration summary. The remaining member of the Audit Committee is not remunerated by the issuer.

15. Information on remuneration to auditors recognised in the reporting period

(CZK thousand)	Bank	Consolidated companies	Total consol. group
Audit	25 135	7 572	32 707
Tax advisory	–	–	–
Other advisory services	342	–	342
Total	**25 477**	**7 572**	**33 049**

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
65 874 254	**0**	**10 066 719**	**0**	**12 444 338**	**88 385 311**
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
3 029 214	**0**	**0**	**0**	**0**	**3 029 214**
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
677 500	**0**	**0**	**0**	**0**	**677 500**
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
114 730 044	**0**	**2 770 143**	**0**	**248 289**	**117 748 476**

Note: The mentioned data contain amounts actually paid during 2016, as compared to the financial statements, which contain information on costs concerning 2016.

17. Major future investments other than financial investments (planned for 2017)

Other investments (excl. financial investments) for 2017 are planned in the amount of CZK 1.579 billion.
Investments in IT (HW and SW) will amount to (CZK 550 million) and they are intended to implement new or adjust the existing information systems of the Bank and Leasing. It is only part of total IT investment because IT services on the part of the Bank are primarily supplied on an outsourcing basis and recognised in operating costs.
Another major group of investments (CZK 813 million) is the acquisition of assets for lease in the form of operating lease by companies of the UniCredit Leasing Group.
The rest of the investments are focused mainly on the development and renovation of the distribution network.

18. Guarantees provided by the insurer

(CZK thousand)	31.12.2016	31.12.2015
Granted guarantees and collaterals	40 169 103	44 413 583
Guarantees granted under L/Cs	1 517 789	1 918 884
Total	**41 686 892**	**46 332 467**

19. Internal audit policy and procedures and rules for the issuer's approach to risks associated with the financial reporting

All internal processes with either a direct or indirect influence on the Bank's reporting have been described by the UniCredit Czech Republic and Slovakia Group, including the risks connected with these processes. Controls with varying periodicity have been set up in order to eliminate these risks. All processes are evaluated and updated twice a year, and the controls set up to eliminate the described risks are inspected.

The goal of the aforementioned effort was to establish corresponding internal controls that guarantee the accuracy of the financial reporting, achieve broader awareness of the risks connected with creating financial reports and keep these risks under control and at an acceptable level. The entire process is in accordance with Italian Act No. 262/2005 and legal regulation No. 303/2006, which were inspired by the American Sarbanes-Oxley Act.

The UniCredit Bank Czech Republic and Slovakia Group has prepared internal regulations relating to particular areas of the Group's activities that influence the Group's accounting. The valuation procedures applied to the statement of financial position and statement of comprehensive income items are described in the notes to the individual and consolidated annual financial statements, which form a part of this annual report. These annual financial statements are submitted for review by auditor and financial data intended for consolidation of the parent company are also submitted for review by auditor twice a year (mid-year and at the year-end).

20. Licences and trademarks

UniCredit Bank uses dozens of trademarks for identification and protection of its products on banking markets in the Czech Republic and Slovakia. The Bank, as owner, has the trademarks registered with the Industrial Property Office of the Czech Republic and the Industrial Property Office of the Slovak Republic.

21. Rating of the issuer or its debt securities

The issuer has been assigned no rating. The rating agency Moody's Investor Service, Inc. (hereinafter referred to as **"Moody's"**) granted an Aa3 rating to selected bonds issued by the Issuer (for a summary overview, please see Sub-Chapter *"Regulated markets"* below).

Moody's carries on its activities in the European Union and is registered in line with Regulation (EC) No 1060/2009 of the European Parliament and of the Council as amended (hereinafter referred to as the **"Regulation on Credit Rating Agencies"**). It is included in the list of credit agencies published by the European Securities and Market Authority (ESMA) on its web pages (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in line with the Regulation on Credit Rating Agencies.

The Issuer has not contracted any other rating agency to issue a rating of identical issues or bonds referred to in the overview 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.

22. Regulated markets

Summary of the issued and outstanding debt securities of the Issuer

A list of covered bonds issued by the Issuer to date and admitted to trading on the Prague Stock Exchange is presented in the following table. The data are valid as at 31 December 2016.

Name of the issue	ISIN	Currency	Volume of the issue (million)	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
HZL HVB 5.00/25	CZ0002000680	CZK	10,000	23 November 2005	15 November 2025	23 November 2005	–
UCB HZL 10Y FLOAT/37	CZ0002001910	CZK	12,000	21 December 2007	21 December 2037	21 December 2007	Aa3
UCB HZL 6.00/18	CZ0002002520	CZK	5,000	27 April 2012	27 April 2018	7 May 2012	Aa3
UCB HZL 2.00/2020	CZ0002003080	EUR	50	3 June 2013	3 June 2020	19 August 2013	Aa3
UCB HZL 3.04/2028	CZ0002003114	EUR	30	7 June 2013	7 June 2028	19 August 2013	Aa3
UCB HZL 6M VAR/2020	CZ0002003148	EUR	30	18 July 2013	18 July 2020	26 August 2013	–
UCB HZL EUR 2.00/18	CZ0002003262	EUR	80	21 October 2013	22 October 2018	29 October 2013	–

A list of covered bonds issued by the Issuer to date and admitted to trading on the Luxembourg Stock Exchange is presented in the following table. The data are valid as at 31 December 2016.

Name of the issue	ISIN	Currency	Volume of the issue (million)	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 1.875/18	XS1002162136	EUR	800	13 December 2013	13 December 2018	13 December 2013	Aa3
UCB HZL 3M FLOAT/23	XS1206759406	EUR	131.8	20 March 2015	15 September 2023	20 March 2015	Aa3
UCB HZL 3M FLOAT/21	XS1206761139	EUR	234	20 March 2015	16 March 2021	20 March 2015	Aa3
UCB HZL 0.625/20	XS1225180949	EUR	250	30 April 2015	30 April 2020	30 April 2015	Aa3

A list of bonds issued by the Issuer to date and admitted to trading on the Bratislava Stock Exchange is presented in the following table. The data are valid as at 31 December 2016.

