One Bank One UniCredit

2017

Annual Report

Banking that matters. | UniCredit Bank

Banking that matters. UniCredit

One Bank,
One UniCredit.

We are a simple, successful Pan European Commercial Bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to our extensive franchise of 25 million clients.
Our strategy is long-term. We are transforming the Group through decisive actions to lay the groundwork for the future, changing the way we work to anticipate our clients' medium-term evolution. Everything we do is designed to make UniCredit a true Pan European Winner.

Chairman's message

"Today, UniCredit is a leading pan-European bank, well-equipped to address the future, and I thank all those who helped us achieve this result."

Giuseppe Vita
Chairman

Dear Shareholders,

After six years as Chairman of UniCredit, I will be stepping down at the next Annual General Meeting, confident in the knowledge that UniCredit today is a much changed and stronger Group, poised for future growth and success. During my time here, the whole banking sector has faced unparalleled challenges and undergone a significant evolution. UniCredit has seized on this and taken the opportunity to undertake an in-depth long-term transformation of the Group, in order to create a true pan-European winner.

Having worked closely with all the UniCredit teams, I have developed an enormous respect and appreciation for the people within the Group. Thanks to them, UniCredit will be able to achieve its remarkable potential. The work of UniCredit's teams, under the strong leadership of our CEO Jean Pierre Mustier has made our Group one of Europe's most solid financial institutions. I would like to sincerely thank Jean Pierre for accelerating the transformation of our business model at a time when every company, including banks, must evolve. I greatly appreciate his constructive work with the board to define a clear long-term strategy, which has been well-received by investors and all other stakeholders.

The past year saw an improved economic situation at both global and European level, and although interest rates remained persistently low, UniCredit experienced positive dynamics across the Group. Thanks to decisive actions, the Group is now significantly better positioned to address the future.

In 2017, UniCredit launched and began implementing its Transform 2019 plan, the start of a long-term process to ensure UniCredit becomes a true pan-European winner. I am pleased that the plan is already delivering tangible results by improving both our Group's profitability and capital base, by changing the way we work and by allowing our teams to focus even more on our customers.
We redefined UniCredit's perimeter, while remaining one of the few true pan-European banks with a global reach. At the same time, we greatly reduced our portfolio of impaired loans, significantly improving our risk profile. The Group is making decisive strides forward in the area of technology, thanks to a series of key investments that will allow us to stay ahead of our customers' evolving behaviors and needs.

UniCredit's decisive actions benefitted all the Group's stakeholders and the entire Italian banking system as well as Italy as a whole.

Our progress has allowed us to announce a gradual increase of our dividend as of financial year 2019. In our dividend policy, we have taken into account the evolving regulatory framework, current monetary policies and the changing competitive scenario. Even as these factors have exerted greater pressure on the profitability of our sector, we are confident we have taken the best decisions for our investors, especially all our long-term shareholders.

We have charted a clear course toward change, and our progress was accelerated in 2017 by two extraordinary shareholders' meetings, which lay the groundwork for a new, stronger UniCredit.

The first meeting, in January 2017, saw the approval of the largest capital increase in history by a company based in Italy. I thank you for this act of trust in the bank, which helped us plan for the future with rigor and determination.

The second meeting, in December 2017, allowed for the improvement of UniCredit's governance, delivering far-reaching positive implications for the bank. The decision at that December meeting to empower the Board of Directors to submit its own list of candidates, to increase the number of board members drawn from the second list of candidates from one to two, to eliminate the 5 percent limit on voting rights, and to convert savings shares into ordinary shares aligned the Group with international best practices.

Among other notable changes was the cooptation of Fabrizio Saccomanni to our Board of Directors. I warmly welcome him to the board and I am certain that UniCredit will greatly benefit from his outstanding experience in the banking sector and his in-depth knowledge of European regulatory regimes.

These changes, like the others we have made in recent years, bring us closer to our ultimate goal: to make UniCredit a more efficient, more flexible and more profitable bank, able to seize opportunities to create sustainable value.

In light of what we have achieved and what we intend to accomplish, I am confident that the future will bring benefits to our shareholders and to all UniCredit's stakeholders. Thanks to our people, our bank possesses extraordinary strengths. Together, we will successfully ensure UniCredit
is and remains a true pan-European winner.

Sincerely,

Giuseppe Vita
Chairman
UniCredit S.p.A.

Chief Executive Officer's message

"We are transforming through decisive actions. Everything we do is designed to make UniCredit a true pan European Winner."

Jean Pierre Mustier
Chief Executive Officer

Dear Shareholders,

I would like to thank you for your ongoing support during our transformation. At UniCredit, we are taking decisive actions to become more competitive and build a strong, sustainable Bank, poised for future growth. We have executed on all our commitments in 2017, including a successful €13bn capital increase and the disposals of Pioneer Investments and Bank Pekao stakes. We concluded FINO Phase 1, with the sale of a €17.7bn portfolio. Everything we do is designed to make UniCredit a true pan European Winner.

Our strategy is to be One Bank, One UniCredit: a simple, successful, pan European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

This strategy is long-term. What we are doing today to implement Transform 2019 – our strategic plan – is laying the groundwork for the future success. It is changing the way we work to anticipate our clients' medium-term evolution, including their use of multiple channels.

* FINO: Faliure Is Not An Option

Our investments in digital aim to improve the customer experience as we continue to optimise our processes and our cost base. New commercial dynamics are driving how we train and develop our people.

Our management is clear on this vision and their actions are underpinned by a strict long-term incentives structure based on the plan's key performing indicators. All our people are focused on the ongoing execution of Transform 2019. It is their energy, commitment and hard work which allow UniCredit to deliver tangible results.

As presented to investors at the 2017 Capital Markets Day in December, our performance is fully on track and we have confirmed all the Transform 2019 key targets, with a better risk profile and an improved dividend payout.

We have **strengthened our capital position**, resulting in a lower SREP Pillar 2 Requirement and an S&P upgrade to a BBB rating with a stable outlook. We have confirmed our 2019 CET1 ratio target whilst anticipating additional regulatory headwinds during the plan period. Post 2019, the CET1 ratio will remain above 12.5 per cent, thanks to organic capital generation that will fully absorb the expected regulatory impacts.

In terms of **asset quality**, we signed binding agreements to reduce our stake in FINO to below 20 per cent. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics. Finally, as announced, we are improving on our original Group Gross NPEs' target, cutting a further €4.0bn by the end of 2019. The full rundown of the Non Core portfolio, which will occur by the end 2025, is entirely self-funded.

In terms of **transforming our operating model**, we have confirmed our overall revenues and cost targets. Our FTE and branch reductions are ahead of schedule and our digital and IT transformation is fully on track.

We continue to **maximise commercial bank value**, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe continue to benefit from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. Cost reductions are progressing according to plan. In two other core divisions, CEE and CIB, we have further strengthened our leadership positions while keeping a strong focus on risk.

Finally, In terms of **adopting a lean but steering centre**, decisions taken at our latest EGM concerning, for example, a simplified share structure, position us as best in class in terms of European corporate governance.

Finally, on behalf of the Board of Directors and the whole Group, I would like to extend a special thanks to Giuseppe Vita, whose successful tenure as the Chairman of UniCredit is coming to a close. Giuseppe's significant contributions over the past six years have been very precious to our development. His vision and support have enabled UniCredit to grow into one of the few truly pan European commercial banks.

Sincerely,

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

Letter from the Chairman

"In 2017, we implemented all the changes to our compensation framework, announced at the same time as the Strategic Plan presentation, underpinning a strong alignment between management and shareholders. In 2018, we confirm our policy main pillars together with a compensation framework substantially unchanged, furtherly emphasizing the importance of compliance culture and individual conduct vis-à-vis the remuneration approach."

Alessandro Caltagirone
Chairman of the Remuneration Commitee

Dear Shareholders,

our compensation policies are an integral part of our strategy, our remuneration practices are therefore designed to enable the achievement of business targets and to ensure full alignment to our risk management framework, in compliance to national and international regulatory requirements.

We are consequently committed to design compensation systems that reflect the group's and individual performance sustainability and to set pay levels, aligned to market benchmarks, capable of attracting, rewarding and retaining the best people.

Since the end of 2016, all our colleagues have been focused on the execution of our

2016-2019 Strategic Plan, Transform 2019, which encompasses all the major areas of the Bank. Our Plan is fully on track and is delivering tangible results, all the 2019 key targets have been confirmed, with an improved risk profile. In this context, in 2017, we implemented all the changes to our compensation framework, announced at the same time as the Strategic Plan presentation, underpinning a strong alignment between management and shareholders.

In particular, among others, we reviewed the variable compensation structure, envisaging, for group senior management, a wider long term component, represented by the Long-Term Incentive Plan (LTIP), based on the Transform 2019 key performance indicators and combined with the Strategic Plan horizon.

In 2018, we confirm our policy main pillars together with a compensation framework substantially unchanged, furtherly emphasizing the importance of compliance culture and individual conduct vis-à-vis the remuneration approach.

Moreover, we re- affirm the relevance of effective and clear communication with our shareholders, by providing, with the support of different tools, both comprehensive disclosure on our practices and more concise information on the main important elements of our policy. On this point, I would like to thank once again our investors for being available to constructively exchange views with us, aiming at understanding and addressing mutual needs.

In closing, let me express my gratitude to my fellow members of the Remuneration Committee for their cooperation and their contribution to our common activities during the past years. Also on their behalf, I would like to convey our best wishes to our successors.

Sincerely,

Alessandro Caltagirone
Chairman of the
Remuneration Committee

Highlights

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 25 million clients.
UniCredit offers local expertise as well as an international one reaching and supporting its clients globally, providing them with unparalleled access to leading banks in its 14 core markets as well as in another 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[1]

Operating income
€ 19,619 m

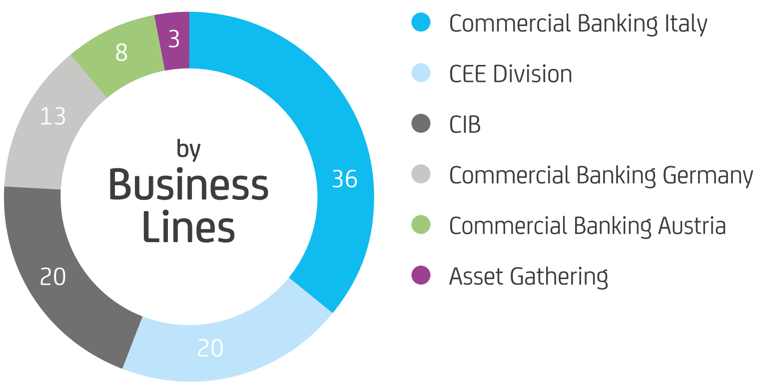
Net profit (loss)
€ 5,473 m

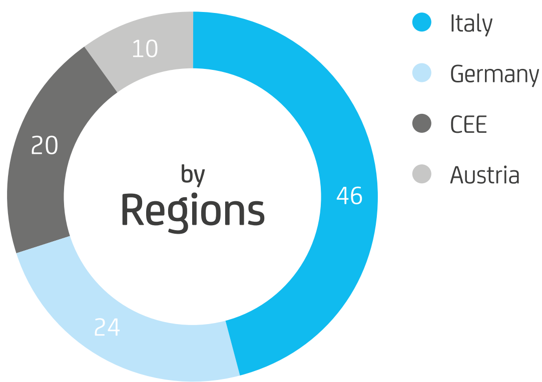
Shareholders' equity
€ 59,331 m

Total assets
€ 836,790 m

Common Equity Tier 1 ratio*
13.60%

Revenues[1] (%)

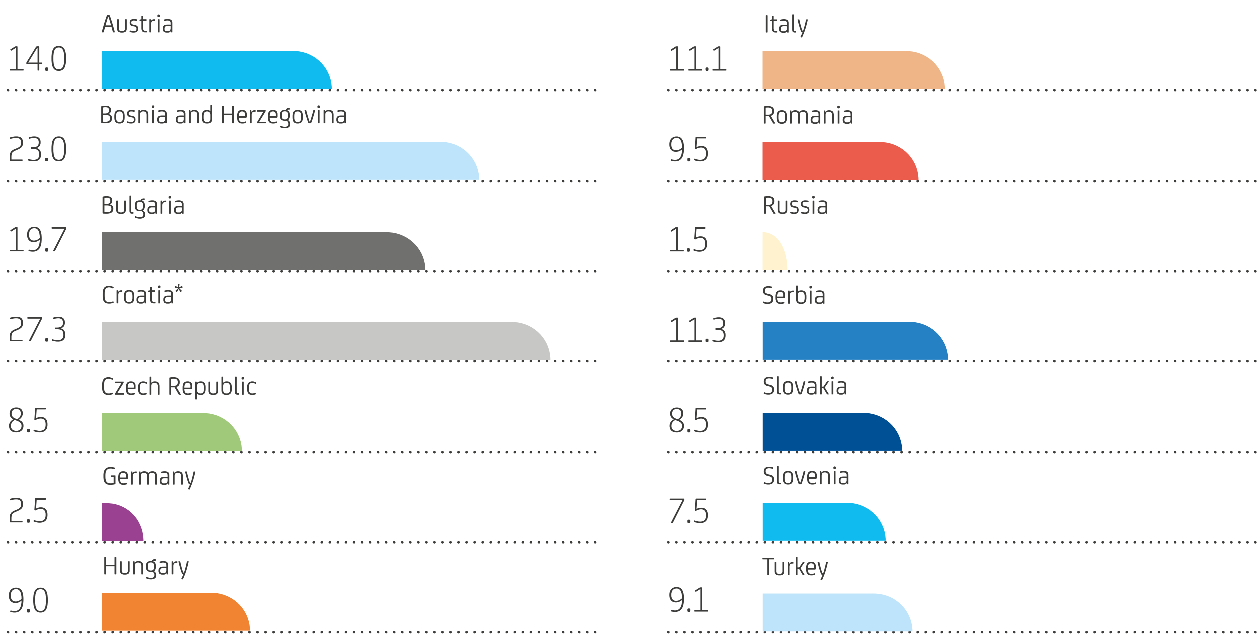




1. Data as of December 31, 2017. In accordance with IFRS5, the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies till the date of the deconsolidation, were recognized in Income Statement under item "Profit (loss) after tax from discontinued operation".
Disposals were finalized during 2017.
* Fully loaded CET1 ratio.

UniCredit European Banking Network

Market Shares[2] (%)



2. Market Shares in terms of Total Loans as of November 2017.
* Data as of October 2017.
Source Company data, National Central Banks.

Transform 2019 Milestones

Transform 2019 – our strategic plan – is yielding tangible results.

Our strategy is to be One Bank, One UniCredit: a simple, successful, Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

2016 CAPITAL MARKETS DAY

Strengthen and Optimise Capital — **02.03**

CAPITAL INCREASE

Successful **€13bn capital increase**

Strengthen and Optimise Capital — **07.06**

STRENGTHEN CAPITAL

Disposal of 32.8% stake in **Bank Pekao**

Transform Operating Model — **01.07**

UBIS REORGANISATION

UBIS reorganisation brings improved accountability and simplified processes to further improve customer experience

Strengthen and Optimise Capital — **03.07**

STRENGTHEN CAPITAL

Disposal of **Pioneer Investments** to Amundi

Improve Asset Quality — **17.07**

FINO PHASE 1 SUCCESSFULLY CLOSED

FINO Phase 1 definitive agreements signed with Pimco and Fortress for the sale of €17.7bn portfolio

Improve Asset Quality — **21.09**

STRENGTHEN RISK CONTROLS

New Risk Management structure in place to further strengthen the effectiveness of risk controls

Adopt Lean but Steering Corporate Center — **04.12**

CORPORATE GOVERNANCE SIMPLIFICATION

Strengthened corporate governance and simplified share capital structure to position UniCredit as best in class in terms of European **corporate governance**

2017 CAPITAL MARKETS DAY

Improve Asset Quality

The banking industry is evolving but our core business will always be to support client growth with a unique proposition linked to credit. It is our responsibility to provide advice and support so that companies can develop and globalise – while ensuring sustainable growth. This also means looking beyond purely economic returns, to drive investments with a positive impact on society.

In UniCredit, **"Improve Asset Quality"** is a key pillar of our strategic plan.

- We are focused on the proactive de-risking of our balance sheet
- A strong risk discipline safeguards the quality of future origination
- A new risk management structure further strengthens the effectiveness of our risk controls.

Key Asset Quality Metrics

	2016	2017	2019
Coverage ratio	55.6%	56.2%	>54%
Group Gross NPEs ratio	11.8%	10.2%	7.8%
FINO portfolio disposal	FINO Phase 1 signed in December 2016	FINO Phase 1 concluded with **€ 17.7bn**	FINO Phase 2 signed to sell down below **20%**

Banking that matters.

UniCredit

In this era of unprecedented change customers are looking for companies they can trust and that can play a tangible positive role in their everyday lives. UniCredit has a simple and successful Pan European Commercial banking model delivering relevant solutions to the real needs and wants of today's customers.