Name of the issue	ISIN	Currency	Volume of the issue (million)	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCBSK10H	SK4120009051	EUR	30	27 March 2013	27 March 2018	6 June 2013	–
UCBSK11H	SK4120009598	EUR	10	20 November 2013	20 November 2018	2 December 2013	–
UCB HZL 3M floater 2018	SK4120009903	EUR	10	31 March 2014	28 March 2018	10 November 2014	–
UCB HZL 1.55/2021	SK4120010208	EUR	15	28 August 2014	30 August 2021	22 December 2014	–
UCB HZL 0.40/2017 (UCBHZL15H)	SK4120010760	EUR	15	25 May 2015	25 May 2017	20 January 2016	–
UCB HZL 1.20/2022 (UCBHZL14H)	SK4120010752	EUR	30	25 May 2015	25 May 2022	20 January 2016	Aa3
UCB HZL EUR 1.40/2024	SK4120011131	EUR	15	15 October 2015	15 October 2024	20 January 2016	–
UCB HZL EUR 1.80/2025	SK4120011123	EUR	30	15 October 2015	15 October 2025	20 January 2016	–
UCB HZL EUR 3M floater 2018	SK4120011248	EUR	30	26 November 2015	26 November 2018	20 January 2016	–
UCB HZL EUR 6M floater 2020	SK4120011313	EUR	20	17 December 2015	17 December 2020	20 January 2016	Aa3
UCB HZL EUR 0.65/2021	SK4120011305	EUR	20	10 December 2015	10 December 2021	20 January 2016	Aa3

Report on relations

between the controlling and controlled entities and on relations between the 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 Postcode: 140 92, Reg. No. 64948242, registered in the Commercial Register maintained by the Prague Metropolitan Court, Section B, Insertion 3608 (" UCB CS"), for the **period between 1. 1. 2016 and 31. 12. 2016** (hereinafter referred to as the "Period") prepared a **report on relations**.

1. Structure of Relations between UCB CS and the Controlling Person and Persons Controlled by the same Controlling Person

Between January 1st and October 1st 2016, UCB CS was controlled by **UniCredit Bank Austria AG** having its registered office at Schottengasse 6-8, 1010 Vienna, the Republic of Austria. UCB CS was controlled simultaneously indirectly by **UniCredit, S.p.A.** having its registered office at Via Specchi, 16 00186 Rome, Italy.
From October 1st, 2016 UCB CS was directly controlled by **UniCredit, S.p.A.** having its registered office at Via Specchi, 16 00186 Rome, Italy.
UCB CS itself controlled during the Period 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. is 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 (until 3. 8. 2016), **INPROX Chomutov, s.r.o.**, Reg. No.: 25670981, 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, **CA-Leasing EURO, s.r.o.**, Reg. No.: 49617044, Želetavská 1525/1, Michle, 140 00 Prague 4, (until 30. 3. 2016) **BACA Leasing Gama s.r.o.**, Reg. No.: 25737201, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, Reg. No.:25751841, Želetavská 1525/1, Michle, 140 00 Praha 4, **CA-Leasing OVUS s.r.o.**, Reg. No.: 25714538 Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing s.r.o.,** Reg. No.: 25708376, Praha 4 – Michle, Želetavská 1525/1, Postcode 14010, (until 3. 8. 2016) **INPROX Kladno, s.r.o.** Reg. No.: 25727435 Prague 4 – Michle, Želetavská 1525/1, Postcode 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/AŠancová 1, Bratislava 814 99, **UniCredit Broker, s. r. o.**, Reg. No.: 35800348, Šancová 1/AŠancová 1, Bratislava 814 11 a **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35820381, Šancová 1/A, Bratislava 814 12, (until 26. 02. 2016) **Inprox Poprad, spol. s.r.o.**, Reg. No.: 35 859 105, Šancová 1/A Šancová 1, Bratislava 814 99, **Inprox SR I, spol. s.r.o.** Reg. No.: 35 758 236, Šancová 1/AŠancová 1, Bratislava 814 99 Šancová 1814 99. The structure of the UniCredit Group is described in detail in Annex No. 1 of this Report.

2. UCB CS's Role within UniCredit Group:

The Czech and the Slovak Republics are among 3 key markets the UniCredit Group intends to develop in the long term within the CEE division. The merged entity UCB CS is the second largest bank within the CEE region in terms of the volume of assets and generated profits (data from 2015).
UCB CS 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 CS 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 CS is very active in this area.
In the area of standard banking activities, in addition to the contracts provided below, the controlled person concluded with the controlling person and with related parties, interbank, derivative and other banking transactions, and these persons 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 persons 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 CS, on standard conditions.

3. Method and Means of Control

Until July 15th, 2016 UniCredit Bank Austria AG held 99. 96% of shares of UCB CS. As of July 15th, 2016 the minority shareholders were squeezed-out in compliance with the Section 375 of the Act on Business Corporations by the majority shareholder UniCredit Bank Austria AG. UniCredit Bank Austria AG thus became the sole shareholder of UCB CS. As of October 1st, 2016 the shares of UCB CS were transferred from UniCredit Bank Austria AG to UniCredit S.p.A.
The general meeting is the supreme body of UCB CS. UniCredit Bank S.p.A. manifests its will through excercising the authority of the general meeting through by sole shareholder's resolutions.
According to UCB CS 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 person has its representatives both in the Bank Supervisory Board and in the Board of Directors.