Contents

Consolidated financial highlights	16
Separate financial highlights	18
Introduction from the Board of Directors	20
Report of the Board of Directors	29
Report of the Supervisory Board	35
Basis for calculating the contribution to the Guarantee Fund	35
Consolidated financial statements	37
Consolidated statement of comprehensive income for 2017	37
Consolidated statement of financial position as of 31 December 2017	38
Consolidated statement of cash flows for 2017	39
Consolidated statement of changes in equity for 2017	40
Notes to the consolidated financial statements	41
Separate financial statements	97
Statement of comprehensive income for 2017	97
Statement of financial position as of 31 December 2017	98
Statement of cash flows for 2017	99
Statement of changes in equity for 2017	100
Notes to the separate financial statements	101
Auditor's report on the annual report	154
Supplementary information	161
Report on relations between the controlling and controlled entities	181
Organizational structure of UniCredit Group	191
List of branches	194

Financial Highlights – Consolidated

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2017 MCZK	31 Dec 2016 MCZK
Operating results		
Net interest income and similar income	11 218	10 145
Net fee and commission income	3 465	3 823
Administrative expenses	(7 752)	(7 854)
Profit before income tax	9 289	7 713
Net profit after tax	7 626	6 045
Statement of financial position figures		
Total assets	672 078	635 042
Receivables from clients – net value	386 672	385 572
Deposits from clients	360 473	371 163
Issued capital	8 755	8 755
Alternative performance indicators*		
Return on average assets (ROAA)	1,2%	1,0%
Return on average equity (ROAE)	12,7%	11,2%
Assets per employee	204,3	190,8
Administrative expenses per employee	2,4	2,4
Net profit per employee	2,3	1,8
Information about capital and capital adequacy		
Tier 1	63 941	56 464
Tier 2	1 424	1 575
Capital	**65 365**	**58 039**
Capital requirement for credit risk under the standardised approach:	**5 481**	**6 466**
Capital requirements for exposure to regional government or local authorities	6	6
Capital requirements for exposure to institutions	4	13
Capital requirements for exposure to businesses	2 152	2 709
Capital requirements for retail exposures	1 986	2 055
Capital requirements for exposures secured by real estate	842	774
Capital requirements for exposures at default	124	255
Capital requirements for equity exposures	82	77
Capital requirements for other items	285	577
Capital requirement for credit risk under the IRB approach:	**18 993**	**20 996**
Capital requirements for exposure to central government or central banks	398	463
Capital requirements for exposure to institutions	901	880
Capital requirements for exposure to businesses	15 522	17 735
Capital requirements for retail exposures	1 781	1 918
Capital requirements for other non credit-obligation assets	391	–
Capital requirements for position risk	313	527
Capital requirements for currency risk	61	67
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	55	39
Capital requirements for operational risk	1 939	1 800
Capital requirements for credit valuation adjustment	85	111
CET1 capital ratio	19.00 %	15.05 %
Tier 1 capital ratio	19.00 %	15.05 %
Total capital ratio	19.42 %	15.47 %
Average number of employees	3 289	3 328
Number of branches	132	161

Reconciliation of equity to regulatory capital (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2017 MCZK	31 Dec 2016 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	1 874	4 782
Retained earnings, reserve funds and other capital funds	49 746	43 814
Profit for the year	7 626	6 045
Total equity	**71 496**	**66 891**
CET1 capital adjustments:		
Profit for the year	(3 732)	(6 045)
Reserve from revaluation of hedging instruments	(539)	(1 880)
Reserve from revaluation of available-for-sale securities	–	–
Foreign exchange rate differences from the foreign branch	49	(1)
Intangible assets	(1 936)	(1 384)
Credit risk adjustments for non-defaulted exposures	1 181	1 839
Anticipated losses for non-defaulted exposures	(2 152)	(2 462)
Effect of companies not included in the prudential consolidation group	(510)	(452)
Other adjustments	84	(42)
Total CET 1	**63 941**	**56 464**
Total Tier 1 (T1)	**63 941**	**56 464**
Credit risk adjustments for exposures at default	7 048	7 363
Anticipated losses for exposures at default	(5 039)	(5 067)
Non-deductible surplus above the risk-weighted assets limit	(585)	(721)
Total Tier 2 (T2)	**1 424**	**1 575**
Capital	**65 365**	**58 039**

*** Definition of used alternative performance indicators**

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

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

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

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

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

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

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

Where X = 2017 and X-1 = 2016

Financial Highlights – Separate

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2017 MCZK	31 Dec 2016 MCZK
Operating results		
Net interest income and similar income	9 990	8 947
Net fee and commission income	3 095	3 521
Administrative expenses	(7 220)	(7 296)
Profit before income tax	10 277	6 812
Net profit after tax	8 821	5 319
Statement of financial position figures		
Total assets	659 333	615 595
Receivables from clients – net value	374 426	367 298
Deposits from clients	360 839	371 304
Issued capital	8 755	8 755
Alternative performance indicators*		
Rentability of average assets (ROAA)	1,4%	0,9%
Rentability of average Tier 1 Capital (ROAE)	15,1%	10,2%
Assets per employee	223,8	205,7
General Administrative Expenses per employee	2,5	2,4
Net profit per employee	3,0	1,8
Information about capital and capital adequacy		
Tier 1	62 499	54 243
Tier 2	1 584	1 820
Capital	**64 083**	**56 063**
Capital requirement for credit risk under the standardised approach:	**2 444**	**3 199**
Capital requirements for exposure to regional government or local authorities	5	6
Capital requirements for exposure to institutions	3	3
Capital requirements for exposure to businesses	352	553
Capital requirements for retail exposures	757	1 117
Capital requirements for exposures secured by real estate	842	670
Capital requirements for exposures at default	28	67
Capital requirements for equity exposures	339	337
Capital requirements for other items	118	446
Capital requirement for credit risk under the IRB approach:	**21 120**	**24 263**
Capital requirements for exposure to central government or central banks	397	463
Capital requirements for exposure to institutions	901	880
Capital requirements for exposure to businesses	17 649	21 002
Capital requirements for retail exposures	1 781	1 918
Capital requirements for other non credit-obligation assets	392	
Capital requirements for position risk	313	527
Capital requirements for currency risk	68	44
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	55	39
Capital requirements for operational risk	1 686	1 518
Capital requirements for credit valuation adjustment	85	111
CET1 capital ratio	19.40 %	14.61 %
Tier 1 capital ratio	19.40 %	14.61 %
Total capital ratio	19.89 %	15.10 %
Average number of employees	2 946	2 993
Number of branches	132	161

Reconciliation of equity to regulatory capital (separate)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2017 MCZK	31 Dec 2016 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	1 878	4 792
Retained earnings, reserve funds and other capital funds	46 493	41 174
Profit for the year	8 821	5 319
Total equity	**69 442**	**63 535**
CET1 capital adjustments:		
Profit for the year	(3 732)	(5 319)
Reserve from revaluation of hedging instruments	(543)	(1 890)
Reserve from revaluation of available-for-sale securities	–	–
Foreign exchange rate differences from the foreign branch	49	(1)
Intangible assets	(1 743)	(1 227)
Credit risk adjustments for non-defaulted exposures	1 181	1 839
Anticipated losses for non-defaulted exposures	(2 239)	(2 652)
Other adjustments	84	(42)
Total CET 1	**62 499**	**54 243**
Total Tier 1 (T1)	**62 499**	**54 243**
Credit risk adjustments for exposures at default	7 048	7 363
Anticipated losses for exposures at default	(5 039)	(5 067)
Non-deductible surplus above the risk-weighted assets limit	(425)	(476)
Total Tier 2 (T2)	**1 584**	**1 820**
Capital	**64 083**	**56 063**

*** Definition of used alternative performance indicators**

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

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

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

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

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

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

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

Where X = 2017 and X-1 = 2016

Chairman's Statement

"The consolidated net profit on both markets grew by 26.2%, amounting to CZK 7.6 billion."

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

Dear Shareholders, Ladies, and Gentlemen,

You are now holding the 2017 Annual Report of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter referred to as UniCredit Bank), in your hands. Last year, we celebrated a ten-year anniversary of the UniCredit Bank brand on the Czech and Slovak market, however, our roots go much deeper. During the last decade, we have created a strong financial group in the Czech Republic and Slovakia.
Our Bank is a part of a leading European banking group with more than 25 million clients across fourteen markets. Owing to unique services, customer-focus and an extensive branch network across the Western, Central and Eastern Europe, we help our clients grow both on European markets and worldwide.
In 2017, the banking sector and the financial market in the Czech Republic and Slovakia were both affected by the positive development and fast growth of both economies. The increasing household consumption positively translated mainly into the segment of consumer loans and housing loans, as well as into bank deposits of both households and companies.

The major event on the Czech financial market was the termination of a nearly four-year intervention regime of the Czech National Bank and the first interest-rate hike in Europe as regards the Czech koruna in April.
In Slovakia, more stringent conditions for lending slowed down the dynamics of its year-on-year growth, nevertheless, the volume of lending to households reported a double-digit increase. Higher household income positively affected investments, in particular in the field of unit funds. The profitability of commercial banks in Slovakia remained under pressure of the low, even negative interest rates. Despite the dynamic growth of balance sheets of banks, net interest income in the bank sector dropped. Lower cost of risk partially subdued the decline in overall profitability.
At the same time, there was increased demand for hedging foreign exchange risk following the termination of foreign exchange interventions in the appreciation of the Czech koruna.
Last year, UniCredit Bank did a great deal of work and together we have achieved excellent results in accordance with the objectives of the Group's

Transform 2019 programme. The consolidated net profit on both markets grew by 26.2%, amounting to CZK 7.6 billion.

The increasing volume of client transactions, consistent management of credit risk cost, optimisation of operating costs and management of the bank's balance sheet structure particularly contributed to the strong year-on-year increase.

In the Retail Division, we place emphasis on the quality of our services and products, as well as on client satisfaction. Simple products and regular innovations in our offer are the key to growth in this segment. With a 4.5% year-on-year increase, the total number of our clients in both countries surpassed 700 thousand. The volume of lending was rising, too, with mortgages reporting a year-on-year increase by 11% and consumer loans nearly 3%. Deposits in the retail segment rose by 15.1% last year.

Excellent results were also reported by the Corporate and Investment Banking Division. The average annual volume of the loan portfolio grew by 5.1% and double-digit increase in the volume of loans was reported in the segment of small and medium-sized enterprises, as well as increase in the number of international clients. We are proud to have participated in financing a nearly EUR 2 billion loan for EP Infrastructure, which represented one of the highest loans granted in the Czech Republic and Slovakia last year. In the leasing segment, we provided financing of movable assets and real estate in total of almost CZK 22.5 billion, with a 4.2% increase. The fastest growth, 4.7% year-on-year, was reported by the segment of vehicles below 3.5 tonnes.

The offer of complex financing, quality advisory, professional know-how and synergy with UniCredit Leasing CZ, a.s. (hereinafter referred to as UniCredit Leasing) a UniCredit Factoring Czech Republic and Slovakia, a.s. (hereinafter referred to as UniCredit Factoring) makes us one of the major players on both markets. Last year, excellent results were also achieved in all key factors. We maintain a solid quality of assets and return on capital. The Bank thus strengthens its capital position, which allows us to finance other development plans of our clients in the Czech Republic and Slovakia. Last year, we also accomplished a cross-border integration of our internal banking system, owing to which we are able to further innovate our services.

In 2018, we will continue in transforming our Bank in order to achieve the vision of being a simple universal commercial bank. In line with the UniCredit Group's priorities, we will focus on improving the efficiency of our operating model, streamlining our internal processes or efficient cost management.

We will also continue in digitisation of our services and distribution channels. One of our major objectives for this year is the increase in the number of active clients of the Bank across all segments as well as a continued growth of corporate lending.

Owing to the hard work of our employees, our products, services and achievements are regularly valued in domestic and international terms. Last year, we scored in the Czech Republic in the Golden Crown competition with our Smart Banking, mortgage loan and micro-instalment loan, and in the Financial Product of the Year competition with our PRESTO Loan, PRESTO – Consolidation of Loans and mortgage loan. In Slovakia, we received an award for the best private banking. According to the prestigious Euromoney magazine, we are the Best Bank in Cash Management in the Czech Republic and Slovakia. These results show that our products are appreciated not only by professionals, but also by our clients in particular.

UniCredit Bank pursued socially responsible activities also in 2017. Last year, we supported scientific institutions and charitable organisations which help sick and disadvantaged children overcome barriers. We also participated in projects promoting cultural heritage in order to maintain legacy for the next generations. An important activity for our employees is the annual Gift Matching Program, owing to which they can support a non-profit organisation at their own discretion. This initiative has become a tradition in our bank and within UniCredit Group we have the best results given the number of activated projects, which are beneficial to the whole society. 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.

We are proud of being an important partner of the Karlovy Vary International Film Festival for several years already. We also support sporting events. Now, it is our second year of being a partner of the RunCzech series.

Thanks to the long-term trust of you, our clients in UniCredit Bank, as well as to the efforts and commitment of our employees, we can achieve excellent results. For that, I would like to express my great appreciation and sincere thank-you for the successful year of 2017 to all UniCredit Bank employees and our retail and corporate banking clients.

April 2018

Jiří Kunert
Chairman of the Board
and CEO

Macroeconomic situation

in the Czech Republic

In 2017, the Czech economy was doing well, approaching the peak of the business cycle with a 4.5% growth. Its growth was driven by all components of the aggregate demand. Household consumption was driven by the declining unemployment, which gradually reported its lowest levels ever during the year, and in combination with record numbers of vacant positions, it put pressure on wage acceleration. Businesses increasingly listed lack of employees as the main obstacle to business development. Formation of fixed capital recovered from the previous year mostly owing to the activity of private entities. The environment concerned was conducive to the creation of demand inflation pressures, which kept the year-on-year inflation above 2% throughout the year. Average inflation was at 2.5%, the highest level in five years.

The inflation environment prompted the CNB to start tightening the monetary conditions. First, the policy of foreign-exchange interventions was abandoned in April, whereby the CNB ceased to keep the Czech koruna from appreciating. By the end of the year, CZK appreciated against EUR by 5.5%. At the same time, in order to tighten its monetary policy, the CNB also used the interest rate channel, increasing the repo rate twice during the year, with the repo rate at 0.5% for the year. On the foreign-exchange market, the termination of interventions was preceded by a period of extremely strong demand for CZK by exporters and foreign investors, which resulted in the CNB increasing its foreign reserve assets to an equivalent of nearly two thirds of the annual GDP.

A side effect of the growth of CZK positions of foreign entities was the increased demand for Czech government bonds, which temporarily reduced their revenues to that of the German ones. The share of CZK bonds held by non-residents grew from 32% at the end of 2016 to 42% in December 2017, even briefly exceeding 50% during the year. The total volume of loans in the Czech economy slowed down to 5.6% year-on-year, due to the slower growth in corporate lending. On the contrary, household lending slightly stepped up to 7.5% year-on-year. The demand for real estate for housing boosted the acceleration of their prices to double-digit values, prompting the CNB to attempt to hamper such developments by adopting macroprudential policy tools.

In the business sector, save for the financial sector, an important change was the launch of the second stage of electronic records of sales concerning business. Implementation of other stages, which were planned for the following year, was terminated by a decision of the Constitutional Court. There were no other legislative changes material to the business environment, given the election cycle. Tariff wages in the public sector were increased to an unusual extent by government decrees. Also, minimum wage grew by considerable 11%.

in Slovakia

In 2017, the growth of the Slovak economy slightly accelerated (from 3.3% to 3.4%), in particular due to the increasing domestic consumption and recovering private investments. Growth of the domestic economy was also boosted by the cyclical recovery of the surrounding European economies. On the contrary, economy was held back by low public investments and stagnating automotive industry, which was in a transitional phase of preparation for new production. GDP growth in Slovakia thus slightly trailed behind the surrounding countries of the region.

Unemployment moved to a new historic low and the lack of labour force started to worsen, in particular in the south-west of the country. The pressure on wages accentuated. The strong labour market contributed to the improvement of consumer confidence and boosted domestic consumption, which had not been hampered by inflation so far. Throughout the year, it remained relatively subdued, approaching the 2% threshold at the end of the year.

Inflation in the eurozone was in line with the ECB's objective, giving the ECB no reason to change the setting of its monetary policy stance. ECB kept the key interest rates unchanged and continued in its asset purchase programme, which was extended until September 2018. It seems that the key interest rates will not be increased until 2019. The interest rates thus remain close to their historic lows, which adversely affects the net interest income of the Slovak banking sector. It kept falling year-on-year (-4.0%), despite the dynamic growth in lending. Lending was increased mostly in the retail segment. Due to the tightening of the conditions, however, the dynamics of its growth started to slow down. The upward trend was maintained by corporate loans and deposits. On the contrary, the dynamics of growth of deposits of the public was slowing down. The increasing household income translated mainly into increased consumption as well as into a growing risk appetite of households, which invested more of their funds in mutual funds. Compared to the previous year, banks' profits went down also due to significantly lower one-off revenues. On the contrary, they were, at least partially, increased by lower cost of risk. Most of these trends should continue in 2018.

Despite several affairs and turbulences, the government coalition remains relative stable, however, its support was gradually falling. This trend was also confirmed by the regional elections in autumn, which weakened the position of the strongest party in the country – Smer-SD. In the first half of the election period, the government managed to reduce public finance deficits, also owing to lower public investments; however, the plan to balance the public budget was again postponed from 2019 to 2020.

Corporate, investment, and private banking

2017 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 6% compared to 2016, and we acquired more than 4,600 new clients.

As for primary sources, we focused on optimisation of sources on the Czech and Slovak market, which resulted in a controlled decline of unstable deposits in the amount of CZK 18 billion, which corresponds to a 7% decline compared to 2016. In lending, despite companies' declining demand for loans, we increased the volume of loans by CZK 13 billion, i.e. by 5 % compared to 2016.

In 2017, as in 2016, we focused on improving our overall position within the segment of small and medium-sized enterprises in accordance with the long-term strategy of the Corporate and Investment Banking Division.

2017 was once again a very successful year in the segment of small and medium-sized enterprises, when the volume of lending increased by more than 17% year-on-year and revenues were rising by more than 10% on both markets compared to 2016. The growth in lending was also driven by cooperation with external entities granting bank guarantees to small and medium-sized enterprises, or providing the Bank with cheaper sources of financing and thus making financing available to a larger range of clients. On a long-term basis, those entities include Českomoravská záruční a rozvojová banka (ČMZRB), the European Investment Fund (EIF), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and Slovenská záručná a rozvojová banka Asset Management (SZRB AM). Additionally, we effectively provided our Slovak clients with financing using TLTRO funds from the European Central Bank (ECB).

In 2017, 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. The largest and most prominent transactions included arranging of refinancing for EP Infrastructure, refinancing of Sellier&Bellot bonds and financing of Trelleborg Group. In terms of project finance, the year of 2017 was similarly successful, with several major transactions accomplished. These major transactions included a wind power plant project and financing of a biomass based combined heat and power generation.

In terms of structured and project finance, 2017 was another successful year on the Slovak market. The Bank confirmed its leading position when financing infrastructure in the form of a PPP, for example by providing a syndicated investment loan for the construction of the National Football Stadium in Bratislava to NFŠ, a.s. The Bank continued to provide acquisition loans and the most prominent transaction in this area was the financing of acquisition of an agribusiness enterprise for a major Slovak financial group, a long-term client of our Bank. The Bank also provided a long-term investment loan for refinancing of equity to a prominent international group operating in retail.

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 and the hotel segment. The largest transactions of 2017 were concluded in the segment of industrial real estate and offices.

In terms of industrial real estate, the most prominent transaction was refinancing of the CTP portfolio; in terms of office buildings, it was financing of renovation of buildings within the BB Centre in Prague and financing of construction of office projects in Brno. This segment in Slovakia reported financing of acquisition of the Westend Tower and Reding Tower buildings in Bratislava.

As regards residential projects, financing was provided, among others, to development projects of FINEP and SATPO Groups in Prague and to a residential complex in Bratislava with planned construction of more than 300 flats. In 2017, the Bank concluded several transactions in the retail segment, including, in particular, refinancing of the Bory Mall project in Bratislava, acquisition financing of a portfolio of retail parks for a local financial group and development of financing of local malls.

In transaction banking, 2017 was a year typical of positive business growth and implementation of strategic projects.

The positive macroeconomic development of both economies was considerably outperformed in Cash Management (payments), Global Securities Services (services of a depository and securities management) and factoring.

The transaction activity measured through the number and volume of payment transactions or through the volume of client assets under management grew at a rate of 20%. In particular, in the field of acceptance of payment cards at POS terminals of the Bank, new client acquisitions and the Bank's significant position in retail sector were shown. Factoring contributed to the results with a nearly 60% year-on-year increase in the volume of financing.

Termination of the CNB's intervention policy, the Bank's solid position in the segment of international clients and foreign payments represented another momentum to growth of the transaction banking's profitability.

Cash management, mainly payments and direct electronic channels, require constant major investments to maintain the quality of the services and products provided. New regulations (SEPA, PSD2, GDPR), emphasis on digitisation, acceleration of innovation cycles, standardisation and new business requirements were successfully incorporated in our client offer, which was also appreciated in the renowned Euromoney Cash Management Survey 2017, which, based on answers of more than 25,000 companies and 2,500 financial institutions, awarded UniCredit Group the Best Bank in Cash Management in 11 countries. It has been the first time ever for Czechia and Slovakia to receive such an award.

The strategic development with corresponding investments was also channelled into other product fields of transaction banking and banking infrastructure. Through the successful implementation, we achieved better conditions for sustainable business growth, reduction of operational risk and cost in trade finance, factoring and services provided in securities management.

In the latter, we managed to defend our dominant position by being awarded the "Best Sub Custodian Bank in the Czech Republic in 2017" by the established Global Finance magazine.

In 2017, the factoring market reported a year-on-year increase in the total turnover of receivables by 19%*, which is a very solid result given the liquidity surplus in the economy and market downturn in 2015 and 2016. It is largely also owing to our subsidiary UniCredit Factoring, which reported a 55% year-on-year growth in this factor.

Owing to the dynamically increasing client portfolio, larger financing volume, as well as prudential risk management, we managed to increase the company's gross operating profit by 160% and profit after tax by more than 100% compared to 2016. The market share rose from 11.1% to 14.5%** year-on-year.

In order to increase the competitiveness of our product offer, we built up a brand-new IT infrastructure in our factoring company and, at the same time, we implemented a new version of our key system. This allows us to extend our product portfolio by a module providing automatic connection of the suppliers' chain with major customer, i.e. reverse factoring.

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 2017 was mainly characterised by the financing of projects of the 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.

An important activity of the corporate competence centre is the financing of agriculture and church entities. In 2017, the number of serviced clients was increased in both segments, confirming the Bank's position on these markets.

* Source: Czech Leasing and Financial Association
** Source: Association of Factoring Companies

Retail banking

In recent years, the retail banking market has been shaped by the lowest interest rates ever. Since the second half of 2017 we see, on the contrary, a gradual rate hike; in 2018, the increasing rates will considerably affect the market of mortgages, consumer finance and deposits.

There is an increasing pressure and volume of regulation as well as the intensity of competition. Implementation of MiFID2 Directive considerably affects the sale of investment products, PSD2 Directive changes the rules of the game in payments, and GDPR Directive lays down new standards for protection of our clients' personal data.

Technology is generating a new way of relating to one another and also of the banking, where digitisation is key for adapting to the new form of relationships with clients. Our goal for 2018 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 online channels. The number of digital clients reflect the boost provided by the multichannel strategy. We made significant progress in this direction and are recognised in the sector as pioneers in the launch of various apps and services.

Based on a thorough analysis of long-term efficiency of our branches and changes in the behaviour of retail clients of the Bank, we started to optimise the retail branch network in 2017, merging a total of 30 points of sale (19 branches and 3 franchises in the Czech Republic and 8 branches in Slovakia). Selected branches, in particular in locations with the highest concentration of UniCredit Bank points of sale, were merged with the next other branch. This decision will ensure sustainable development of retail banking, it corresponds to the current needs and requirements of clients and allows us to maintain our presence in all towns in both countries. Our main priority remains the maximum satisfaction of our clients. Last year, we reconstructed and redesigned a total of 12 branches and 2 franchises.

By modifying the geographical coverage of the branch network, we focus on long-term improvement of the Bank's efficiency in the provision of services to our clients, with the aim to reduce costs and achieve sustainability in terms of distance between points of sale and the size of branches in relation to the number of the serviced clients. Our branch network in the Czech Republic and Slovakia is still crucial to us within retail activities. Despite the ever-increasing trends in providing services and sale online, to us a branch continues to be the crucial point of contact with clients and the most important point for retaining and developing our relationship with them.

Bank's activities in retail and private banking

In 2017, the Bank continued to pursue its strategic goal of reinforcing its position of a universal provider of banking and financial services and becoming a leading bank on both markets. We want to achieve major increase in the market share not only by concentrating on selected perspective segments of the retail market, but mainly owing to the innovations in availability through alternative distribution channels and product offer.

On the retail market, the Bank provides a full range of banking products – current and 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 2017, the Bank continued to pay special attention to acquisitions in cooperation with other retail institutions which are not our direct competitors, such as leasing companies, insurance companies, etc.

In 2017, the growth of clients of our Bank continued, with 96 thousand new clients starting to use the services and products of modern banking provided by UniCredit Bank.

In spite of the ever-increasing competitive pressure on newly provided loans and on refinancing of existing portfolios, the Bank managed to increase the volume of retail loans by 9.7%. The main driver were mortgage loans with a year-on-year growth of 10.8%. In the private banking segment, the Bank managed to attract more than 1,000 new clients and increase the amount of assets under the Bank's management by nearly CZK 3 billion.

The Bank continues to focus on segments where it is exceptionally successful in the long run, such as liberal professions or churches in CZ. In Slovakia, the Bank mainly focuses on servicing agribusiness clients.

Loans

In 2017, we extended our product offer of consumer loans in Slovakia by PRESTO Loan for Housing, which was already offered to our clients in the Czech Republic in 2016 and which immediately received the Golden Crown award. In both countries, we offer four categories of loans: refinancing or transfer of loans, simple and fast loans for existing clients approved in advance, general-purpose loans and PRESTO Loans for Housing.

2017 was an attractive year also for clients who used our flag-ship product of transferring and refinancing of loan, which offers clients a reward for due repayment and which received, together with the general-purpose consumer loan, an award of the Finparada.cz portal.

Our focus on products with excellent conditions for clients with good credit history is long-term and, therefore, this low-risk client segment was again the strongest segment within all disbursed loans.

Mortgages

2017 was affected by growing regulation by the CNB and NBS, as well as by the commencing hikes in interest rates.

We took advantage of the low interest rates early in the year and made most our sales at that period. Clients primarily demanded fixed-rate mortgages and part of the clients also used offers of low float-rate mortgages.

We simplified our pricing considerably. Together with a unique one-time insurance, we offered our clients a really attractive insurance paid on a monthly basis. We continued to streamline our product offer and processes, with emphasis on customer experience. We received award for our special-purpose U-Mortgage from the Finparada.cz portal in the Financial Product of the Year 2017 category.

Current accounts

In 2017, too, we focused on expanding our client portfolio with regard to our key product U Konto. We introduced the U Konto current account in April 2014, nevertheless, it remains No. 1 on the Czech and Slovak market as regards customer-friendliness.

In November 2017, we repeated our successful campaign in support of new client acquisition, offering new U Konto clients an opportunity to obtain a discount voucher for a Huawei smartphone at a discounted price.

Investments and deposits

In the ongoing environment of extremely low deposit interest rates, in 2017 we continued to focus on providing our clients with an offer of alternative investment solutions.

The basis of our offer consisted on three Amundi Fund Solutions funds (conservative, balanced and dynamic), i.e. strongly diversified investment solutions together with an active and flexible management, where each of these funds represents a comprehensive solution of the portfolio for the relevant risk profile of the client.

Regular investment remains very popular, providing our clients with flexible solutions to grow their assets in a simply and systematic way, while spreading of the investment over time strongly mitigates the risk of potential wrong timing of purchase. In particular, due to the new U Invest Plus regular investment scheme, the sales of regular investments more than tripled compared to 2016.

Direct banking

In 2017, direct banking enjoyed further growth in popularity, which was clearly seen from the considerable growth in the number of Online Banking and Smart Banking users. At the same time, the share of active users in both applications was growing strongly.

In Online Banking, we allowed our clients in the Czech Republic to apply for and draw in a pre-approved PRESTO Loan online. Clients can also apply for a bank overdraft or its increase in the same way. In 2017, we launched Online Banking with modern design and innovative functions in Slovakia. In Smart Banking, we modified the application's design in Slovakia, with a very positive response from clients.

Small Business

In relation to the adopted strategic decision to focus on small enterprises and entrepreneurs, we accomplished major modifications to the service model and product offer of our Bank. Our goal is to provide clients with best services with simple and transparent products that can now be offered and quickly processed by any branch.

In the segment of liberal professions, we focus on the bankers' professionalism 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

During 2017, there were no material changes in the portfolio of debit and credit cards in terms of product innovation. Activities were focused on reviewing internal processes, towards increased transaction activity of cashless payments of the debit portfolio.

Markets

Private banking

2017 for the Private Banking segment was a year of stabilisation and development of business, following a considerable expansion of the segment in 2016.

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). Our goal is to develop clients' potential just in the segment from CZK 3 million of financial assets through the private banking services, which rely on personalised approach, tailor-made solutions and an extended portfolio of investment solutions not only for the originally largest affluent clients but also for members of their families.

Private Banking is successfully building on the tradition of corporate banking. Thus, we focus on providing Private Banking services to owners of small and medium-sized enterprises, where we perceive high value-added of our services even today.

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 2017, the Bank successfully developed a new concept of myNext funds by Amundi. 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.

Last year, the Markets Division was one of the key 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. The increase of revenues was more than double compared to an already successful year of 2016. Exceptional growth was also reported in trading 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.

The Markets Division focuses in the long run on the issuance of debt securities, which are successfully sold not only to corporate clients and financial institutions, but also to clients or retail and private banking. In 2017, our internal issuance activity was still subdued and the Bank only focused on the issuance of eurobonds. An important part of this field is also arranging and distribution of corporate bonds, where UniCredit Bank was involved in several major mandates last year.

Sponsoring and charity

We are proud to be able to support in 2017 scientific institutions and charitable organisations which constantly strive for better and healthier lives of children. We also participated in projects promoting cultural heritage in order to maintain value and legacy for the next generations.

Another important initiative for our employees is the annual Gift Matching Program, owing to which they can support a non-profit organisation at their own discretion. This initiative has become a tradition in our bank and within UniCredit Group we have the best results given the number of activated projects, which are beneficial to our society. This year, more than 700 employees supported 32 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.

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.

Together with UniCredit Group, we are an official bank of the UEFA Champions League, including 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.

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 Management Board

On the Business Activity and the Property Status of UniCredit Bank Czech Republic and Slovakia, a.s. for 2017

Vision, Mission and Corporate Values

UniCredit Bank Czech Republic and Slovakia, a.s is a universal commercial bank covering all the financial needs of its clients. We are the bank of first choice both in our traditional and in new strategic segments. We are the bank with the most satisfied clients on the Czech and Slovak market as well as an attractive employer.

We are a part of the international UniCredit Group. As a part of the Group, we belong to the strategic countries of the Central and Eastern European region. The Group perceives our Bank as an example of successful and dynamic growth in the corporate client and retail client segments.

The corporate values we believe in and we follow in our everyday practice emphasise Respect, Trust, Decency, Freedom, Mutuality and Transparency.

Economic development of the market in the Czech Republic and Slovakia in 2017

Following the growth slowdown in 2016, the Czech economy picked up again with GDP exceeding 4 %. Almost all GDP components contributed to the growth since investment activity, net exports as well as household consumption grew. This was supported by a very low unemployment level. The excellent condition of the economy accompanied by natural inflation growth beyond 2 % enabled the Czech National Bank to put an end to the intervention regime on the foreign exchange market and at the same time increase interest rates and start their normalisation. The central bank's increase of interest rates was also expressed in state bond revenues, which managed to break out from negative values along the entire length of the revenue yield curve. The growth of interest rates was accompanied by additional growth in the volumes of loans and deposits of households, which was, however, not reflected in the growth of the net interest revenues of banks. Unlike in 2016, the sale of assets did not contribute to bank profitability in a significant way. On the other hand, the low risk costs had a positive impact.

In 2017 the growth of the Slovak economy remained under the level of 3 per cent, the same as in 2016. The banking sector in Slovakia also profited from the growth of the economy. A strong double-digit growth was recorded mainly in loans to individuals, even in spite of the fact that new stricter conditions slowed down the dynamics of year on year growth slightly. The growth of individual deposits slowed down, with the growing incomes of households being reflected mainly in increased consumption. Moreover, the risk appetite of households also grew, with sources being directed into mutual funds. Thus, the volume of loans and deposits was almost balanced over the year. The bank profit in 2017 remained under the pressure of low (negative) interest rates. In spite of the still dynamic growth of the bank's balance, net interest revenues of the banking sector continued to decrease. Unlike last year, this growth was no longer compensated by increased one-off dividend yields or yields from the sale of assets. The drop in profitability was at least partially absorbed by lower risk costs. The good condition of the economy contributed to additional improvement in the rate of failure of loans and subsequently a lower generation of adjustments.

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

In terms of net profit, in 2017 UniCredit Bank Czech Republic and Slovakia, a.s. achieved excellent results. Net profit in 2017 significantly exceeded both the ambitious plan and the results of 2016, in particular thanks to extremely low risk costs and the growth of net interest revenues.

The interest rates remained low throughout the year, however, the increase in the second half of the year enabled a partial growth of interest margins. Termination of the intervention regime for the Czech Crown exchange rate contributed to a significant exceeding of the budget in the Trading on own account and Trading for clients items. Fee revenues were under the pressure of the persisting strong competitive environment, therefore, they exceeded the planned value only slightly. In the upcoming period, we are expecting further pressure on the decrease of bank fees, which has to be compensated by growth in the volume of transactions and products and services sold.

The result was also helped by the synergies resulting from the merger of UniCredit Bank Czech Republic, a.s. with UniCredit Bank Slovakia, a.s. A considerable role was also played by effective and efficient operating cost management.

Finacial results of UniCredit Czech Republic and Slovakia Group for 2017

The economic results of the UniCredit Bank Czech Republic and Slovakia Group after taxes has grown year on year by 26.2 %, namely from CZK 6,045 mil. as of 31 December 2016 to CZK 7,626 mil. as of 31 December 2017. In 2017 the UniCredit Bank Czech Republic and Slovakia Group achieved an excellent economic result, which confirms the rightness of the strategy based on the growth of our client basis and implementation of innovations across all business divisions.

Statement of Comprehensive Income

Net interest revenues grew compared to the end of 2016 by 10.6 % to CZK 11,218 mil. (CZK 10,145 mil. as of 31 December 2016). This year UniCredit Bank Czech Republic and Slovakia Group reported positive growth in the net interest revenue level, which was determined by both by the optimisation of the refinance basis in all Group entities and by the growth of CZK interest rates started by the increase of the CNB repo rate.

Net revenues from fees and commissions by the end of 2017 amounted to CZK 3,465 mil. (as of 31 December 2016 CZK 3,823 mil.), which is a decrease by 9.4 %.

Net profit from selling financial assets and liabilities dropped to CZK 508 mil. (as of 31 December 2016 CZK 1,053 mil.). However, it should be noted that the higher result in 2016 was influenced by the international transaction involving the transformation of Visa Europe, where the Bank had its property share.

The Group also strengthened its position in trading, i.e. trading profit grew by 26.0 %, from CZK 2,129 mil. as of 31 December 2016 to CZK 2,682 mil. as of 31 December 2017. This result in trading was caused mainly by the suitable strategy for the interest rate development and foreign exchange trading.

Operating revenues achieved CZK 17,846 mil., growing by 4.1 % compared to CZK 17,152 mil. as of 31 December 2016, which reflects the dynamically growing client basis and higher transaction volumes as well as other effects described above.

Administration costs were reported in the amount of CZK 7,752 mil. (as of 31 December 2016 CZK 7,854 mil.), which represents a decrease by 1.3 %.

The losses from decreased loan and receivable values decreased year on year by 69.31 % (from CZK 1,499 mil. as of 31 December 2016 to CZK 460 mil. as of 31 December 2017). It should be noted that this positive trend already represented above further confirms the responsible approach of the Group in the area of risk management.

The depreciations and losses from the tangible asset value drop increased from CZK 768 mil. as of 31 December 2016 to CZK 960 mil. as of 31 December 2017.

Statement of Financial Position

Assets

Total UniCredit Bank Czech Republic and Slovakia Group assets as of 31 December 2017 achieved the value of CZK 672.1 bil., which represents a growth of 5.8 % compared to the end of 2016, when the balance amount was CZK 635 bil. The financial assets at fair value ratio to expense and gain account decreased from the end of 2016 by 10.1 % from CZK 9 bil. to CZK 8.1 bil.
The value of realizable securities decreased by 40.7 % to CZK 47.5 bil. (as of the end of 2016, this value was CZK 80.2 bil.). The bank keeps mostly state bonds in this portfolio, which represent 63 % of this item. The decrease in the volume of these securities was influenced mainly by the maturity of the security and cessation of the investment or the sale itself.

Receivables for clients increased by 0.3 % to a total CZK 386.7 bil. compared to the end of 2016 (CZK 385.6 bil.).

Retail banking continued the strategy of growing the client basis, in particular thanks to the U Konto with a ten-year guarantee of conditions and free withdrawals from any ATM at home or abroad. The segment recorded significant growth in all main product lines – loans, mainly mortgage loans, deposits and investments.
Year on year the loans to clients grew by almost 10 %, with deposit and investment products growing by more than 14 %.The priorities of the retail division included the penetration of digital distribution channels. In this area the number of mobile banking users grew by 50 %.