UCB CS 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 CS 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 CS and the controlling person or between controlled persons

4.1. Between UCB CS and **UniCredit S.p.A.,** Via Specchi, 16 00186 Rome, Italy

Contract name	Subject-matter of contract	Contract concluded on
MACH Core Migration Project	Support of the project Migration to single banking system (the MACH project)	7. 1. 2015
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic (jointly with UniCredit Bank Austria AG)	2. 2. 2015
Intercompany services agreement	Advisory services in the area of methodological group management	11. 12. 2015
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	29. 6. 2016
GMRA Master Agreement	A general credit contract for secured by a transfer of securities	12. 8. 2016
Deposit Netting Agreement	Agreement concerning the reciprocal setoff of payables and receivables from interbank deposits in the event of default.	22. 9. 2016

4.2. Between UCB CS and **UniCredit Bank Austria AG,** Schottengasse 6-8, 1010 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	Custody, administration and settlement of securities	1. 8. 1997
Brokerage Agreement	Securities trading	2. 1. 2002
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	24. 5. 2012
Consultancy Service Agreement	Learning and Development Consultancy Services in the area of special professional skills, soft skills training and development and talent management	2012
Service Level Agreement	Management and assessment of risks Netting Agreements	5. 9. 2008
Risk Sharing Instrument (RSI) Guarantee Agreement	Tripartite agreement with the European Investment Fund for the provision of guarantees within the RSI programme (Risk Sharing Instrument)4	24. 6. 201
Agreement Funds Advisory	Purchase and sale of fund units through the platform UC Bank Austria	25. 3. 2005
Swapclear Dealer Clearing Agreement	Contract for settlement of swap transactions with central counterparties	7. 7. 2014
Subcustody Agreement	Management and custody of foreign securities	10. 11. 2014
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic	27. 2. 2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	16. 7. 2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	11. 12. 2015
Mandate Agreement	Tripartite agreement with CYRRUS CORPORATE FINANCE, Inc. regarding activities related to the squeeze-out	25. 5. 2016

4.3. Between UCB CS and **UniCredit Bank AG**, Kardinal-Faulhaber-Str.1, 80333 Munich

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of securities	1. 7. 2004
Securities Account and Custody Agreement	Management and custody of securities	19. 9. 2007
Brokerage agreement	Procurement of purchases and sale of foreign securities for Bank clients	6. 7. 2009
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	3. 3. 2010
Master Agreement – Global Debt Capital Markets	Conditions of cooperation of both banks in euro bond issues of clients.	30. 6. 2011
Agreement on the application service providing for the cash pool engine	Provision of services for cash pooling	9. 5. 2012

Contract name	Subject-matter of contract	Contract concluded on
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

4.4. Between UCB CS, **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 CS, **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 CS and **UniCredit Business Integrated Solutions S.C.p.A.,** Via Livio Cambi 1, 201 51 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Data Processing Agreement	An agreement concerning the processing and security of data, data protection and duty not to disclose confidential information	5. 11. 2007
Contract for outsourcing and provision of services Operations and Back Office	Provision of back-office services – in the area of payment system and keeping of accounts	5. 11. 2007
Contract for outsourcing and provision of services Operations and Back Office	Provision of back-office services – in the area of treasury	5. 11. 2007
Contract for outsourcing and provision of services Operations and Back Office	Provision of back-office and ICT services – in the area of card processing	5. 11. 2007
Contract for outsourcing and provision of services Operations and Back Office	Provision of back-office and ICT services – in the area of foreign payment system	5. 11. 2007
Coordination Agreement	Agreement to secure communication with third parties with respect to the Contract for outsourcing of services Operations and Back Office dated 5. 11. 2007	5. 11. 2007
Fleet Management Agreement	Agreement to supply HW and SW components and related services	1. 1. 2008
Service Level Agreement no BTS 2008-006	A foreign payment system for UCB SK	1. 1. 2008
Contract for outsourcing and provision of ICT services	ICT Services – Provision of services in the area of information systems (UniCredit Bank) – contracts with foreign companies and Czech spin-off enterprise	28. 6. 2010
Contract for outsourcing and provision of ICT services	ICT Services – Provision of services in the area of information systems (UniCredit Bank SK)	23. 12. 2010
Non-residential Lease Agreement No. 018/PP-2010/3560	Lease of non-residential premises in Šancova Street Bratislava	31. 12. 2010
Agency Contract	Sharing of the provision of services of Bank suppliers	1. 1. 2012
Sublease contract	Sublease of premises in the building no. 1525, Želetavská 1, Prague 4	29. 6. 2012
Operating manual ATM	Operating manual for ATM services	30. 11. 2012
Data Processing Agreement	An agreement concerning the processing and security of data, data protection and duty not to disclose confidential information from the contract with a foreign company and Czech spin-off enterprise	30. 9. 2013
Coordination Agreement	Agreement to secure communication with third parties with respect to the Contract for outsourcing of services Operations and Back Office dated 1. 4. 2014	1. 4. 2014
Contract for outsourcing and provision of services Operations and Back Office	Outsourcing contract related to a Slovak branch – provision of back office services in the area of payment system, keeping of accounts, treasury, card processing	1. 4. 2014
Non-residential Lease Agreement dated 20. 5. 2014	Lease of non-residential premises in Zvolen (from 1. 4. 2014)	20. 5. 2014

Contract name	Subject-matter of contract	Contract concluded on
MACH Implementation Project IT-Services Agreement	Standard conditions for IT services for the implementation project MACH	18. 12. 2015
Project contract for the project "IFRS 9 implementation"	Contract for CZ	10. 3. 2016
Project contract for the project "IFRS 9 implementation"	Contract for SK	10. 3. 2016
Project contract for the project "CZ-BACS Replacement"	Contract for CZ	10. 3. 2016
Project contract for the project "CZ-BACS Replacement"	Contract for CZ	10. 3. 2016
Project contract for the project "FDS project (cards)"	Project contract	10. 3. 2016
Project contract for the project "CEE2020 DCC-Dynamic Currency Conversion_ATM"	Project contract	10. 3. 2016
Project contract for the project "CEE2020 Product and Process Improvements"	Contract for SK	10. 3. 2016
Project contract for the project "2020 CORE Performance improvements"	Contract for SK	10. 3. 2016
Agreement for IT Services connected to the project "Project for sale"	Contract for CZ	10. 3. 2016
Agreement for IT Services connected to the project "Project for sale"	Contract for SK	10. 3. 2016
Zmluva o nájme nebytových priestorov	Lease of commercial space at Svätopluka ulice in Bratislava	01. 8. 2016
Standard Terms and Conditions	Development of software for project CEE2020 GTB Spider	18. 4. 2016
Standard Terms and Conditions	Development of software for project CEE2020 United Front End	24. 6. 2016