In the corporate segment, the UniCredit Bank Czech Republic and Slovakia Group continued its significant growth of loans granted to small and medium companies (year on year growth by more than 16 %), increasing the significance of this strategically important group of clients in the total segment result. Corporate crediting uses the synergies between the Bank, leasing companies and the factoring company and, thanks to the unique position of the UniCredit Bank Czech Republic and Slovakia Group in the region, can offer unique solutions for international companies.

Among the leasing companies, brand vehicle financing grew as well as financing of corporate loans and operational leasing for companies and individuals. In total, the financed value for 2017 grew by 10.8 %

compared to 2016. A significant year on year growth was achieved in two main commodities, namely machines and equipment by 17.2 % and vehicles up to 3.5 tons by 12.8 %.
Receivables from banks grew by 50.2 % (CZK 210.2 bil. as of 31 December 2017 compared to CZK 139.9 bil. by the end of 2016), mainly due to the growth of receivables from the reverse repo operations.

The growth of the value of intangible assets from CZK 1,387 mil. as of 31 December 2016 to CZK 1,940 mil. CZK by the end of 2017 was caused by the implementation of the common IT system architecture of the Czech Head Office and the Slovak branch, which completed the alignment of both banks following the merger of 2013.The common architecture will enable a decrease in the cost of IT investments and maintenance.

Liabilities
By the end of 2017, liabilities to banks increased by 50.9 % to a total of CZK 174.3 bil. from CZK 115.5 bil. as of 31 December 2016.

Compared to the end of 2016, client deposits decreased by 2.9 % to a total of CZK 360.5 bil. from CZK 371.2 bil. as of 31 December 2016.

Compared to the end of 2016, issued debt securities dropped by 33.5 % to CZK 40 bil. (as of 31 December 2016 CZK 60.1 bil.).

Both the drop of client deposits and the decrease of issued debt securities is connected with the optimisation of the Group refinance, aimed at achieving positive effects on the part of net interest revenues.

Capital
As of 31 December 2017, the Group's equity amounted to CZK 71.5 bil., which represents a growth year on year of 6.9 % (from CZK 66.9 bil. as of 31 December 2016). The UniCredit Bank Czech Republic and Slovakia Group did not pay dividends in 2017. The consolidated capital adequacy as of 31 December 2017 was 19.42 %.

Expected economic and financial situation of UniCredit Bank in 2018

The outlook for 2018 and for the upcoming years is based on the assumption that both economies will have an environment of solid and stable economic growth, which, however, will not reach the levels of 2017. Inflation will get closer to the levels preferred by the central banks and unemployment will stop decreasing. Net revenue will range around the level of 2017 with expected further growth in 2019. The revenue generation will be influenced by many contradicting factors. Growth in the number of active clients, transaction volume, cost decreases and growth in interest rates will have a positive impact on net interest revenues. On the other hand, the decrease of margins due to growing competitive pressure will have a negative impact. Another negative factor will be the gradual increase of risk costs to the levels prior to the extraordinary years of 2015 to 2017. Thanks to the balanced growth of loans and deposits, it will not be necessary to adopt any significant measures to adjust the balance amount.

Strategic plan of the UniCredit Group – Transform 2019

2017 was the first full fiscal year of the Group Transform 2019 plan.

The Transform 2019 strategic development plan is based on the following pillars:
- Strengthen capital and optimise its allocation
- Improve credit portfolio quality
- Transform the operating model
- Maximise commercial banking value
- Create a lean but strong management structure of the Group corporate centre

The Group stated that fulfilment of the plan was very successful in 2017, to which all the regions the Group operates in contributed. The region of Central and Eastern Europe, including UniCredit Bank Czech Republic and Slovakia Group, was a significant contributor to the fulfilment of the first third of the plan. Under the conditions of our countries, the Transform 2019 plan was implemented through programs aimed mainly at improving and transforming business activities.

The programs implementing the Transform 2019 plan may be classified in the following categories:
- "One bank" for multinational clients
- Use of Big Data technologies in the corporate segment
- Increase of client acquisition
- Digitalisation of sales channels
- Regional coverage

In 2017 we managed to complete a whole range of initiatives, such as:
- Merger of 27 branches while preserving the efficiency of regional coverage
- Launch of a new mobile banking version
- Launch of a platform for supporting sales in corporate banking
- Implementation of cross-border cooperation with many companies from Western and Southern Europe

The program will continue in the upcoming years and will be gradually extended by additional initiatives supporting the fulfilment of the Transform 2019 plan.

Bank activity in the corporate banking area

In 2017 the Bank continued to fulfil its long-term strategic goals, which in the area of corporate banking represent the confirmation of the position of key player in the segment of financing large multinational and national corporations while also focusing on increasing the market share in the SME segment. The SME segment recorded a very successful year as both revenues and volume of loans granted grew on both markets at a double-digit pace. This is evidence of the correctness of the decision to extend the SME segment to companies with an annual turnover over CZK 10 mil.

Another of the Bank's long-term strategic goals is the strengthening of its position in the field of providing sophisticated and individual solutions for clients, maintaining the position of number one in the real estate financing (developer project financing) area. From a clients' point of view, the Bank wants to be the best bank in the areas of cash management, foreign payment systems, treasury services, foreign trade financing or projects, and structured and acquisition financing.

We want to base our future growth mainly on the full use of existing client potential, new client acquisition and the extension of cooperation within UniCredit Bank on the markets of both countries. Great attention is paid to cross-border cooperation in serving clients with an international background. Extension of the SME segment enables the strengthening of acquisition activity through a better allocation of human resources in the regions.

In 2017 the successful cooperation with UniCredit Leasing in the Czech Republic and Slovakia and with UniCredit Factoring continued. Cooperation in the offer of factoring products to Bank clients was enforced and for this purpose, several new factoring products were developed, e.g. reverse factoring. Along with implementation of a new version of the key UniCredit Factoring IT system, this enabled the implementation of a position on the factoring market and to achieve a market share of 14.5 %.

- The number of active clients in the corporate banking segment increased by more than 4,600.
- The volume of loans grew year on year by 5 %, however, margins remain under huge pressure, due among other things to the low interest rate environment.
- Deposit volume was influenced by the effort to dispose of unstable primary sources, therefore dropping purposefully by CZK 18 bill.
- The Bank has confirmed its leading position on the market in the Large Corporates, Structured Finance, Financial Institutions and Real Estate segments.

Bank activity in the retail and private banking area

The Bank's strategic goals in the retail and private banking area remained in validity for 2017 also. We want to keep strengthening our position of universal provider of banking and other financial services, achieving a significant market share on both markets. Through combining a top product offer and a broad scale of distribution channels, including electronic and alternative distribution channels, we want to keep increasing our retail market presence.

Our offer in the Czech Republic and Slovakia includes the complete range of retail banking products from current and savings accounts, through investment products and payment cards up to mortgage and consumer loans. We accommodate the mixture of distribution channels to the modern trends and needs of our clients. Therefore, we emphasise electronic channels. In the traditional channels, we are optimising their structure. In distributing our products, we also cooperate with insurance companies and leasing companies.

The aforementioned enables us to obtain new clients and we are proud that last year 96 thousand new clients choose us as their financial partner.

We are maintaining our traditionally strong position in the segment of free-lance professions and in the agricultural segment in Slovakia.

The Private Banking segment continued to evaluate the strategic decision to decrease the TFA segment limit to CZK 3 mil. Thus, we could offer our premium services, including a broad range of investment instruments, to a wider group of our clients.

Bank activity in the support unit area

Risk management

In the risk management area, emphasis is placed on thorough separation of incompatible functions within the Bank's organizational structure. The Bank's risk strategies, tools and processes are chosen to best correspond with the business strategy and at the same time with the best state of knowledge regarding risk appetite management. At the same time, in 2017 the Bank increased its emphasis on the monitoring and adherence to the set of parameters making up its Risk Appetite Framework.

The Bank manages its credit risk both at the level of individual business transactions and at the whole portfolio level, in particular in compliance with the basic principles defined in the Bank's credit policy and in order to adhere to the risk parameters set out in the credit strategy for the particular year. To calculate the capital requirement for the credit risk, the Bank uses (based on approval granted by the CNB) an advanced approach based on its own estimates of risk parameters (Advanced IRB) for the whole portfolio in the Czech Republic and for the corporate portfolio in Slovakia. In 2017 the Bank intensified the regular monitoring and evaluation of expected losses of the whole credit portfolio as well as expected losses of newly concluded deals.

Based on the regulatory approval, the Bank applies an advanced approach to the operational risk capital requirement (AMA), which has been used since 2008. In 2017 the Bank did not suffer any significant losses resulting from operational risk.

In the market risk management area, the Bank manages the risks connected with business activities at the level of individual risks as well as individual types of financial instruments. The basic tool comprises limits for volumes of individual transactions, limits for portfolio sensitivity (BPV), stop loss limits (maximum loss limits) and Value at Risk (VaR) limits. In 2017 the Bank did not record any significant events leading to a revaluation of the strategy or significant reset of the applicable limits.

Services

In the IT services and Operations services area, the Bank continued cooperating with the UniCredit Business Integrated Solutions S.C.p.A. (hereinafter referred to as UBIS), which is a part of UniCredit.

In the IT area in 2017, the Bank followed a strategy leading to the achievement of integration between the Czech and Slovak part of the Bank, the simplification of processes and a reduction in the costs of administration and system adjustment. In October 2017 we unified the IT environment in both countries by implementing the Slovak solution and additional improvements as well as systems we have been working at in the past few years. The common IT environment will lead to a considerable reduction of IT operating costs, more efficient implementation of future changes and further unification and optimisation of processes. The common IT platform will be the basis for digitalisation and strengthening of the on-line communication elements with Bank clients, including the on-line offer of Bank services and products.

In the Operations area, the Bank, in cooperation with UBIS, promotes a balanced approach, i.e. the achievement of cost savings thanks to centralisation and specialisation with concurrent preservation of the availability and quality of services provided to clients. This centralisation and specialisation leads to better control over the fulfilment of regulatory requirements regarding contractual arrangements and the quality of document processing between the Bank and its clients.

Assets and Liabilities Management

In 2017 the Bank kept a very strong liquidity position in CZK and a balanced liquidity position in EUR. The total volume of client loans was approximately the same as the total volume of client deposits. Even this year the liquidity surplus in UniCredit Bank in the Czech Republic was used to finance the subsidiaries and the Slovak branch. Our Bank's presence in Slovakia enabled access to advantageous financing from the European Central Bank within the so called TLTRO program. Streamlining liquidity management in the merged bank and centralisation of the treasury function keeps bringing cost synergies, improvement of capital sources and support for the growth of business activities. The organisational integration directly under UniCredit SpA, which took place in 2016, facilitated the use of the parent company's strong liquidity position.

Human resources

The principal factor for the success of a business strategy is the achievement of a high level of service and consulting quality. A key role in implementing the banking business strategy is played not only by the bank employees who are in direct contact with clients but also the back office employees who influence the service quality and thereby also the loyalty of the clients and the overall business result.

Therefore, the Bank pays maximum attention to the selection, education and development of its employees in the areas of professional knowledge, communication skills and total profiling of the corporate culture in order to enforce the personal integrity of all its employees.

Human resources plays a key role in achieving the banking strategy as well as risk management and the provision of long-term and sustainable growth for the company. A strong and complex strategy for working with human capital and a consistent corporate culture are the key factors for achieving results in the long term.

Therefore, the main priorities in the human resources area are directed at aligning the work with the people and the business strategy, more specifically, at talent search and development, leadership, succession planning, motivation and incentive systems, diversity and commitment.

During 2017 our activities within the Development Program continued, with more than 180 of our colleagues participating. We have trained more than 1,700 employees in the operation of the new IT applications.

In the incentives area, we have implemented standards supporting not only the achievement of high performance but also ethical behaviour and conduct directed at a balanced attitude to risk in the long term.

Social responsibility

Sustainability
Sustainability is the everyday commitment of UniCredit. We believe that sustainable banking requires us to make our everyday decisions and define our long-term strategy with an economic, social and environmental responsibility. We try to achieve all-round advantageous solutions for all involved in the long term.

Anti-corruption rules
UniCredit Bank applies the principle of zero tolerance for corruption. The Bank will not tolerate the involvement of its employees or third parties in any relation to the Bank in either direct or indirect corruption.

Sponsoring and Charity
In 2017, as in previous years, UniCredit Bank focused on activities with an overlap into social responsibility.

We appreciate that we could make donations last year to several charitable organisations helping sick and vulnerable children not only in the Czech and Slovak Republics, but also in developing countries. We also supported scientific institutions engaging in research and innovations in the area of oncology.

We continued our partnership with Poradna při finanční tísni (Debt Advisory Center) and in cooperation with our partners in Slovakia, we also supported voluntary blood donations and charitable Christmas markets for a good cause. Our significant activities also include the Gift Matching Program, thanks to which our employees can support a non-profit organisation of their own choice.

We value our long-term cooperation with and support of the Karlovy Vary International Film Festival.

Another area we don't forget about is sport. For a number of years, the UniCredit Group has been the official bank and partner of the UEFA Champions League. For the second year, we supported the series of running events 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 2017 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 2018

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 reviewed the statutory individual and consolidated financial statements and the financial statement for the Slovak branch of the bank prepared as at 31st December 2017 together with the Auditor's Reports by Deloitte Audit s.r.o., which is the independent auditor of UniCredit Bank for the year 2017, and the proposal for distribution of profit. The Supervisory Board acknowledges the conclusion drawn in the Auditor's Reports that the individual and consolidated financial statements clearly evidence the financial position of UniCredit Bank as at 31 December 2017 and its financial performance for the 2017 accounting period.
The Supervisory Board acknowledges the conclusions of the Auditor's Report that the statutory financial statements truly reflect assets, liabilities and the profit for the year of UniCredit Bank in all substantial matters and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations and the Articles of Association of UniCredit Bank.

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

The Supervisory Board further states that, based on the statutory financial statements and other documents provided to the Supervisory Board in 2017, it did not identify any material deficiencies or incorrectness which could lead to the conclusion that the Bank's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the situation of UniCredit Bank.

April 2018

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 2017, the basis for calculating the contribution to the Guarantee Fund was CZK 784,040,502.60.
The contribution to the Guarantee Fund is 2% of this amount, i.e., CZK 15,680,810.04.

Strengthen and optimise capital.

Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Note	2017 MCZK	2016 MCZK
Interest income and similar income	5	12 327	11 832
Interest expense and similar charges	5	(1 109)	(1 687)
Net interest income and similar income		**11 218**	**10 145**
Fee and commission income	6	4 660	5 018
Fee and commission expenses	6	(1 195)	(1 195)
Net fee and commission income		**3 465**	**3 823**
Dividend income	7	4	3
Net income/loss from financial assets and liabilities held for trading	8	2 682	2 129
Net income/loss from hedging against risk of changes in fair value	9	(31)	(4)
Net income/loss from the sale of financial assets and liabilities	10	508	1 053
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	11	–	3
Operating income		**17 846**	**17 152**
Impairment losses on financial assets and off-balance sheet items	12	(460)	(1 499)
Administrative expenses	13	(7 752)	(7 854)
Creation and release of provisions		(160)	(304)
Depreciation and impairment of property and equipment		(960)	(768)
Amortisation and impairment of intangible assets		(89)	(43)
Other operating income and expenses	14	775	790
Operating expenses		**(8 186)**	**(8 179)**
Profit/loss from investments in associates		94	60
Profit/loss from the sale of non-financial assets		(5)	179
Profit before income tax		**9 289**	**7 713**
Income tax	33	(1 663)	(1 668)
Profit after tax		**7 626**	**6 045**
Net profit attributable to the Group's shareholders		7 626	6 045
Net profit attributable to minority shareholders		–	–
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments:		(1 341)	126
Changes in net fair values of derivatives in cash flow hedges		(1 304)	206
Net fair value of derivatives in cash flow hedges transferred to profit or loss		(37)	(80)
Reserve from revaluation of available-for-sale securities		(857)	(786)
Change in revaluation of available-for-sale securities		(566)	(164)
Revaluation of available-for-sale securities transferred to profit or loss		(291)	(622)
Foreign exchange rate gains from the consolidation of a foreign branch		(710)	(2)
Other comprehensive income		**(2 908)**	**(662)**
Other comprehensive income attributable to the Group's shareholders		(2 908)	(662)
Other comprehensive income attributable to minority shareholders		–	–
Total comprehensive income		**4 718**	**5 383**
Total comprehensive income attributable to the Group's shareholders		4 718	5 383
Total comprehensive income attributable to the minority shareholders		–	–

The notes on pages 41–95 form a part of these financial statements.

Consolidated statement of financial position as of 31 December 2017

	Note	31 Dec 2017 MCZK	31 Dec 2016 MCZK
ASSETS			
Cash in hand and cash balances	15	4 008	4 192
Financial assets at fair value through profit or loss including		8 115	9 027
– held for trading	16	8 115	9 027
– not held for trading	16	0	0
Available-for-sale securities	17	47 522	80 192
Securities held to maturity	18	175	186
Receivables from banks	19	210 188	139 900
Receivables from clients	20	386 672	385 572
Positive fair value of hedging derivatives	22	4 441	5 163
Equity investments in associates	21	398	401
Property and equipment	23	4 883	5 016
Intangible assets	24	1 940	1 387
Tax receivables, including:		731	921
– current income tax	33	24	294
– deferred tax	33	707	627
Non-current assets held for sale		2	4
Other assets	25	3 003	3 081
Total assets		**672 078**	**635 042**
LIABILITIES			
Deposits from banks	26	174 274	115 524
Deposits from clients	27	360 473	371 163
Debt securities issued	28	40 000	60 107
Financial liabilities held for trading	29	8 199	6 569
Negative fair value of hedging derivatives	30	4 876	3 417
Tax liabilities, including:		926	1 523
– current income tax	33	320	398
– deferred tax	33	606	1 125
Other liabilities	31	10 979	8 879
Provisions	32	855	969
Total liabiliites		**600 582**	**568 151**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		1 874	4 782
Retained earnings, reserve funds and other capital funds	36	49 746	43 814
Profit for the period		7 626	6 045
Total shareholder's equity		71 496	66 891
Total liabilities and shareholder's equity		**672 078**	**635 042**

The notes on pages 41–95 form a part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2017

	2017 MCZK	2016 MCZK
Net profit for the period	**7 626**	**6 045**
Adjustments for non-cash items		
Impairment of loans and receivables and financial investments	460	1 499
Revaluation of securities and derivatives	(361)	398
Creation and release of other provisions	(64)	304
Depreciation and amortisation of property and equipment, and intangible assets	1 049	811
Profit (loss) from securities available for sale	(308)	(1 085)
Profit (loss) from property and equipment and intangible assets sold	5	(179)
Taxes	1 663	1 668
Other non-monetary changes	(775)	541
Operating profit before change in operating assets and liabilities	**9 295**	**10 002**
Financial assets and liabilities held for trading	2 548	(1 855)
Receivables from banks	(70 284)	(34 002)
Loans and receivables from clients	(1 820)	(36 271)
Other assets	78	(83)
Deposits from banks	58 768	55 846
Deposits from clients	(10 668)	7 317
Other liabilities	2 050	2 153
Income tax paid	(1 499)	(1 720)
Net cash flows from operating activities	**(11 532)**	**1 387**
Changes in securities available for sale and other financial investments	32 848	4 241
Acquisition of a subsidiary	-	-
Gains from the sale of property and equipment and intangible assets	886	1 573
Acquisition of property and equipment and intangible assets	(2 330)	(2 630)
Dividends received	4	3
Net cash flows from investment activities	**31 408**	**3 187**
Dividends paid	0	–
Debt securities issued	(20 060)	(4 827)
Net cash flows from financial activities	**(20 060)**	**(4 827)**
Cash and other highly liquid funds at the start of the period	**4 192**	**4 445**
Net cash flows from operating activities	(11 532)	1 387
Net cash flows from investment activities	31 408	3 187
Net cash flows from financial activities	(20 060)	(4 827)
Cash and other highly liquid funds at the end of the period	**4 008**	**4 192**
Interest received	12 978	11 679
Interest paid	(1 196)	(1 939)

The notes on pages 41–95 form a part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

MCZK	Issued capital	Share premium	Reserve from revaluation: hedging instru-ments	Reserve from revaluation: securities available for sale	exchange rate gains or losses of a foreign branch	Retained earnings and reserve funds: Reserve fund and other capital funds	Retained earnings and reserve funds: Special--purpose reserve fund	FX differences from consolidation	Retained earnings	Profit for the period	Equity
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**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2016 profit						17			6 028	(6 045)	–
Dividend payment											–
Consolidation impact								(99)	(14)		(113)
Total comprehensive income for the period											
Net profit for 2017										7 626	7 626
Other comprehensive income											
Change in revaluation of available-for-sale securities											
Change in revaluation of available-for-sale securities reported in other comprehensive income				(788)							(788)
Revaluation of available-for-sale securities transferred to profit or loss				(358)							(358)
Deferred tax				289							289
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			(1 613)								(1 613)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(44)								(44)
Deferred tax			316								316
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(710)						(710)
Total comprehensive income for the period			**(1 341)**	**(857)**	**(710)**						**(2 908)**
Balance as at 31 December 2017	**8 755**	**3 495**	**539**	**1 555**	**(220)**	**5 217**	**11 611**	**(99)**	**33 017**	**7 626**	**71 496**

The notes on pages 41–95 form a part of these financial statements.

Notes to the financial statements (consolidated)

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.

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.

CA-Leasing EURO, s.r.o., owned by UniCredit Leasing CZ, a.s., was sold in February 2017 outside of the UniCredit Group.

As of 31 December 2017, 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 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 3 (g)*(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 in 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 or in accordance with the contract	2–6 years
• 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.

The description of significant contractual conditions for finance leases can be characterised as follows:

- The subject of the lease is specified in the text of the lease contract or in the acceptance certificate (part of the lease contract);
- The duration of the lease begins on the day of the acceptance of the subject of the lease by the lessee and ends upon the expiration of the agreed lease term;
- The lessee is authorised to purchase the subject of the lease from the lessor;
- The subject of the lease remains in the exclusive ownership of the lessor throughout the duration of the lease. The ownership is transferred to the lessee/buyer on the day when the purchase price as per the purchase agreement is credited to the lessor's account;
- The purchase price and all amounts in the lease contract are net of value added tax, the VAT rate is set by law and it is indicated separately in the invoices;
- The consideration for the lease includes an extraordinary lease payment, contractual flat fee (e.g. the processing and administration of the lease contract) and the number of lease payments indicated by the contract and calculated from the acquisition cost (in CZK or a foreign currency);
- The subject of the lease must be insured throughout the lease term; and
- The lessor may prematurely terminate the lease contract at any time without a notice period by withdrawal or by a notice with immediate effect if the lessee significantly breaches or fails to meet the obligations and commitments arising from the lease contract. In such a case, the lessee is obliged to make all the remaining lease payments to the lessor in line with the payment calendar; the payments are due upon the premature termination of the lease contract.

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.

A restructuring provision is recognised when the following criteria are met:
- The Group has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place due the fact that the implementation of the plan has commenced or its main features have been announced.

(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 IAS 7 *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017); and
- Amendments to IFRS 12 due to *Improvements to IFRSs (cycle 2014–2016)* (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017, but they do not affect the Bank's separate financial statements.

(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

- will introduce significant changes, compared to IAS 39, to the classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI – Solely Payments of Principal and Interest criteria);
- requires the measurement of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available-for-sale assets set by IAS 39, IFRS 9 has eliminated the request to recognise impairment losses and provide for, in case of derecognition of the instruments, the gain or losses from disposal shall be recycled to other equity reserves and not to profit and loss accounts;
- will introduce a new accounting model for impairment, based on (i) the expected losses approach substituting the current approach based on the incurred losses, and (ii) will introduce the concept of "lifetime" expected losses, and consequently an anticipated structural increase of provisioning with particular reference to credit losses;
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management method. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS 39 hedge

accounting rules until the IASB has completed the project on the definition of portfolio hedging rules; and
- changes the accounting treatment of "own credit risk", in other words, changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit risk. The new accounting standard requires these changes shall be recognised in a specific equity reserve, rather than to the income statement, as requested under IAS 39, therefore removing a volatility source from the economic results.

In order to ensure prompt compliance with the requirements set by the accounting principles, the Group has activated a project that is in its final phase with the aim of creating accounting and risk monitoring methodologies harmonised across Group Legal Entities.

Mirroring the main changes required by IFRS 9, the Group wide project has been organised through work-streams specifically:
- Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS 9 criteria,; and
- Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

The Bank has participated in the Group wide project primarily by performing the impact analysis and implementing all changes in line with the Group requirements.

With reference to the "Classification and Measurement" work-stream, the Group has:
- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard; and
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas comprising the Group and by attributing them a specific business model.
In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas comprising the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected sales of financial instruments.
In this context, sales of financial instruments may be compliant with the "held to collect" business model in case of (i) securitisation transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by an adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant, which are to be evaluated case by base.
A business model "other" has been assigned to the business areas comprising the trading portfolio of the Group so to reflect the intent to achieve profit from short-term price movements.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").
In this regard, the Group has developed processes and systems aimed at analysing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allow their measurement at amortised cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio").
This analysis was performed on the local level either contract by contract or by clusters, defined on the basis of the features of the asset, and using a specific tool internally developed (SPPI Tool) in order to analyse the feature of the contracts in comparison with IFRS 9 requirements or making use of an external data provider. Based on the analysis, no need for reclassification of financial assets due to failing the SPPI Test was identified.
Equity instruments will be measured at fair value through profit or loss or comprehensive income depending on their features and the reasons for which they have been acquired. Units in investments funds will be measured at fair value through profit or loss following regulatory requirements that exclude the possibility to consider these instruments as equity instruments.
With reference to the "Impairment" work-stream, new impairment models have been adapted to comply with the new accounting requirements, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by the EBA.
The applicable asset perimeter subject to expected losses calculation have been extended in order to include, in addition to financial assets at Amortised Cost and the applicable off balance sheet exposures, all credit exposures assets classified at Fair Value through Other Comprehensive Income.
Furthermore, specific adjustments have been made on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to determine the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2. The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on.

In the case of LGD and EAD, specific adjustments are applied to parameters already calculated for "regulatory" purposes, due to differing requirements of the regulatory and accounting methodologies, in order to ensure full consistency. The main adjustments are such so as to:
- remove the conservatism required for regulatory purposes only;
- introduce an adjustment of risk parameters to current ("point in time") estimates, instead of calibration for the entire economic cycle ("through the cycle") embedded in the regulatory parameters;
- include forward-looking information; and
- extend the credit risk parameters to a multiyear perspective.

As for what concerns PDs, dedicated lifetime PD curves have been developed for each main client segment based on cumulated default rates, and calibrated to reflect as precisely as possible the future portfolio default rate and its anticipated development.
Recovery rates embedded in the regulatory LGD models have been adjusted to remove all margins of conservatism and to reflect the expectation about future development of recovery rates.
The lifetime EAD has been obtained by extending the 1Y regulatory or managerial model, removing all margins of conservatism and calculating a dedicated additional parameter representing expected credit line utilisation.
The Expected Credit Loss derived from such adjusted parameters also takes into consideration macroeconomic forecasts.
A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (iii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Unicredit Group the stage allocation assessment includes a combination of relative and absolute triggers. The main triggers include:

- the relative comparison between the PD at first recognition and the PD at each reporting date, both calculated through internal models at transaction level, with thresholds set in such a way to consider all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (e.g. time since acquisition, maturity, level of PD at acquisition, etc.);
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due); and
- other internal relevant triggers (e.g. new classifications to Forborne).

On assets represented by debt securities, the Unicredit Group has opted, fully in compliance with the applicable standard, to apply the "low credit risk exemption" on investment grade securities.
Also the determination of Impairment calculated on "Impaired Assets" has been adjusted as required by the new regulation, in order to include (i) adjustments on both collectively and individually assessed transactions, taking into account as accurately as possible the estimate of anticipated future development, and (ii) multiple development scenarios applicable to this class of assets.
In this evaluation, also expected sale scenarios are considered since the Group Non-Performing Asset Management Strategy foresees the recovery of defaulted assets also through their sale.
In classifying impaired assets, the Definition of Default currently applied within the Unicredit Group has been adopted, already incorporating some of the key principles embedded in the Definition of Default guidelines issued by the EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so called "debtor approach").
With reference to hedge accounting the Group opted to keep applying the existing hedge accounting requirements in IAS 39 for all hedge accounting until the IASB completes its project on accounting for portfolio hedging.
With reference to the implementation of the methodological framework and tools described above in the daily operations the Bank, in line with the project timeline, has designed the final IT architecture, and is finalising the development of the organisational processes and procedures.
In the transition to the new standard, the Group plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.
The UniCredit Group IFRS 9 project is part of the European Central Bank Thematic Review. In addition the methodological approaches adopted by the UniCredit Group in the context of the IFRS 9 project have been subject to structured review by External Auditors that are currently performing a review of the implementations.
In this regard, we highlight that from the analysis performed so far no criticalities have arisen that may cast doubts on the overall adequacy of the mentioned methodological approaches, pursuant to the requirements of the new standard.
At the date of first time application, the main impacts of IFRS 9 on the UniCredit Group are expected to come from the application of the new model for impairment based on the expected losses approach, which is expected to cause an increase in allowances for financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognised in the financial statements (especially between "Stage 1", which will include the new positions originated as well as all performing loans, and "Stage 2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).
Adjustments to the carrying value of financial instruments due to IFRS 9 transition will be accounted for through Equity as of January 1, 2018 and they will have an impact on CET 1 – gross of tax effect is expected to be a decrease of up to CZK 200 million, i.e. the estimated impact on the Tier 1 ratio to be a decrease of up to 5bps.
With reference to "Classification and Measurement", no significant reclassifications of loans and debt instruments at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion) are expected. Consequently, the effect on CET 1 gross of tax effect to be an increase of up to CZK 63 million, i.e. the estimated impact on Tier 1 ratio to be an increase of up to 2bps.
Following the entry into force of IFRS 9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses in the calculation of regulatory capital (CRD/CRR) is foreseen.

In that regard, EU Regulation No. 2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. The Bank will not adopt the transitional regime.

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

IFRS 15, effective starting from 1 January 2018, has been endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18 *Revenue*.

IFRS 15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");
- a new model for the analysis of the transactions ("Five steps model") focalised on the transfer of control; and
- the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard could determine (i) reclassification between lines of income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) different measure of the revenue so to reflect their variability.

Based on the analysis performed so far no major impacts are foreseen by the adoption of IFRS 15.

- IFRS 16 "*Leases*" (effective for annual periods beginning on or after 1 January 2019)

IFRS 16, effective starting from 1 January 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the previsions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS 16 or by IAS 40. An impact analysis on the local level was performed with no significant impact identified, including an impact on capital adequacy ratio.

- Amendments to IAS 28 due to "*Improvements to IFRSs (cycle 2014-2016)*" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IAS 28 are to be applied for annual periods beginning on or after 1 January 2018). The amendments to FIRS 1 and IFRS 12 have no impact on the Bank's separate financial statements.

- 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). The amendment to IFRS 4 do not impact the Bank.

(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 has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*"(effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* (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 date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards due to "*Improvements to IFRSs (cycle 2015-2017)*" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view

to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018); and
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019).

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 40).
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 years ended 31 December 2017 and 31 December 2016.

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

In the years ended 31 December 2017 and 31 December 2016, 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	2017	2016
Interest income and similar revenues		
Balances with central banks	410	56
Receivables from banks	112	157
Receivables from clients	9 795	9 774
Available-for-sale securities	1 019	1 312
Securities held to maturity	9	9
Financial assets at fair value through profit or loss held for trading	5	17
Financial assets at fair value through profit or loss not held for trading	–	–
Net interest income from hedging derivatives	977	507
Interest income and similar revenues	**12 327**	**11 832**
Interest expense and similar charges		
Deposits from central bank	–	(5)
Deposits from banks	8	(197)
Deposits from clients	(174)	(516)
Debt securities issued	(940)	(969)
Financial liabilities held for trading	(3)	–
Interest expense and similar charges	**(1 109)**	**(1 687)**
Net interest income and similar income	**11 218**	**10 145**

In 2017 the Bank focused on refinancing optimisation in both markets, i.e. on obtaining cheap sources for lending. This resulted in a decrease in interest expenses arising from deposits from clients. Among other things, clients transferred part of the volume of term deposits to current accounts with a very low interest rate in order to ensure higher liquidity.

6. Net fee and commission income

MCZK	2017	2016
Fee and commission income from		
Securities transactions	1	5
Management, administration, deposit and custody services	738	692
Loans	1 231	1 885
Payment services	855	789
Account administration	529	511
Payment cards	944	856
Other	362	280
Fee and commission income	**4 660**	**5 018**
Fee and commission expenses from		
Securities transactions	(25)	(8)
Management, administration, deposit and custody services	(99)	(72)
Loans	(220)	(364)
Payment services	(37)	(31)
Payment cards	(719)	(577)
Other	(95)	(143)
Fee and commission expenses	**(1 195)**	**(1 195)**
Net fee and commission income	**3 465**	**3 823**

7. Dividend income

MCZK	2017	2016
Dividend income		
Shares classified as available-for-sale securities	4	3
Total dividend income	**4**	**3**

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

MCZK	2017	2016
Net realised and unrealised gain/(loss) from securities held for trading	(42)	87
Net realised and unrealised gain/(loss) from derivatives held for trading	(3 402)	698
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	6 126	1 344
Net trading income (loss)	**2 682**	**2 129**

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

MCZK	2017	2017
Hedging instruments	435	(158)
Hedged instruments	(466)	154
Net income/loss from hedging against risk of changes in fair value	**(31)**	**(4)**

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

MCZK	2017	2016
Receivables from clients	204	3
Available-for-sale securities	308	1 085
Debt securities issued	(4)	(35)
Net income/loss from the sale of financial assets and liabilities	**508**	**1 053**

In the year ended 31 December 2016, 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	2017	2016
Debt securities (assets)	–	3
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	**–**	**3**

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

MCZK	2017	2016
Receivables from clients	(515)	(1 431)
Provision for off-balance sheet items	55	(65)
Available-for-sale securities	–	(3)
Total impairment losses on financial assets and off-balance sheet items	**(460)**	**(1 499)**

13. Administrative expenses

MCZK	2017	2016
Personnel expenses		
Wages and salaries paid to employees	(2 342)	(2 431)
Social costs	(863)	(840)
Other	(209)	(119)
	(3 414)	**(3 390)**
Other administrative expenses		
Rent and building maintenance	(612)	(681)
Information technologies	(1 455)	(1 241)
Promotion and marketing	(301)	(471)
Consumables used	(53)	(76)
Audit, legal and advisory services	(191)	(183)
Administrative and logistic services	(485)	(547)
Deposits and transactions insurance	(744)	(532)
Other services	(258)	(273)
Other	(239)	(460)
	(4 338)	**(4 464)**
Total administrative expenses	**(7 752)**	**(7 854)**

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	2017	2016
Short-term employee benefits	180	185
Post-employment benefits	–	–
Other long-term employee benefits	30	34
Termination benefits	–	–
Share-based payments	–	–
Total	**211**	**219**

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

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

	2017	2016
Employees	3 289	3 328
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	33

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:

2017 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	307	1 142	–
2016 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	351	1 389	–

14. Other operating income and expenses

MCZK	2017	2016
Income from rent	736	696
Other income relating to lease	84	68
Other income	529	535
Total other operating income	**1 349**	**1 299**
Taxes	(6)	(2)
Fines and penalties	(22)	(15)
Other expenses relating to lease	(113)	(96)
Other	(433)	(396)
Total other operating expenses	**(574)**	**(509)**
Total other operating income and expenses	**775**	**790**

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

2017 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	414	829	206
2016 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	305	383	84

15. Cash in hand and cash balances

MCZK	31 Dec 2017	31 Dec 2016
Cash in hand	3 964	4 083
Other balances with central banks	44	109
Total	**4 008**	**4 192**

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 2017				
Debt securities	1 228	58	–	1 286
Shares	–	–	–	–
Derivatives	36	3 793	–	6 829
Total	**1 264**	**6 851**	**–**	**8 115**
31 Dec 2016				
Debt securities	2 803	13	–	2 816
Shares	–	–	–	–
Derivatives	39	6 172	–	6 211
Total	**2 842**	**6 185**	**–**	**9 027**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Government sector	1 283	2 816
Other	3	–
Shares		
Financial services	–	–
Other	–	–
Total	**1 286**	**2 816**