4.7. Between UCB CS and **UniCredit Leasing CZ, a.s.**, Reg. No.: 15886492, Prague 4 – Michle, Želetavská 1525/1, Postcode 14010

Contract name	Subject-matter of contract	Contract concluded on
Contract on lease of premises for business purposes	Lease of premises in building no. 28, Široká 5, Liberec	28. 7. 2015
Non-residential Sublease Agreement	Sublease of premises in building no. 1176-1177, Dr. Davida Bechera 26, Karlovy Vary	23. 3. 2010
Contract for Lease of Security Equipment and Camera System	Lease of system owned by Bank installed on leased premises of UniCredit Leasing CZ, a.s.	1. 4. 2012
Agency Contract	Sharing of the provision of services of Bank suppliers	2. 4. 2012
Sublease contract	Sublease of parking spaces in building no. 1525, Želetavská 1, Prague 4	13. 3. 2013
Non-residential Lease Agreement	Lease of premises in 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 for 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 for sublease of commercial space	Sublease of commercial space at 457, 28. října 15, Olomouc	29. 3. 2016

4.8. Between UCB CS and **UniCredit Factoring Czech Republic and Slovakia**, Reg. No.: 152 72 028, Prague 4 – Michle, Želetavská 1525/1, Postcode: 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 Exchange of Parking Places	Mutual exchange of parking spaces in building Filadelfie, Želetavská 1525/1, Prague 4	4. 6. 2015
Agreement on Provision of Services and Mandate Agreement	Provision of banking services	4. 1. 2016
Agreement on Mutual brokerage business cases	Mutual brokerage of business cases	4. 1. 2016

4.9. Between UCB CS and **UCTAM Czech Republic s.r.o.**, Reg. No.: 24275671, Prague 1 – Nové Město, Náměstí Republiky 2090/3a, Postcode 11000

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement	Lease of premises in building no. 2090, náměstí Republiky 3a, Prague 1	12. 6. 2013 (terminated as of 29. 3. 2016)
Sublease Agreement	Sublease of commercial spaces at 2090, náměstí Republiky 3a, Praha 1	22. 3. 2016

4.10. Between UCB CS and **UniCredit Leasing Slovakia, a.s.**, Reg. No.: 35 730 978, Šancová 1/A, Bratislava, 814 16, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Sublease Agreement	Sublease of non-residential premises in Šancová 1/A in BBC building	28. 3. 2007
Non-residential Sublease Agreement No. 173/3563/2011	Lease of non-residential premises in Prešov in Hlavna Street	14. 4. 2011
Non-residential Lease Agreement No. 301/3563/2011	Lease of non-residential premises in Nitra in Štefánikova Street	27. 6. 2011
Non-residential Lease Agreement No. 302/3563/2011	Lease of non-residential premises in Košice in Rooseveltova Street	27. 6. 2011
Non-residential Lease Agreement No. 214/3563/2012	Lease of non-residential premises in Žilina in Národna Street	15. 6. 2012
Contract for the Provision of Services and Contract of Mandate	UCL SK outsourced certain its activities into the Bank	6. 8. 2014
Contract for Processing of Personal Data	Processing of personal data of UCL SK by the Bank with respect to outsourcing	6. 8. 2014
Non-residential Lease Agreement dated 31. 10. 2014	Lease of non-residential premises in Šancova 1/A BA (from 1. 11. 2014)	31. 10. 2014
Non-residential Lease Agreement	Lease of non-residential premises in Plynárenská, BA	31. 10. 2014
Non-residential Sublease Agreement	Lease of non-residential premises in Svätoplukova Street, Bratislava	1. 9. 2015
Non-residential Sublease Agreement	Sublease of non-residential premises in Svätoplukova Street, Bratislava	1. 7. 2015
Agreement on Lease of Commercial Space	Lease of Commercial Space Svätoplukova ul. v Bratislave	1. 8. 2016

4.11. Between UCB CS and **Pioneer Asset Management, a.s.**, Reg. No.: 25684558, Želetavská 1525/1, Michle, 140 00 Prague 4

Contract name	Subject-matter of contract	Contract concluded on
Contract for Custody and Administration of Securities	Custody and administration of securities	16. 1. 2007
Agency Contract for Securities Settlement	Settlement of securities	16. 1. 2007
Contract for Mediation of Management Contracts	Regulation of conditions for mediation of management contracts.	19. 1. 2007
Contract for Mediation of Participation in SKD	Mediation of participation in the system of short-term bonds in the Czech National Bank	22. 2. 2008
Contract for Distribution of Rentier Invest, Zlatá rybka, Pioneer Invest	Distribution of products Rentiér Invest and Zlatá rybka through the Bank	22. 11. 2012
Contract for Receipt and Processing of Instructions	Receipt and processing of instructions related to mutual fund certificates within products Rentier Invest, Zlatá rybka through Arbes TA web	1. 7. 2013
Distribution Agreement	Distribution of products Pioneer Invest, U Invest, Rytmus through the Bank	20. 3. 2015
Contract for Promotion of Investment Services	Promotion of investment services	15. 5. 2015
Contract for Promotion of Investment Services SK	Promotion of investment services through a branch in Slovakia	1. 5. 2015
Sublease Agreement	Sublease Agreement 2090, náměstí Republiky 3a, Praha 1	22. 3. 2016

4.12. Between UCB CS and **Pioneer Asset Management S.A.**, 8-10, rue Jean Monnet, L-2180 Luxembourg

Contract name	Subject-matter of contract	Contract concluded on
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., "the Commercial Code	Contact bank and payment agent (PIONEER FUNDS)	28. 1. 2005
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., the Commercial Code	Contact bank and payment agent (PIONEER NEW EUROPE FUNDS)	28. 1. 2005