17. Available-for-sale securities

(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 2017				
Debt securities	38 170	9 092	–	47 262
Shares	–	–	260	260
Total	**38 170**	**9 092**	**260**	**47 522**
31 Dec 2016				
Debt securities	65 539	14 424	–	79 963
Shares	–	–	229	229
Total	**65 539**	**14 424**	**229**	**80 192**

(b) Securities by Type of Issuer

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Banking	7 501	12 240
Governments and central banks	29 615	57 759
Other public sector	2 032	2 185
Other	8 114	7 779
Shares		
Investment funds	–	–
Other	260	229
Total	**47 522**	**80 192**

(c) Participation Interests

MCZK Name	Registered office	Date of acquisition	Acquisition price	Net book value 2017	Net book value 2016	Share of the Group at 31 Dec 2017	Share of the Group at 31 Dec 2016
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 2017	31 Dec 2016
Debt securities	175	186
Total	**175**	**186**

(b) Securities by activities of issuers

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Governments and central banks	175	186
Other	–	–
Total	**175**	**186**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2017	31 Dec 2016
Current accounts	1 328	1 204
Term deposits	648	6 830
Loans	4 946	7 977
Reverse repurchase commitments (see Note 37)	199 020	117 501
Obligatory minimum reserves at central banks	4 246	6 388
Total	**210 188**	**139 900**

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

MCZK	31 Dec 2017	31 Dec 2016
Czech Republic	203 457	127 946
Slovakia	431	350
Other EU countries	1 842	5 150
Other	4 458	6 454
Total receivables from banks	**210 188**	**139 900**

20. Receivables from clients

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

MCZK	Non-default	Default	Total
31 Dec 2017			
Current accounts (overdrafts)	36 698	475	37 173
Reverse repurchase transactions (see Note 37)	378	–	378
Resident mortgage loans	94 797	611	95 408
Other mortgage loans	39 200	761	39 961
Leases	24 189	671	24 860
Credit cards and consumer loans	11 400	172	11 572
Factoring	6 571	116	6 687
Other loans	168 905	1 728	170 633
Total	**382 138**	**4 534**	**386 672**

MCZK	Non-default	Default	Total
31 Dec 2016			
Current accounts (overdrafts)	34 441	474	34 915
Reverse repurchase transactions (see Note 37)	–	–	–
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
Other loans	147 065	2 209	149 274
Total	**379 397**	**6 175**	**385 572**

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 2017				
Standard	378 765	–	(1 397)	377 368
Watch	4 935	–	(165)	4 770
Substandard	5 643	(2 966)	–	2 677
Doubtful	1 689	(1 041)	–	648
Loss	6 249	(5 040)	–	1 209
Total	**397 281**	**(9 047)**	**(1 562)**	**386 672**
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**

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

MCZK	31 Dec 2017	31 Dec 2016
Receivables without default		
Internal rating 1	5 690	6 573
Internal rating 2	13 080	10 232
Internal rating 3	39 394	44 861
Internal rating 4	106 493	102 911
Internal rating 5	110 700	105 750
Internal rating 6	67 601	67 537
Other internal rating	19 236	23 922
Receivables without internal rating	21 506	19 626
Total	**383 700**	**381 412**
Receivables with default	13 581	16 438
Total	**397 281**	**397 850**

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.). 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 2017	31 Dec 2016
Non-default receivables, gross		
Due receivables	377 515	375 502
1–30 days past due	5 600	5 148
31–90 days past due	551	762
91–180 days past due	12	–
More than 180 days past due	–	–
Total	**383 678**	**381 412**

(c) Analysis of Net Receivables from Clients by Sector

MCZK	31 Dec 2017	31 Dec 2016
Financial institutions	6 033	9 797
Non-financial institutions	265 459	268 668
Government sector	2 712	1 669
Individuals and others	112 648	105 438
Total	**386 852**	**385 572**

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

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
31 Dec 2017						
Bank and similar guarantee	9 792	32	1	–	–	9 825
Real estate	93 003	1 295	881	169	589	95 937
Corporate guarantee	3 039	15	–	–	3	3 057
Movable assets	43 479	–	968	302	625	45 374
Other security	6 944	88	12	257	41	7 342
Unsecured	222 508	3 505	3 781	961	4 991	235 746
Total	**378 765**	**4 935**	**5 643**	**1 689**	**6 249**	**397 281**
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	42 003	–	141	747	1 099	43 990
Other security	5 762	460	121	47	171	6 561
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**

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 46,869 (as of 31 December 2016: MCZK 53,723). 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 2017	31 Dec 2016
Czech Republic	246 970	238 771
Slovakia	120 609	127 130
Other EU countries	13 868	14 800
Other	5 225	4 871
Total	**386 672**	**385 572**

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

MCZK	31 Dec 2017	31 Dec 2016
Real estate services	64 000	77 794
Financial services	5 943	9 747
Wholesale	32 792	27 679
Household services	109 336	102 455
Retail	8 456	7 243
Leasing and rental	6 343	5 842
Automotive industry	8 807	8 775
Power industry	28 499	27 237
Other	122 496	118 800
Total receivables from clients	**386 672**	**385 572**

(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 2017							
Non-financial institutions	6 595	1 739	8 334	(72)	(1 253)	(1 325)	7 009
Other financial institutions	129	–	129	–	–	–	129
Individuals and others	37	88	125	–	(29)	(29)	96
Total	6 761	1 827	8 588	(72)	(1 282)	(1 354)	7 234
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
Individuals and others	61	68	129	(4)	(17)	(21)	108
Total	**8 429**	**2 796**	**11 225**	**(147)**	**(1 442)**	**(1 589)**	**9 636**

Net forbearance represented 1.9% of the total receivables from clients as of 31 December 2017 (2016: 2.5%).

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 2017			
Non-default receivables			
Before due	6 205	(55)	6 150
Past due	556	(17)	539
Total non-default forbearance	**6 761**	**(72)**	**6 689**
Default receivables			
0 to 90 days past due	943	(495)	448
91 to 180 days past due	131	(100)	31
181 days to 1 year past due	296	(238)	58
Over 1 year past due	457	(449)	8
Total default forbearance	**1 827**	**(1 282)**	**545**
Total	**8 588**	**(1 354)**	**7 234**
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 to 180 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**

The table below shows movements in gross forbearance:

MCZK	
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**
Balance at 1 January 2017	11 225
Transfer to forbearance	3 426
Additions	73
Write-offs	(141)
Settled	(2 568)
Transfer from forbearance	(3 314)
Other	(113)
Total forbearance as of 31 December 2017	**8 588**

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 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)**
Balance at 1 January 2017	(1 589)
Transfer to forbearance	(249)
Charge during the current year	(397)
Release during the current year	195
Receivables written off – use	65
Transfer from forbearance	533
Other	88
Total impairment forbearance as of 31 December 2017	**(1 354)**

(h) Impairment of Receivables from Clients

MCZK	
Balance as of 1 Jan 2016	(12 501)
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)**
Balance as of 1 Jan 2017	(12 278)
Creation during the period	(3 547)
Release during the period	3 032
Net effect on profit or loss	(515)
Receivables written off – use	1 217
FX differences	967
Total impairment of receivables from clients as of 31 Dec 2017	**(10 609)**

(i) Receivables from Finance Leases

	Minimum lease payment		Present value of the minimum lease instalment	
MCZK	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Receivables from finance leases:				
Within 1 year	8 524	9 201	7 783	7 969
From one year to five years	15 128	15 213	13 840	14 684
More than five years	3 406	5 099	3 237	4 666
	27 058	29 513	24 860	27 319
Minus: unrealised income	(2 198)	(2 194)	–	–
Present value of the receivable from the minimum lease instalment	**24 860**	**27 319**	**24 860**	**27 319**

21. Equity investments

MCZK	Assets	Operating income	Profit / (loss)	Equity	Net book value
31 December 2017					
RCI Financial Services, s.r.o. (50%)	3 587	217	115	714	398
Total					**398**
31 December 2016					
RCI Financial Services, s.r.o. (50%)	3 042	202	120	719	401
Total					**401**

Changes in Investments in Associates

MCZK	
Balance at 1 January 2016	**401**
Change in profit or loss	60
Dividend	(60)
Change in equity	–
Total	**401**
Balance at 1 January 2017	401
Change in profit or loss	57
Dividend	(60)
Change in equity	–
Total	**398**

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 2017				
Fair value hedging	–	248	–	248
Cash flow hedging	–	4 193	–	4 193
Total	**–**	**4 441**	**–**	**4 441**
31 Dec 2016				
Fair value hedging	–	122	–	122
Cash flow hedging	–	5 041	–	5 041
Total	**–**	**5 163**	**–**	**5 163**

23. Property and equipment

MCZK	31 Dec 2017	31 Dec 2016
Property and equipment for operations		
Buildings and land	831	1 094
Fixtures and fittings	35	39
IT equipment	97	134
Assets provided under operating leases	3 099	2 863
Other	141	174
Property and equipment held as an investment		
Buildings and land	680	712
Total	**4 883**	**5 016**

(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 2016	**2 927**	**443**	**709**	**2 868**	**165**	**7 112**
Accumulated depreciation and impairment at 1 Jan 2016	(1 151)	(368)	(524)	(637)	(61)	(2 741)
Net Book Value at 1 Jan 2016	**1 776**	**75**	**185**	**2 231**	**104**	**4 371**
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)
Cost at 1 Jan 2017	**2 047**	**212**	**734**	**3 500**	**480**	**6 973**
Accumulated depreciation and impairment at 1 Jan 2017	(953)	(173)	(600)	(637)	(306)	(2 669)
Net Book Value at 1 Jan 2017	**1 094**	**39**	**134**	**2 863**	**174**	**4 304**
Additions	30	6	25	1 739	26	1 826
Disposals	–	–	–	(882)	(11)	(893)
Depreciation charges	(246)	(11)	(65)	(559)	(46)	(927)
Transfers to assets held for sale	–	–	–	–	–	–
Other and FX rate gains or losses	(47)	1	3	(62)	(2)	(107)
Net Book Value at 31 Dec 2017	**831**	**35**	**97**	**3 099**	**141**	**4 203**
Cost at 31 Dec 2017	1 807	191	685	3 970	369	7 022
Accumulated depreciation and impairment at 31 Dec 2017	(976)	(156)	(588)	(871)	(228)	(2 819)

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 building was sold before the end of 2016.

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

MCZK	Buildings and land	Total
Cost at 1 Jan 2016	**982**	**982**
Accumulated depreciation and impairment at 1 Jan 2016	(237)	(237)
Net Book Value at 1 Jan 2016	**745**	**745**
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)

MCZK	Buildings and land	Total
Cost at 1 Jan 2017	**982**	**982**
Accumulated depreciation and impairment at 1 Jan 2017	(237)	(237)
Net Book Value at 1 Jan 2017	**712**	**712**
Additions	1	1
Disposals	–	–
Depreciation charges	(33)	(33)
Transfers to assets held for sale	–	–
Other and FX rate gains or losses	–	–
Net Book Value at 31 Dec 2017	**680**	**680**
Cost at 31 Dec 2017	984	984
Accumulated depreciation and impairment at 31 Dec 2017	(304)	(304)

The fair value of assets held as investments is MCZK 791 (2016: MCZK 712).

24. Intangible assets

Movements in Intangible Assets

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	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)
Cost at 1 Jan 2017	**2 556**	**–**	**2 556**
Accumulated amortisation and impairment at 1 Jan 2017	(1 169)	–	(1 169)
Net Book Value at 1 Jan 2017	**1 387**	**–**	**1 387**
Additions	656	–	656
Disposals	–	–	–
Amortisation charges	(89)	–	(89)
Other	(14)	–	(14)
Net Book Value at 31 Dec 2017	**1 940**	**–**	**1 940**
Cost at 31 Dec 2017	3 115	–	3 115
Accumulated amortisation and impairment at 31 Dec 2017	(1 175)	–	(1 175)

The increase in the value of software in 2017 and 2016 was caused by the acquisition of assets especially with respect to the implementation of a new banking system. These assets were put into use in 2017.

25. Other assets

MCZK	31 Dec 2017	31 Dec 2016
Deferred expenses and accrued income	439	368
Prepayments made in relation to cash additions to ATMs and cash registers	1 004	1 151
Trade receivables	199	426
Receivables from securities	10	201
Other taxes	106	125
Suspense accounts	748	472
Other	513	354
Total	**3 019**	**3 097**
Impairment of other assets	(16)	(16)
Net other assets	**(3 003)**	**3 081**

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2017	31 Dec 2016
Deposits from central banks	17 978	11 889
Current accounts	9 146	7 033
Loans	22 942	16 380
Term deposits	123 830	39 210
Repurchase commitments (see Note 37)	378	41 012
Total	**174 274**	**115 524**

The Group currently uses the European Central Bank's currency instrument TLTRO II ("Targeted Long-term Refinancing Operation") in the amount of MEUR 703.9 which was drawn in two tranches. The Bank drew the first tranche of MEUR 440 in June 2016 and it will mature in June 2020. The Bank drew the second tranche of MEUR 263.9 in March 2017 and it will mature in March 2021. Both tranches are 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 2017	31 Dec 2016
Current accounts	336 392	322 479
Term deposits	21 023	40 411
Repurchase commitments (see Note 37)	–	4 653
Other	3 058	3 620
Total	**360 473**	**371 163**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2017	31 Dec 2016
Mortgage bonds	35 385	49 183
Structured bonds	3 834	8 170
Zero coupon bonds	–	1 664
Other issued debt securities	781	1 090
Total	**40 000**	**60 107**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 7,331 (at 31 December 2016: MCZK 8,512). The positive fair value of these derivatives of MCZK 7 is reported under "Financial assets held for trading" (at 31 December 2016: MCZK 17); the negative fair value of these derivatives of MCZK 370 is recognised under "Financial liabilities held for trading" (at 31 December 2016: MCZK 293).

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 2017				
Liabilities from short sales	1 533	–	–	1 533
Derivatives	–	6 666	–	6 666
Total	**1 533**	**6 666**	**–**	**8 199**
31 Dec 2016				
Liabilities from short sales	1 033	–	–	1 033
Derivatives	–	5 536	–	5 536
Total	**1 033**	**5 536**	**–**	**6 569**

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 2017				
Fair value hedging	–	550	–	550
Cash flow hedging	–	4 326	–	4 326
Total	**–**	**4 876**	**–**	**4 876**
31 Dec 2016				
Fair value hedging	–	1 044	–	1 044
Cash flow hedging	–	2 373	–	2 373
Total	**–**	**3 417**	**–**	**3 417**

31. Other liabilities

MCZK	31 Dec 2017	31 Dec 2016
Deferred income and accrued expenses	970	1 118
Trade payables	1 275	944
Payables to employees	741	739
Unsettled security transactions	65	89
Suspense accounts	7 642	5 677
Other	286	312
Total other liabilities	**10 979**	**8 879**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2017	31 Dec 2016
Provisions for off-balance sheet credit items	503	553
Legal disputes	73	81
Provision for restructuring	100	23
Other	179	312
Total provisions	**855**	**969**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
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**
Balance at 1 Jan 2017	553
Charge during the period	311
Usage during the period	–
Release during the period	(366)
Other – foreign exchange rate gains or losses	5
Total provisions for off-balance sheet credit items at 31 Dec 2017	**503**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance at 1 Jan 2016	84	21	3	108
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**
Balance at 1 Jan 2017	81	23	312	416
Charge during the period	5	169	10	184
Use during the period	(1)	(60)	(152)	(213)
Release of redundant provisions and other	(12)	(32)	9	(35)
Total other provisions at 31 Dec 2017	**73**	**100**	**179**	**352**

33. Income tax

(a) Tax in Profit or Loss

MCZK	2017	2016
Current tax payable	(1 718)	(1 488)
Tax of prior year	39	73
Deferred tax	16	(253)
Total income tax	**(1 663)**	**(1 668)**

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	2017	2016
Profit/loss for the year before tax	9 289	7 713
Tax calculated using the tax rate of 19%	(1 765)	(1 465)
Impact of prior years on the current tax payable	39	73
Non-taxable income	87	107
Tax non-deductible expenses	(106)	(169)
Impact of prior years on the deferred tax	–	(86)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(37)	(58)
Unreported temporary differences in deferred tax	28	(80)
Recognition of an originally unrecognised deferred tax	97	43
Impact of a change in the Slovak tax rate	–	(31)
Other	(4)	(2)
Total income tax	**(1 661)**	**(1 668)**

The effective tax rate of the Group is 17.9% (2016: 21.6%).

(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 2017 based on the current and anticipated future level of taxable profits.

(i) Deferred Tax Asset

MCZK	31 Dec 2017	31 Dec 2016
Tax non-deductible provisions	137	105
Impairment of loans and off-balance sheet items	823	854
Differences arising from the net book values of assets	49	41
Reserve from revaluation of hedging instruments	1	–
Reserve from revaluation of available-for-sale securities	–	–
Tax loss	42	46
Other	166	204
Offsetting against deferred tax liability	(511)	(623)
Net deferred tax asset	**707**	**627**

(ii) Deferred Tax Liability

MCZK	31 Dec 2017	31 Dec 2016
Tax non-deductible provisions	–	–
Impairment of loans and off-balance sheet items	46	643
Differences arising from the net book values of assets	125	86
Reserve from revaluation of hedging instruments	128	445
Reserve from revaluation of available-for-sale securities	242	531
Tax loss	–	–
Other	576	43
Offsetting against deferred tax asset	(511)	(623)
Net deferred tax asset	**606**	**1 125**

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 21, non-tax deductible provisions recognised by the Slovak branch of MCZK 10, provisions recognised by UniCredit Leasing Slovakia, a.s. of MCZK 81 and unutilised tax losses of UniCredit Leasing Slovakia, a.s. of MCZK 2.

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 2017 (MCZK 8,755 as of 31 December 2016).

(a) Shareholder Structure of the Group

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2017				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2016				
UniCredit S.p.A	Italy	8 755	3 495	100.00
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 2017 Number of shares	31 Dec 2017 MCZK	31 Dec 2016 Number of shares	31 Dec 2016 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Group's governance and the entitlement to a share on profit.
The most significant topics that are within the scope of authority of the general meeting and that a shareholder can therefore make decisions about include:

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

The effective date for the exercise of the right to a dividend is the same as the effective date for participation at the General Meeting; this date is the seventh calendar day before the General Meeting is held. The right to a dividend lapses after the three-year legal period passes in line with Section 629 of Act No. 89/2012 Coll., Civil Code. After the dissolution of the Bank, each shareholder has a right to a share in the liquidation proceeds in line with Section 37 of the BCA; this share is paid out in cash. The decision to dissolve the Bank with liquidation, to appoint and recall a liquidator including the determination of remuneration, and the approval of the proposed distribution of the liquidation proceeds are within the authority of the General Meeting. Both at 31 December 2017 and 31 December 2016, 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 2017	31 Dec 2016
Reserve funds	5 217	5 200
Special-purpose reserve fund	11 611	11 611
Retained earnings	33 017	27 003
Foreign exchange rate gains or losses from consolidation	(99)	–
Total	**49 746**	**43 814**

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 2017	31 Dec 2016
Receivables from banks	199 020	117 501
Fair value of securities received	195 204	116 305
Receivables from clients	378	–
Fair value of securities received	420	–

Securities received as collateral as part of reverse repurchase transactions of MCZK 420 are further provided as collateral under repurchase transactions (as of 31 December 2016: a total of MCZK 12,786).

(b) Repurchase Transactions

MCZK	31 Dec 2017	31 Dec 2016
Deposits from banks	378	41 012
Fair value of securities provided	420	44 596
Deposits from clients	–	4 653
Fair value of securities provided	–	4 653

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 2017, 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 2017, the aggregate provisions amounted to MCZK 503 (as of 31 December 2016: MCZK 553), see Note 32 (a).

MCZK	31 Dec 2017	31 Dec 2016
Letters of credit and financial guarantees	39 636	41 499
Other contingent liabilities (undrawn credit facilities)	113 165	115 291
Total	**152 801**	**156 790**

Values Taken into Administration and Management

MCZK	31 Dec 2017	31 Dec 2016
Bonds	537 325	474 869
Shares	192 514	205 853
Depository notes	17 305	21 489
Total values taken into administration and management	**747 144**	**702 211**

(b) Contingent Assets

The Group has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 383.1 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from Oesterreichische Kontrollbank AG Bank of MCZK 594.8 (MEUR 23.3) 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 194.4 (MUSD 9.1) 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 2017			
Trading instruments – interbank market (OTC)			
Options	69 633	829	843
Interest rate swap contracts	375 555	3 182	2 753
Forward rate agreements (FRA)	10 000	–	–
Cross currency swap contracts	211 237	2 584	2 561
Term currency transactions	34 417	55	369
Other instruments	1 432	143	140
Total	**702 274**	**6 793**	**6 666**
Trading instruments – stock exchange			
Futures	1 379	36	–
Total trading instruments	**703 653**	**6 829**	**6 666**
Hedging instruments			
Interest rate swap contracts	334 078	4 232	4 153
Cross currency swap contracts	156 542	209	723
Total hedging instruments	**490 620**	**4 441**	**4 876**
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)**

(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 2017				
Trading instruments				
Interest rate instruments	128 862	203 368	72 731	404 961
Equity instruments	2 711	12 170	–	14 881
Currency instruments	223 161	54 591	3 248	281 000
Other	1 381	51	–	1 432
Total	**356 115**	**270 180**	**75 979**	**702 274**
Hedging instruments				
Interest rate instruments	31 086	213 112	89 880	334 078
Currency instruments	92 729	63 272	541	156 542
Total	**123 815**	**276 384**	**90 421**	**490 620**
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**

39. Segment reporting

The Group presents the segment information based on performance criteria as disclosed in Note 3 (r).

(a) Segment Information by Client Category

MCZK	Retail and private banking	Corporate and investment banking, leasing	Other	Total
At 31 Dec 2017				
Net interest and dividend income	2 977	5 403	2 842	11 222
Other net income	1 430	5 279	4	6 713
Depreciation/impairment losses of property and equipment and intangible assets	(102)	(873)	(74)	(1 049)
Impairment of assets and provisions	597	(1 176)	(41)	(620)
Segment expenses	(3 723)	(3 359)	105	(6 977)
Profit before tax	1 179	5 274	2 836	9 289
Income tax			(1 663)	(1 663)
Result of segment	1 179	5 274	1 173	7 626
Segment assets	122 462	538 305	11 311	672 078
Segment liabilities	157 624	411 211	31 747	600 582

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 2016				
Net interest and dividend income	2 824	7 447	(123)	10 148
Other net income	1 587	4 216	1 201	7 045
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

(b) Information on Geographical Areas

MCZK	Czech Republic	Slovakia	Total
At 31 Dec 2017			
Net interest and dividend income	8 332	2 890	11 222
Other net income	5 012	1 701	6 713
Depreciation/impairment losses of property and equipment and intangible assets	(551)	(498)	(1 049)
Impairment of assets and provisions	(116)	(504)	(620)
Segment expenses	(5 080)	(1 897)	(6 977)
Profit before tax	7 597	1 692	9 289
Income tax	(1 375)	(288)	(1 663)
Result of segment	6 222	1 404	7 626
Segment assets	541 835	130 243	672 078
Segment liabilities	491 346	109 239	600 582
At 31 Dec 2016			
Net interest and dividend income	7 406	2 742	10 148
Other net income	6 137	867	7 004
Depreciation/impairment losses of property and equipment and intangible assets	(447)	(364)	(811)
Impairment of assets and provisions	(881)	(922)	(1 803)
Segment expenses	(4 797)	(2 028)	(6 825)
Profit before tax	7 418	295	7 713
Income tax	(1 395)	(273)	(1 668)
Result of segment	6 023	22	6 045
Segment assets	494 759	140 283	635 042
Segment liabilities	454 817	113 334	568 151

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 2017	Average for 2017	At 31 Dec 2016	Average for 2016
Aggregate VaR	147.4	132.1	115.9	128.2
VaR of currency instruments	4.3	2.7	3.27	6.3
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 standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Group's results. The Group uses the euro as the base currency for stress testing. All values are translated to CZK using the Czech National Bank's exchange rate as of the respective date.

	Basic stress test		MM stress test
MCZK	**–200bp**	**+200bp**	**+250bp**
Value at 31 Dec 2017	1 717	(2 092)	(914)
Average for the period	1 389	(1 839)	(824)
Maximum value	2 181	(882)	(26)
Minimum value	340	(2 525)	(1 407)
Value at 31 Dec 2016	1 282	(1 878)	(844)
Average for the year	1 742	(2 237)	(1 124)
Maximum value	2 334	(1 878)	(844)
Minimum value	1 282	(2 465)	(1 361)

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.

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

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2017						
Cash in hand and cash balances	1 667	2 159	7	32	143	4 008
Financial assets at fair value through profit or loss	4 722	3 062	295	–	36	8 115
including:						
– held for trading	4 722	3 062	295	–	36	8 115
– not held for trading	–	–	–	–	–	
Available-for-sale securities	19 011	28 035	476	–	–	47 522
Securities held to maturity	–	175	–	–	–	175
Receivables from banks	203 784	5 698	255	96	355	210 188
Receivables from clients	192 967	190 375	1 252	14	2 064	386 672
Positive fair value of hedging derivatives	3 146	1 292	3	–	–	4 441
Investments in associates	398	–	–	–	–	398
Property and equipment	3 323	1 560	–	–	–	4 883
Intangible assets	1 672	268	–	–	–	1 940
Tax receivables	79	652	–	–	–	731
Non-current assets held for sale	–	2	–	–	–	2
Other assets	2 266	495	181	13	48	3 003
Total assets	433 035	233 773	2 469	155	2 646	672 078
Deposits from banks	14 298	152 759	7 198	–	19	174 274
Deposits from clients	229 126	117 581	10 731	608	2 427	360 473
Debt securities issued	15 961	23 914	125	–	–	40 000
Financial liabilities held for trading	4 209	1 982	347	–	1 661	8 199
Negative fair value of hedging derivatives	3 118	1 596	162	–	–	4 876
Tax liabilities	790	136	–	–	–	926
Other liabilities	5 022	5 341	432	12	172	10 979
Provisions	451	394	5	–	5	855
Equity	52 421	18 843	35	191	6	71 496
Total liabilities and equity	325 396	322 546	19 035	811	4 290	672 078
Gap	107 639	(88 773)	(16 566)	(656)	(1 644)	–

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)	–

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 2017							
Cash in hand and cash balances	4 008	4 008	4 008	–	–	–	–
Financial assets at fair value through profit or loss	8 115	8 418	1 085	693	4 487	2 153	–
including:							
– held for trading	8 115	8 418	1 085	693	4 487	2 153	–
– not held for trading	–	–	–	–	–	–	–
Available-for-sale securities	47 522	51 982	486	4 568	24 431	22 497	–
Securities held to maturity	175	228	2	34	192	–	–
Receivables from banks	210 188	210 216	208 012	2 157	47	–	–
Receivables from clients	386 672	410 555	36 666	64 756	171 261	128 862	9 010
Positive fair value of hedging derivatives	4 441	4 441	77	189	2 764	1 411	–
Investments in associates	398	398	–	–	–	–	398
Property and equipment	4 883	4 883	–	–	–	–	4 883
Intangible assets	1 940	1 940	–	–	–	–	1 940
Tax receivables	731	731	–	731	–	–	–
Non-current assets held for sale	2	2	2	–	–	–	–
Other assets	3 003	3 003	2 840	162	–	–	1
Deposits from banks	174 274	174 301	82 376	2 238	87 033	2 564	–
Deposits from clients	360 473	361 330	352 647	6 445	906	1 332	–
Debt securities issued	40 000	42 653	1 267	7 115	24 509	6 762	–
Financial liabilities held for trading	8 199	8 199	2 707	1 032	3 432	1 028	–
Negative fair value of hedging derivatives	4 876	4 876	133	352	2 119	2 272	–
Tax liabilities	926	926	–	926	–	–	–
Other liabilities	10 979	10 979	9 670	1 309	–	–	–
Provisions	855	855	–	–	–	–	855
Equity	71 496	71 496	–	–	–	–	71 496
Undrawn loan facilities	113 165	113 165	8 323	31 129	20 876	52 837	–
Bank guarantees	39 636	39 636	4 788	9 001	16 702	1 650	7 495

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

(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 line with the 2017 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 2017

The Czech economy was successful in 2017 and with a growth of 4.5% it was near the peak of the economic cycle. Its growth was supported by all components of aggregate demand. Household consumption was stimulated by the decreasing unemployment rate, which reached its historically lowest level during the year, and in combination with a record number of available job positions it created pressure on salary growth acceleration. Enterprises cited lack of workers as the main obstacle in business development with increasing frequency. The creation of fixed capital recovered from the previous year's drop predominantly thanks to the investment activity of private entities. The environment described was suitable for the creation of demand inflation pressures that maintained year-on-year inflation above the level of 2% throughout the year. Average inflation amounted to 2.5%, the highest level in five years.
The inflationary environment prompted the Czech National Bank to tighten its monetary conditions. First, in April it abandoned its foreign exchange interventions, thus ceasing to prevent the crown from strengthening. By the end of the year, the crown strengthened

by 5.5% with respect to the euro. At the same time, the Czech National Bank tightened its monetary policy also through the interest rate channel and it increased the repo rate two times during the year, with the final value of the year being 0.5%. The end of the interventions on the foreign exchange market was preceded by a period of extremely high demand for crowns from exporters and foreign investors, which led to an increase in the Czech National Bank's foreign exchange reserves equalling almost two thirds of annual GDP. A secondary effect of the growth of crown positions of foreign entities was the increased demand for Czech government bonds, which temporarily decreased their yield to the level of the German ones. The share of crown bonds held by non-residents therefore grew from 32% in late 2016 to 42% in December 2017 and during the year it even briefly exceeded 50%. The total volume of loans in the Czech economy accelerated slightly to 7.3% year-on-year thanks to a stronger household demand along with the slowing down of the growth of corporate loans. The demand for residential real estate fuelled the acceleration of the prices to two-figure values and prompted the Czech National Bank to endeavour to slow down this development using macroprudential instruments.
In the business environment outside of the finance sector, a significant change occurred in the form of the launch of the second stage of electronic sales records, affecting the area of trade. The implementation of the following stages, planned for next year, was halted by the Constitutional Court. No other legislative changes relevant for the business environment occurred due to the election cycle. Government regulations increased tariff salaries in the public sector to an unusual extent. Minimal wage also grew by a significant 11%.
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 2017, the Group continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk
- Update of specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
- Adjustment of 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

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Receivables from banks	145	3 451
Securities available for sale	1 814	1 929
Total	**1 959**	**5 380**
Liabilities		
Deposits from banks	112 590	16 534
Total	**112 590**	**16 534**
Off-balance sheet items		
Issued guarantees	273	347
Irrevocable credit facilities	96	101
Total	**369**	**448**

MCZK	2017	2016
Interest and similar income	35	65
Interest and similar expenses	(14)	(4)
Income from fees and commissions	4	21
Expenses for fees and commissions	(35)	(20)
General administrative expenses	(10)	13
Total	**(20)**	**75**

(b) Transactions with key management members

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Receivables from clients	106	89
of which:		
Board of Directors	–	2
Other management members	106	87
Total	**106**	**89**
Liabilities		
Payables to clients	225	170
of which:		
Board of Directors	120	88
Other management members	105	82
Total	**225**	**170**
Off-balance sheet items		
Irrevocable credit facilities	13	11
of which:		
Board of Directors	1	1
Other management members	12	10
Total	**13**	**11**

(c) Transactions with other related parties

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Financial assets held for trading	1 626	1 036
of which:		
UniCredit Bank AG	1 247	1 036
Receivables from banks	5 360	7 331
of which:		
UniCredit Bank AG	256	287
UniCredit Bank Austria AG	732	723
Yapi ve Kredi Bankasi AS	4 102	5 524
UniCredit Bank Hungary Zrt.	70	25
AO UniCredit Bank	142	730
Receivables from clients	766	270
of which:		
UCTAM Czech Republic s.r.o.	407	–
UCTAM SVK, s.r.o.	265	269
Positive fair value of hedging derivatives	1 883	2 078
of which:		
UniCredit Bank AG	1 274	2 023
Total	**9 635**	**10 715**

MCZK	31 Dec 2017	31 Dec 2016
Liabilities		
Deposits from banks	27 373	69 338
of which:		
UniCredit Luxembourg S.A.	–	11
UniCredit Bank Austria AG	25 869	54 766
UniCredit Bank AG	1 431	10 288
UniCredit Bank Hungary Zrt.	32	4 233
Deposits from clients	361	1 342
of which:		
UniCredit Leasing (Austria) GmbH	112	121
Pioneer Asset Management a.s.	–	897
Pioneer Investment Company	–	95
UniCredit Business Integrated Solutions S.p.A.	59	84
Financial liabilities held for trading	1 801	2 086
of which:		
UniCredit Bank AG	1 625	2 025
Negative fair value of hedging derivatives	2 010	2 105
of which:		
UniCredit Bank AG	1 211	2 072
Total	**31 545**	**74 871**

MCZK	31 Dec 2017	31 Dec 2016
Off-balance sheet items		
Issued guarantees	1 251	3 916
of which:		
UniCredit Bank AG	546	656
UniCredit Bank Austria AG	488	2 949
UniCredit Bank Hungary Zrt.	51	112
AO UniCredit Bank	13	20
Irrevocable credit facilities	164	276
of which:		
UniCredit Bank AG	102	108
Total	**1 415**	**4 192**

MCZK	2017	2016
Interest income and similar revenues	514	407
of which:		
UniCredit Bank AG	359	288
UniCredit Bank Austria AG	76	21
Interest expenses and similar charges	53	(136)
of which:		
UniCredit Leasing (Austria) GmbH	(9)	(9)
UniCredit Bank AG	16	(3)
UniCredit Bank Austria AG	41	(123)
Fee and commission income	120	69
of which:		
UniCredit Bank AG	72	40
UniCredit Bank Hungary Zrt.	4	6
UniCredit Bank Austria AG	26	15
Fee and commission expenses	(9)	(32)
of which:		
UniCredit Bank Austria AG	(4)	(27)
Net income/(loss) from financial assets and liabilities held for trading	458	553
of which:		
UniCredit Bank AG	246	578
UniCredit Bank Austria AG	206	(24)
Net income/(loss) from hedging against risk of changes in fair value	112	(174)
of which:		
UniCredit Bank AG	109	(174)
General administrative expenses	(1 436)	(1 478)
of which:		
UniCredit Business Integrated Solutions S.p.A.	(1 438)	(1 475)
Total	**(188)**	**(791)**

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 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	210 188	210 198	139 900	139 946
Receivables from clients	386 672	392 909	385 572	389 729
Financial liabilities				
Deposits from banks	174 274	174 226	115 524	115 229
Deposits from clients	360 473	360 486	371 163	371 187
Debt securities issued	40 000	40 436	60 107	61 637

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 2017					
Transfer from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–
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

For the years ended 31 December 2017 and 31 December 2016, 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 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					–
Opening balance at 1 Jan 2017	**–**	**–**	**229**	**–**	229
Addition arising from the merger	–	–	–		
Revaluation gains and losses				–	
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	33	–	33
Purchases	–	–	–	–	–
Sales/maturity	–	–	(2)	–	(2)
Transfers from/to other levels	–	–	–	–	–
Other	–	–	–	–	–
Closing balance at 31 Dec 2017			**260**		**260**
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 2017 and 2016, the Group 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 2017						
Derivatives	8 799	–	8 799	7 524	–	1 275
31 Dec 2016						
Derivatives	3 545	–	3 545	1 674	–	1 871

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

MCZK	Gross reported financial liabilities	Gross reported financial assets	Net reported financial liabilities	Relating amounts that are not offset Financial instruments	Provided cash collateral	Net amount
31 Dec 2017						
Derivatives	9 998	–	9 998	7 524	–	2 474
31 Dec 2016						
Derivatives	2 157	–	2 157	1 674	–	483

44. Subsequent events

The Group's management is not aware of any other subsequent events that would require adjustment to these financial statements of the Bank.

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):
27 March 2018	Ing. Jiří Kunert Chairman of the Board of Directors Ljubiša Tešić Member of the Board of Directors	Ing. Jiří Houška	Mgr. Michaela Mrštíková

Improve asset quality.

We addressed Italian legacy issues through the sale of a € 17 billion portfolio (FINO) and proactive bad loans management. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics.