Contract name	Subject-matter of contract	Contract concluded on
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., the Commercial Code	Contact bank and payment agent (PIONEER P.F.)	7. 12. 2006
Distribution Agreement	Distribution agreement – lux. funds, exclusivity of UCB as the distributor between banks, exclusivity of Pioneer funds in the offer of collective investment schemes	1. 4. 2007 / 8. 1. 2008
Operational Memorandum	Supplementary provisions of the agreement, PAM a.s., like a processing agent, nominee arrangement	1. 4. 2007 / 8. 1. 2008

4.13. Between UCB CS and **Pioneer investiční společnost, a.s.,** Reg. No. 63078295, Želetavská 1525/1, Prague 4

Contract name	Subject-matter of contract	Contract concluded on
Agreement on promotion of participation certificates of open-end mutual funds	Distribution of participation certificates of Czech funds Pioneer through the Bank	2. 10. 2006
Contract for Mediation of Participation in SKD	Mediation of participation in the system of short-term bonds in the Czech National Bank	15. 11. 2007
Agreement to perform activities related to offer of participation certificates	Distribution of participation certificates of Czech funds Pioneer through the Bank	1. 4. 2008
Contract for Custody and Management of Securities	Custody and management of securities	15. 9. 2008
Agency Contract for Securities Settlement	Securities settlement	15. 9. 2008
Depositary Agreement	Obligation of depositary to carry out depositary 's activities for the client	6. 6. 2014
Indemnification Agreement	Compensation of damage as a result of failure of the Bank as a custodian	25. 11. 2015

4.14. Between UCB CS and **Pioneer Global Funds Distributor Ltd.**, Mercury House, 2nd Floor, 101 Front Street, Hamilton HM12, Bermuda

Contract name	Subject-matter of contract	Contract concluded on
Purchase Conditions for Pioneer Alternative Investments' investment funds according to Irish and Bermudan Law	Distribution of mutual funds Pioneer Alternative Investments based in Ireland and in Bermuda through the Bank	19. 12. 2006
Contract „Purchase conditions" for Hedged funds	Business terms and conditions for investment funds according to the Irish and Bermuda legislation	5. 10. 2005 Živnobanka, 28. 2. 2007 HVB

4.15. Between UCB CS and **Pioneer Global Funds Distributor, Ltd.** a **Pioneer Global Investments Limited,** 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland

Contract name	Subject-matter of contract	Contract concluded on
Novation Agreement	Transfer of rights and obligations under distribution agreements of collective investment securities	1. 9. 2014
Novation Agreement	Transfer of rights and obligations under distribution agreements of collective investment securities	1. 9. 2014
Novation Agreement	Transfer of rights and obligations under distribution agreements of collective investment securities	1. 9. 2014

4.16. Between UCB CS **Pioneer Global Investments Limited,** 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland

Contract name	Subject-matter of contract	Contract concluded on
Distribution Agreement	Distribution of participation certificates of funds Pioneer Investments based in Luxembourg through the Bank	29. 3. 2004
Purchased conditions for Pioneer Alternative Investments' investment funds	Distribution of fund units Pioneer Alternative Investments based in Ireland and in Bermuda through the Bank	5. 10. 2005
Distribution Agreement	Distribution of participation certificates of funds Pioneer Investments based in Luxembourg through the Bank	17. 10. 2006
Purchased conditions for Pioneer Alternative Investments' investment funds	Distribution of fund units Pioneer Alternative Investments based in Ireland and in Bermuda through the Bank	15. 2. 2007

4.17. Between UCB CS, **Pioneer Asset Management, a.s.**, and **Pioneer investiční společnost, a.s.**

Contract name	Subject-matter of contract	Contract concluded on
Contract for Mutual Cooperation and Keeping of Accounts	Distribution of participation certificates of Czech funds Pioneer, conditions for keeping of client accounts	29. 10. 2013

4.18. Between UCB CS, **Pioneer Investments Austria GmbH,** Lassallestraße 1 Vienna, A-1020

Contract name	Subject-matter of contract	Contract concluded on
Vertriebstellenvertrag	Exclusive authorization of HVB bank Slovakia, a.s. for all activities related to the sale of shares in the SR	25. 11. 2002

4.19. Between UCB CS and **UniCredit Bank Hungary Zrt.**, Szabadság tér 5–6, Budapest, 1054, Hungary

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Custody, management and settlement of securities	9. 1. 1999
Subcustody Agreement	Management and custody of securities (a branch in Slovakia)	23. 1. 2003
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	23. 5. 2007
Subcustody Agreement	Management and custody of foreign securities	21. 12. 2007

4.20. Between UCB CS and **Pioneer Asset Management, a.s.**, Reg. No.: 25684558, Želetavská 1525/1, Michle, 140 00 Prague 4, **Pioneer investiční společnost, a.s.,** Reg. No. 63078295, Želetavská 1525/1, Prague 4, CS **Pioneer Global Investments Limited,** 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland, **Pioneer Asset Management S.A.**, 8-10, rue Jean Monnet, L-2180 Luxembourg

Contract name	Subject-matter of contract	Contract concluded on
Agreement on deepening Commercial Relationship	Agreement on deepening existing commercial cooperation established based on separate distribution agreements	22. 8. 2016

4.21. Between UCB CS and **Bank Polska Kasa Opieki S. A.**, Warsaw, Grzybowska 53/57, Poland

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of foreign securities	24. 10. 2006
Subcustody Agreement	Custody, management and settlement of securities	15. 11. 2007

4.22. Between UCB CS and **Pekao Investment Banking S.A.**, Warsaw, Wołoska 18, Poland

Contract name	Subject-matter of contract	Contract concluded on
Service Level Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic	25. 6. 2015

4.23. Between UCB CS and **UniCredit banka Slovenija d.d.**, Šmartinska cesta 140, 1000 Ljubljana, Slovenia

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Custody and management of foreign securities	10. 11. 2014

4.24. Between UCB CS 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

4.25. Between UCB CS and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 62582836 Prague 4 – Michle, Želetavská 1525/1, Postcode 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 – 314 cars	Contracts valid in 2016

4.26. Between UCB CS and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35 820 381, Šancová 1/A, Bratislava 814 12, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Operating Lease Contract	Conditions for operating lease of motor vehicles	30. 8. 2007
Lease Contract for means of transport	Contracts for hire of vehicles –110 cars in SK	Contracts valid in 2016

4.27. Between UCB CS and **UniCredit Tiriac 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

4.28. Between UCB CS 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 CS	23. 11. 2012

4.29. Between UCB CS and **Diners Club CS, s.r.o., organizační složka (a branch)**, Reg. No.: 24768669 Prague 1, Široká 36/5, Postcode 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

4.30. Between UCB CS and **UniCredit Business Integrated Solutions Austria GmbH**, Nordbergstraße 13, 1090 Vienna, Austria

Contract name	Subject-matter of contract	Contract concluded on
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

4.31. Between UCB CS 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

4.32. Between UCB CS a **UniCredit Bulbank AD Sofia**, 7 Sveta Nedelya Sq, Bulharsko

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	25. 11. 2015

4.33. In addition to the above stated contracts, in the last financial year, also other contracts were effective between UCB CS 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 CS cooperated with such companies in the issue of bonds, and also entered into client banking transactions (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of UCB CS 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 CS, 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 person or its controlled persons, if such acts related to assets exceeding 10% of equity of the controlled person ascertained according to the most recent financial statements,*

The limit of 10% of UCB CS equity, according to the financial statements at the end of 2015, was 58. 811 mil. CZK, exceeded in 2016 the funding provided by UCB CS to UniCredit Leasing CZ, a.s. and to its subsidiaries. The funding was provided on standard market conditions.

In the course of 2016, the controlling person deposited amounts on its accounts kept at UCB CS for a short period of time, and the aggregate of these amounts exceeded 10% of UCB CS equity. The deposits were provided on conditions which are standard in the interbank market for the relevant currency.

6. *Evaluation of whether any loss was caused to the controlled person, and assessment of the compensation pursuant to Articles 71 and 72 of Act on Commercial Corporations*

The UCB CS 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 persons under paragraph 82 par. 1 of Act on Commercial Corporations*

Advantages of integration of UniCredit bank CS 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., CEE2020 Boost, to whom UCB CS provides 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 (e.g., sponsoring of UEFA Champions League and of UEFA European League).
– Participation of UniCredit CS 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 CS 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 CS 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 CS and communication, and by building a strong 'brand' on the local level.

In Prague, on 28 March 2017

On behalf of the Board of Directors of
UniCredit Bank Czech Republic and Slovakia, a.s.

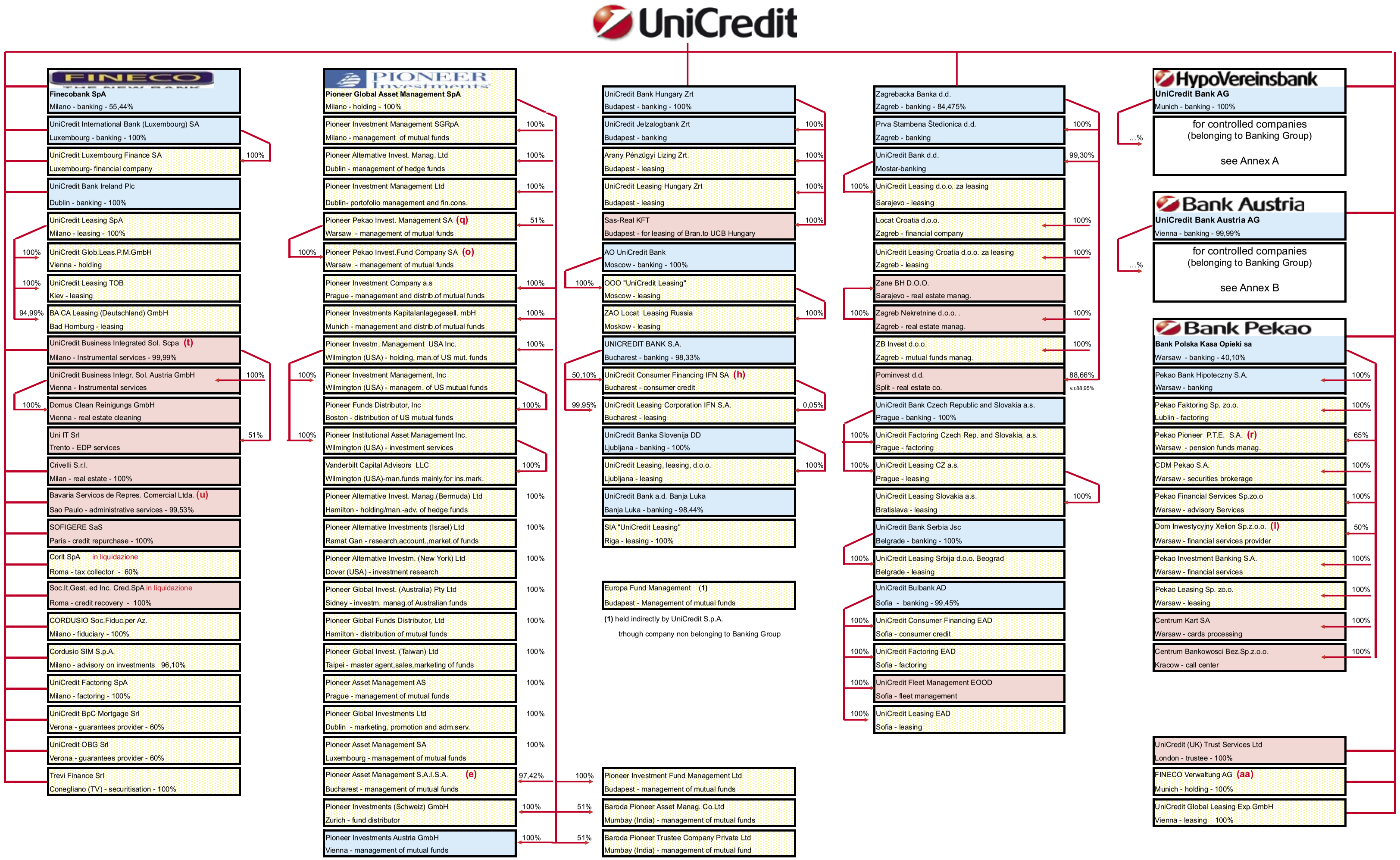
Ing. Jiří Kunert
Chairman of the Board of Directors

Ljubisa Tesić
Member of the Board of Directors

Annexes:

1. Organisation Chart of the UniCredit Group

Structure of UniCredit Group

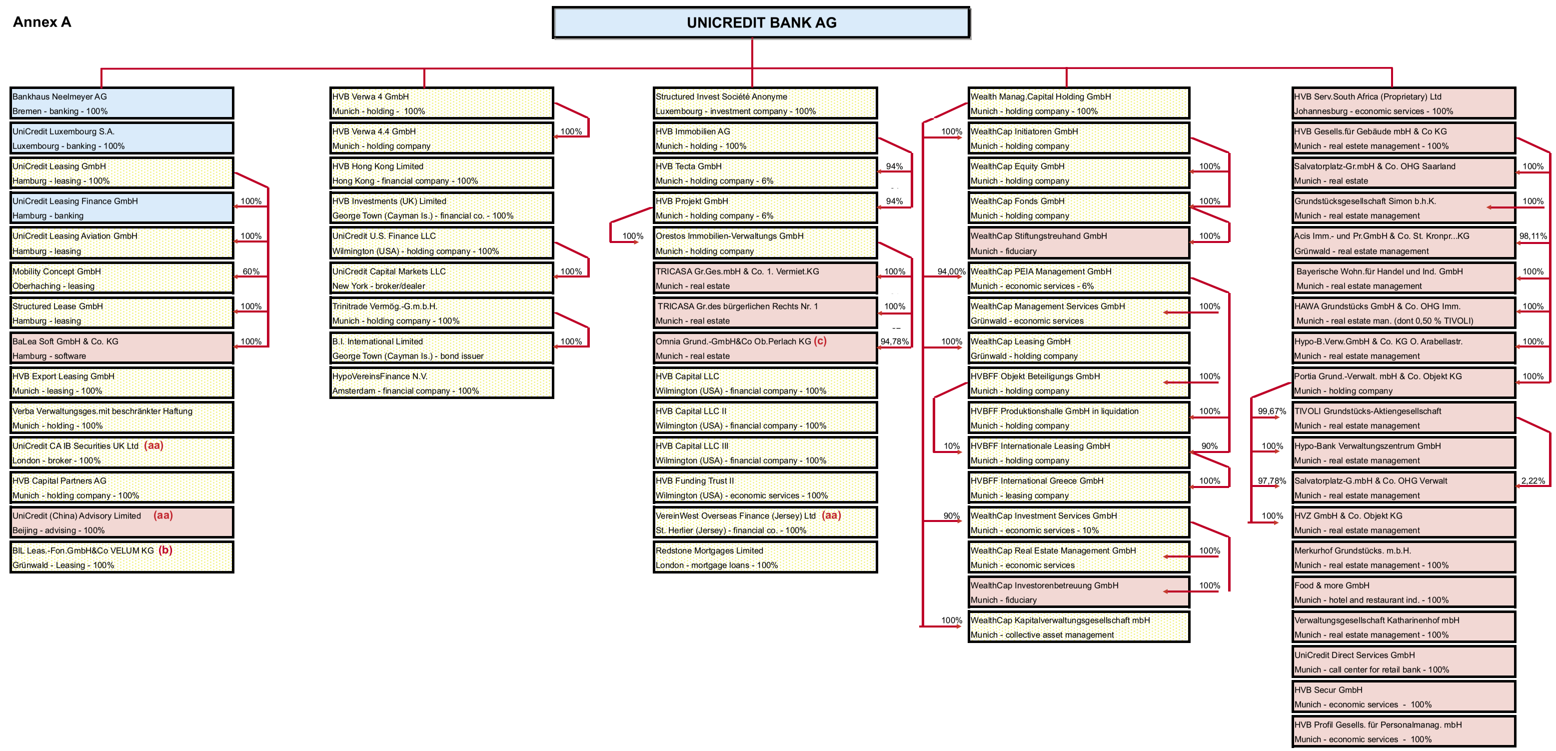


Companies belonging to the Banking Group

- banking
- financial
- instrumental

(e) 2,575% held by UNICREDIT BANK SA (h) 49,9% held by UniCredit SpA (l) 50% owned directly by UniCredit SpA (o) in Polish: Pioneer Pekao TFI SA (q) 49% held by Bank Pekao SA (r) 35% held by Pioneer Global Asset Management SpA (t) Other companies belonging to UniCredit Group and third parties hold 10/20 shares of the company (u) 0,47% held by UniCredit (UK) Trust Services Ltd (aa) under liquidation process
(z) Requested to Bank of Italy the inclusion in the Banking Group

Annex A

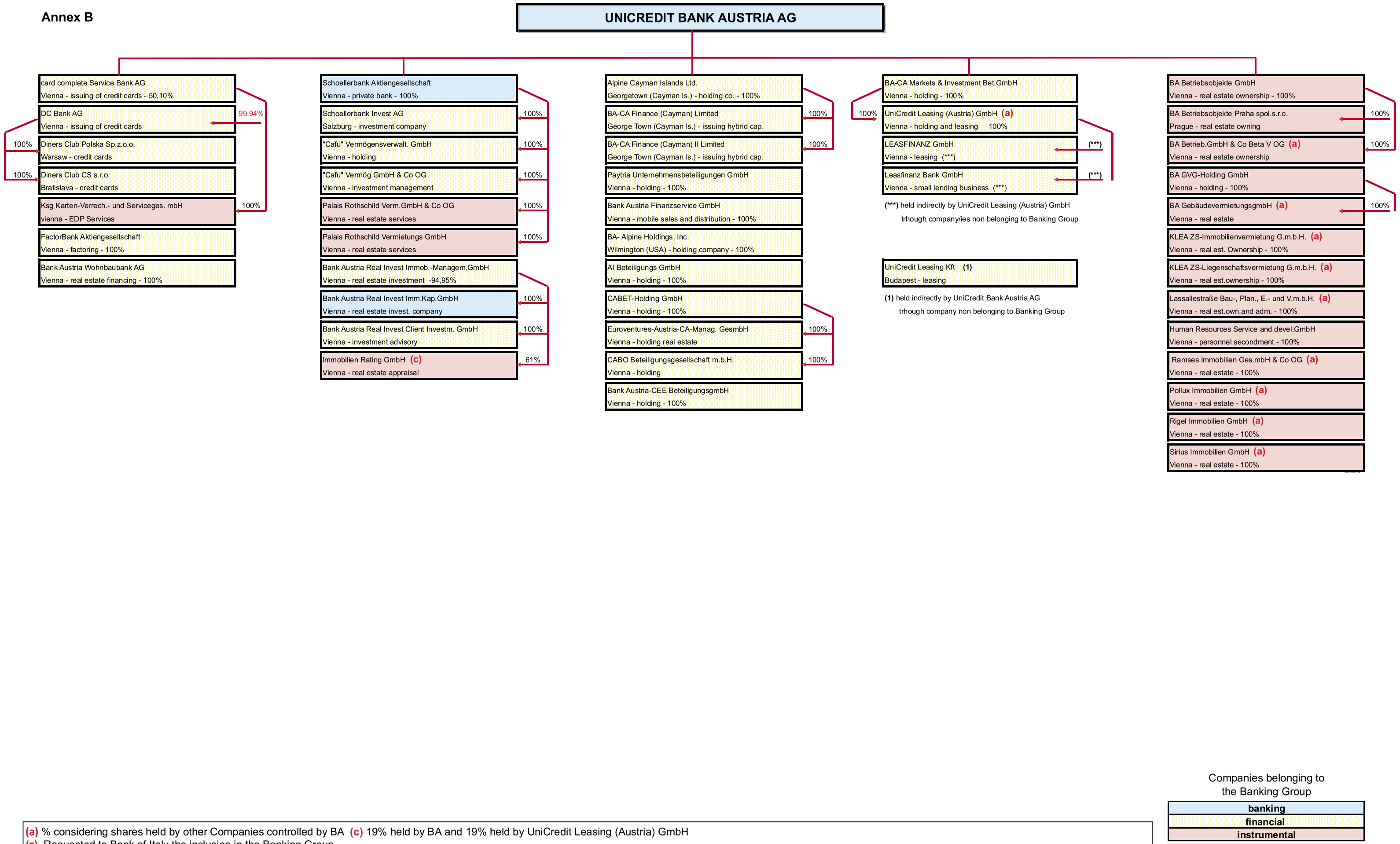


(b) Voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (c) 5,22% held by WealthCap Leasing GmbH (aa) under liquidation process
(z) Requested to Bank of Italy the inclusion in the Banking Group

Companies belonging to the Banking Group

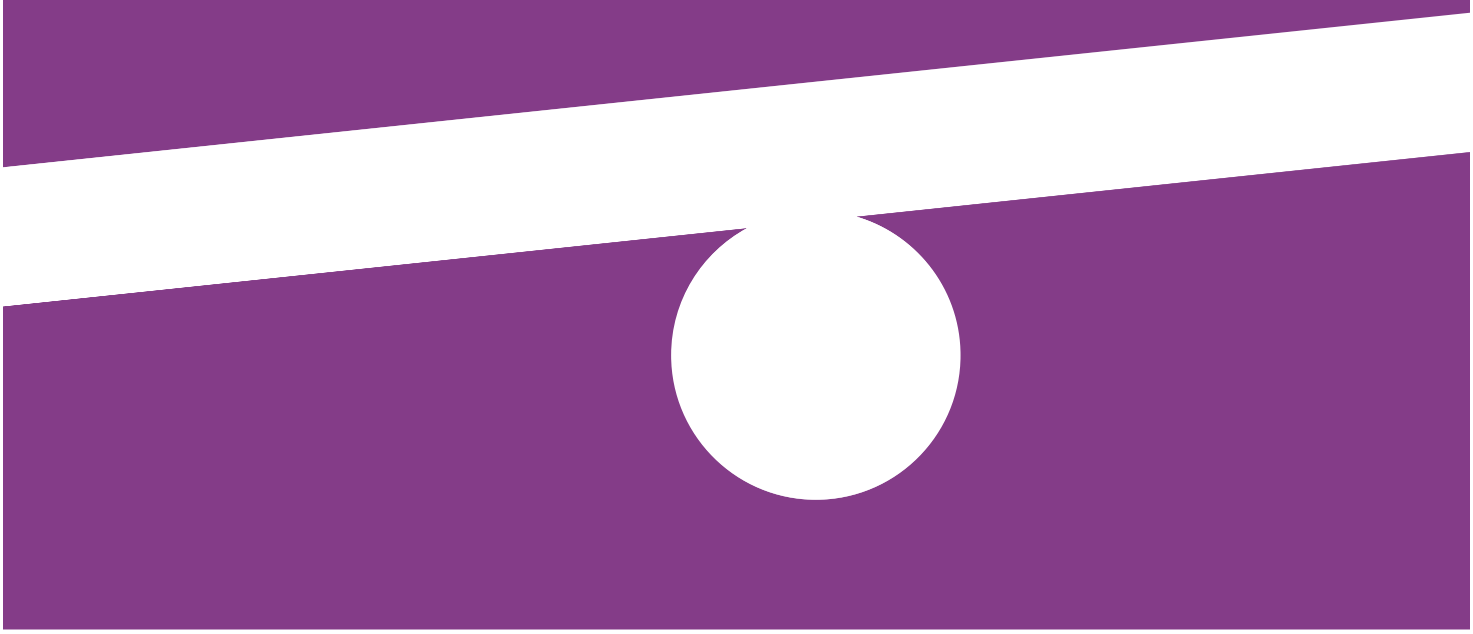
banking
financial
instrumental

Annex B



(a) % considering shares held by other Companies controlled by BA (c) 19% held by BA and 19% held by UniCredit Leasing (Austria) GmbH
(z) Requested to Bank of Italy the inclusion in the Banking Group

Risk Management



In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

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