Separate financial statements

Statement of comprehensive income for the year ended 31 December 2017

	2017	2016	
	Note	MCZK	MCZK
Interest income and similar income	5	10 936	10 384
Interest expense and similar charges	5	(946)	(1 437)
Net interest income and similar income		**9 990**	**8 947**
Fee and commission income	6	4 214	4 645
Fee and commission expenses	6	(1 119)	(1 124)
Net fee and commission income		**3 095**	**3 521**
Dividend income	7	2 105	3
Net income/(loss) from financial assets and liabilities held for trading	8	2 684	2 133
Net income/(loss) from hedging against risk of changes in fair value	9	(31)	(4)
Net income/(loss) from the sale of financial assets and liabilities	10	508	1 049
Net income/(loss) from financial assets and liabilities at fair value through profit or loss not held for trading	11	–	3
Operating income		**18 351**	**15 652**
Impairment losses on financial assets	12	(318)	(1 213)
Administrative expenses	13	(7 220)	(7 296)
Creation and release of provisions		(161)	(312)
Depreciation and impairment of property and equipment		(342)	(228)
Amortisation and impairment of intangible assets		(56)	(16)
Other operating income and expenses	14	28	46
Operating expenses		**(7 751)**	**(7 806)**
Profit/(loss) from the sale of non-financial assets		(5)	179
Profit before income tax		**10 277**	**6 812**
Income tax	33	(1 456)	(1 493)
Profit after tax		**8 821**	**5 319**
Other comprehensive income			
Items that can be subsequently derecognised to profit or loss			
Reserve from revaluation of hedging instruments:		(1 347)	123
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income		(1 310)	203
Net fair value of derivatives in cash flow hedges transferred to profit or loss		(37)	(80)
Reserve from revaluation of available-for-sale securities		(857)	(786)
Change in revaluation of available-for-sale securities reported in other comprehensive income		(566)	(164)
Revaluation of available-for-sale securities transferred to profit or loss		(291)	(622)
Foreign exchange rate gains from the consolidation of a foreign branch		(710)	(2)
Other comprehensive income		**(2 914)**	**(665)**
Total comprehensive income		**5 907**	**4 654**

The notes on pages 101–152 form a part of these financial statements.

Statement of financial position as of 31 December 2017

	Note	31 Dec 2017 MCZK	31 Dec 2016 MCZK
ASSETS			
Cash in hand and cash balances	15	4 007	4 192
Financial assets at fair value through profit or loss, including FA		8 120	9 035
– held for trading	16	8 120	9 035
– not held for trading	16	0	0
Available-for-sale securities	17	47 522	80 192
Securities held to maturity	18	175	186
Receivables from banks	19	210 122	139 849
Receivables from clients	20	374 426	367 298
Positive fair value of hedging derivatives	22	4 441	5 163
Equity investments	21	3 979	3 979
Property and equipment	23	987	1 316
Intangible assets	24	1 743	1 227
Tax receivables, including:		586	756
– current income tax	33	0	248
– deferred tax	33	586	508
Non-current assets held for sale		2	4
Other assets	25	3 223	2 398
Total assets		**659 333**	**615 595**
LIABILITIES			
Deposits from banks	26	164 404	100 473
Deposits from clients	27	360 839	371 304
Debt securities issued	28	40 000	60 107
Financial liabilities held for trading	29	8 199	6 569
Negative fair value of hedging derivatives	30	4 876	3 417
Tax liabilities, including:		303	958
– current income tax	33	303	387
– deferred tax	33	0	571
Other liabilities	31	10 439	8 296
Provisions	32	831	936
Total liabilities		**589 891**	**552 060**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		1 878	4 792
Retained earnings and reserve funds	36	46 493	41 174
Profit for the period		8 821	5 319
Total shareholder‘s equity		**69 442**	**63 535**
Total liabilities and shareholder‘s equity		**659 333**	**615 595**

The notes on pages 101–152 form a part of these financial statements.

Statement of cash flows for the year ended 31 December 2017

	2017 MCZK	2016 MCZK
Net profit for the period	**8 821**	**5 319**
Adjustments for non-cash items		
Impairment of loans and receivables and financial investments	318	1 213
Revaluation of securities and derivatives	(361)	398
Creation and release of other provisions	(53)	315
Depreciation and amortisation of property and equipment, and intangible assets	398	243
Profit (loss) from securities available for sale	(308)	(1 085)
Profit (loss) from property and equipment and intangible assets sold	5	(179)
Taxes	1 456	1 493
Other non-monetary changes	4 704	600
Operating profit before change in operating assets and liabilities	**14 980**	**8 317**
Financial assets and liabilities held for trading	2 551	(1 852)
Receivables from banks	(70 269)	(33 987)
Loans and receivables from clients	(13 109)	(40 147)
Other assets	177	(168)
Deposits from banks	63 949	60 260
Deposits from clients	(10 443)	7 204
Other liabilities	2 094	2 237
Income tax paid	(1 392)	(1 720)
Net cash flows from operating activities	**(11 462)**	**144**
Acquisition/sale and maturity of securities available for sale and other financial investments	30 741	4 240
Acquisition of a subsidiary	–	–
Gains from the sale of property and equipment and intangible assets	–	833
Acquisition of property and equipment and intangible assets	(507)	(645)
Dividends received	1 103	3
Net cash flows from investment activities	**31 337**	**4 431**
Dividends paid	0	0
Debt securities issued	(20 060)	(4 827)
Net cash flows from financial activities	**(20 060)**	**(4 827)**
Cash and other highly liquid funds at the start of the period	**4 192**	**4 135**
Net cash flows from operating activities	(11 462)	144
Net cash flows from investment activities	31 337	4 431
Net cash flows from financial activities	(20 060)	(4 827)
Cash and other highly liquid funds at the end of the period	**4 007**	**4 192**
Interest received	11 587	10 231
Interest paid	(1 033)	(1 689)

The notes on pages 101–152 form a part of these financial statements.

Statement of changes in equity for the year ended 31 December 2017

MCZK	Issued capital	Share premium	Reserve from revaluation: hedging instru-ments	Reserve from revaluation: securities available for sale	rate gains or losses of a foreign branch	Retained earnings and reserve funds: Reserve funds	Retained earnings and reserve funds: Special--purpose reserve fund	Retained earnings	Profit for the period	Equity
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**
Transactions with owners, contributions from and distributions to owners										
Allocation of the 2016 profit								5 319	(5 319)	–
Dividend payment										–
Total comprehensive income for the period										
Net profit for 2017									8 821	8 821
Other comprehensive income										
Change in revaluation of available-for-sale securities										
Change in revaluation of available-for-sale securities reported in other comprehensive income				(788)						(788)
Revaluation of available-for-sale securities transferred to profit or loss				(358)						(358)
Deferred tax				289						289
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			(1 620)							(1 620)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(44)							(44)
Deferred tax			317							317
Foreign exchange rate gains or losses from the consolidation of a foreign branch					(710)					(710)
Other comprehensive income for the period			**(1 347)**	**(857)**	**(710)**					**(2 914)**
Balance as of 31 December 2017	**8 755**	**3 495**	**543**	**1 555**	**(220)**	**3 372**	**11 611**	**31 510**	**8 821**	**69 442**

The notes on pages 101–152 form a part of these financial statements.

Notes to the financial statements (separate)

Year ended 31 December 2017

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 (hereinafter the "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 3 (g)*(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	2–7 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.

A restructuring provision is recognised when the following criteria are met:
- The Bank has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place due the fact that the implementation of the plan has commenced or its main features have been announced.

(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 IAS 7 *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017); and
- Amendments to IFRS 12 due to *Improvements to IFRSs (cycle 2014–2016)* (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017, but they do not affect the Bank's separate financial statements.

(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

- will introduce significant changes, compared to IAS 39, to the classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI – Solely Payments of Principal and Interest criteria);
- requires the classification of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available-for-sale assets set by IAS 39, IFRS 9 has eliminated the request to recognise impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserves and not to profit and loss accounts;
- will introduce a new accounting model for impairment, based on (i) the expected losses approach substituting the current approach based on the incurred losses, and (ii) will introduce the concept of "lifetime" expected losses, and consequently an anticipation and a structural increase of provisioning with particular reference to credit losses;
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS 39 hedge accounting rules until the IASB has completed the project on the definition of macro-hedging rules; and
- changes the accounting treatment of "own credit risk", in other words, changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognised in a specific equity reserve, rather than to the income statement, as requested under IAS 39, therefore removing a volatility source from the economic results.

In order to ensure prompt compliance with the requirements set by the accounting principles, the Group has activated a project that is in its final phase with the aim of creating accounting and risk monitoring methodologies harmonised across Group Legal Entities.

Mirroring the main changes required by IFRS 9, the Group wide project has been organised through work-streams specifically:

- Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS 9 criteria,; and
- Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

The Bank has participated on the Group wide project by performing the impact analysis and implementing all changes in line with the Group requirements.
With reference to the "Classification and Measurement" work-stream, the Group has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard; and
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas comprising the Group and by attributing them a specific business model.
In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas comprising the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.
In this context, possible sales of financial instruments are considered as compliant with the "held to collect" business model in case of (i) securitisation transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by an adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.
A business model "other" has been assigned to the business areas comprising the trading portfolio of the Group so to reflect the trading intent.
For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").
In this regard, the Group has developed processes and systems aimed at analysing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allow their measurement at amortised cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio").
This analysis was performed on the local level either contract by contract or by clusters, defined on the basis of the features of the asset, and using a specific tool internally developed (SPPI Tool) in order to analyse the feature of the contracts in comparison with IFRS 9 requirements or making use of an external data provider.
Based on the analysis, no need for reclassification of financial assets due to failing the SPPI Test was identified.
Equity instruments will be measured at fair value through profit or loss or comprehensive income depending on their features and the reasons for which they have been acquired. Units in investments funds will be measured at fair value through profit or loss following regulatory requirements that exclude the possibility to consider these instruments as equity instruments.

With reference to the "Impairment" work-stream, new impairment models have been adapted to comply with the new accounting requirements, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by the EBA.
The applicable asset perimeter subject to expected losses calculation have been extended in order to include, in addition to financial assets at Amortised Cost and the applicable off balance sheet exposures, all credit exposures assets classified at Fair Value through Other Comprehensive Income.
Furthermore, specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.
The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on.

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

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information; and
- extend the credit risk parameters in a multiyear perspective.

As for what concerns PDs, dedicated lifetime PD curves have been developed for each main client segment based on cumulated default rates, and calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.
Recovery rates embedded in the regulatory LGD models have been adjusted to remove all margins of conservatism and to reflect the expectation about future trend in recovery rates.
The lifetime EAD has been obtained by extending the 1Y regulatory or managerial model, removing all margins of conservatism and calculating a dedicated additional parameter representing expected credit line utilisation.
The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts.
A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (iii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Unicredit Group the stage allocation assessment includes a combination of relative and absolute triggers. The main triggers include:

- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (e.g. age, maturity, level of PD at origination);
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due); and
- other internal relevant triggers (e.g. new classifications to Forborne).

On assets represented by Securities, the Unicredit Group has opted, fully in compliance with the applicable standard, to apply the "low credit risk exemption" on investment grade securities.
Also Impairment calculated on "Impaired Assets" has been adjusted as required by the new regulation, in order to include (i) adjustments on both collectively and individually assessed transactions, in terms of point in time, forward looking adjustments and (ii) multiple scenarios applicable to this class of assets.
In this evaluation, also expected disposal scenarios are considered as far as Group Non-Performing Assets Strategy foresees the recovery of defaulted assets also through their transfer.
In defining the perimeter of impaired assets, the Definition of Default currently applied within the Unicredit Group has been adopted, already incorporating some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so called "debtor approach").
With reference to hedge accounting the Group opted to keep applying the existing hedge accounting requirements in IAS 39 for all hedge accounting until the IASB completes its project on accounting for macro hedging.
With reference to the implementation of the methodological framework and tools described above in the daily operations the Bank, in line with the project timeline, has designed the final IT architecture, and is finalising the development of the organisational processes and procedures.
The Group plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.
The UniCredit Group IFRS 9 project is part of the European Central Bank Thematic Review. In addition the methodological approaches adopted by the UniCredit Group in the context of the IFRS 9 project have been subject to structured review by External Auditors that are currently performing a review of the implementations.
In this regard, we highlight that from the analysis performed so far no criticalities have arisen that may cast doubts on the overall adequacy of the mentioned methodological approaches, pursuant to the requirements of the new principle. At the date of first time application, the main impacts of IFRS 9 on the UniCredit Group are expected to come from the application of the new model for impairment based on the expected losses approach, which is expected to cause an increase in write-downs made on financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognised in the financial statements (especially between "Stage 1", which will include the new positions originated as well as all performing loans, and "Stage 2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).
Adjustments to the carrying value of financial instruments due to IFRS 9 transition will be accounted for through Equity as of January 1, 2018 and they will have an impact on CET 1 – gross of tax effect is expected to be a decrease of up to CZK 170 million, i.e. the estimated impact on the Tier 1 ratio to be a decrease of up to 5bps.
With reference to "Classification and Measurement", no significant reclassifications of loans and debt instruments at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion) are expected. Consequently, the effect on CET 1 gross of tax effect to be an increase of up to CZK 63 million, i.e. the estimated impact on Tier 1 ratio to be an increase of up to 2bps.
Following the entry into force of IFRS 9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses (CRD/CRR) is foreseen.
In that regard, EU Regulation No. 2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. The Bank will not adopt the transitional regime.

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

IFRS 15, effective starting from 1 January 2018, has been endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18 *Revenue*.
IFRS 15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");
- a new model for the analysis of the transactions ("Five steps model") focalised on the transfer of control; and
- the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard could determine (i) reclassification between lines of income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) different measure of the revenue so to reflect their variability. Based on the analysis performed so far no major impacts are foreseen by the adoption of IFRS 15.

- IFRS 16 "*Leases*" (effective for annual periods beginning on or after 1 January 2019)

IFRS 16, effective starting from 1 January 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17. IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the previsions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS 16 or by IAS 40. An impact analysis on the local level was performed with no significant impact identified, including an impact on capital adequacy ratio.

- Amendments to IAS 28 due to "*Improvements to IFRSs (cycle 2014–2016)*" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IAS 28 are to be applied for annual periods beginning on or after 1 January 2018). The amendments to FIRS 1 and IFRS 12 have no impact on the Bank's separate financial statements.

- 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). The amendment to IFRS 4 do not impact the Bank.

(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 Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*"(effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* (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 date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards due to "*Improvements to IFRSs (cycle 2015–2017)*" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018); and
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019).

(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 2017 and 31 December 2016.

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

During the years ended 31 December 2017 and 31 December 2016, 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	2017	2016
Interest income and similar income		
Balances with central banks	410	56
Receivables from banks	112	157
Receivables from clients	8 404	8 326
Available-for-sale securities	1 019	1 312
Securities held to maturity	9	9
Financial assets at fair value through profit or loss held for trading	5	17
Financial assets at fair value through profit or loss not held for trading	–	–
Net interest income from hedging derivatives	977	507
Interest income and similar income	**10 936**	**10 384**
Interest expense and similar charges		
Deposits from central bank	–	(5)
Deposits from banks	170	48
Deposits from clients	(173)	(509)
Debt securities issued	(940)	(969)
Financial liabilities held for trading	(3)	(2)
Interest expense and similar charges	**(946)**	**(1 437)**
Net interest income and similar income	**9 990**	**8 947**

In 2017 the Bank focused on refinancing optimisation in both markets, i.e. on obtaining cheap sources for lending. This resulted in a decrease in interest expenses arising from deposits from clients. Among other things, clients transferred part of the volume of term deposits to current accounts with a very low interest rate in order to ensure higher liquidity.

6. Net fee and commission income

MCZK	2017	2016
Fee and commission income from		
Securities transactions	1	5
Management, administration, deposit and custody services	742	696
Loans	959	1 674
Payment services	866	798
Account administration	529	511
Payment cards	939	854
Other	178	107
Fee and commission income	**4 214**	**4 645**
Fee and commission expenses from		
Securities transactions	(25)	(8)
Management, administration, deposit and custody services	(99)	(72)
Loans	(221)	(412)
Payment services	(49)	(46)
Payment cards	(719)	(577)
Other	(6)	(9)
Fee and commission expenses	**(1 119)**	**(1 124)**
Net fee and commission income	**3 095**	**3 521**

7. Dividend income

MCZK	2017	2016
Dividend income		
Ownership interests	2 102	–
Shares classified as available-for-sale securities	3	3
Total dividend income	**2 105**	**3**

Income from ownership interests represents a dividend from the subsidiary UniCredit Leasing CZ, a.s., which is 100% owned by the Company.

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

MCZK	2017	2016
Net realised and unrealised gain/(loss) from securities held for trading	(42)	87
Net realised and unrealised gain/(loss) from derivatives held for trading	(3 400)	701
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	6 126	1 345
Net trading income/loss	**2 684**	**2 133**

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

MCZK	2017	2016
Hedging instruments	435	(158)
Hedged instruments	(466)	154
Net income/loss from hedging against risk of changes in fair value	**(31)**	**(4)**

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

MCZK	2017	2016
Receivables from clients	204	(1)
Available-for-sale securities	308	1 085
Debt securities issued	(4)	(35)
Net income/loss from the sale of financial assets and liabilities	**508**	**1 049**

The income from financial assets available for sale in the year ended 31 December 2016 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	2017	2016
Debt securities	–	3
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	**–**	**3**

12. Impairment losses on financial assets

MCZK	2017	2016
Receivables from clients	(370)	(1 130)
Provision for off-balance sheet items	52	(80)
Available-for-sale securities	–	(3)
Total	**(318)**	**(1 213)**

13. Administrative expenses

MCZK	2017	2016
Personnel expenses		
Wages and salaries paid to employees	(2 128)	(2 201)
Social costs	(785)	(758)
Other	(192)	(101)
	(3 105)	**(3 060)**
Other administrative expenses		
Rent and building maintenance	(565)	(634)
Information technologies	(1 403)	(1 186)
Promotion and marketing	(277)	(448)
Consumables used	(48)	(70)
Audit, legal and advisory services	(167)	(157)
Administrative and logistic services	(421)	(476)
Deposits and transactions insurance	(744)	(531)
Services	(258)	(275)
Other	(232)	(459)
	(4 115)	**(4 236)**
Total administrative expenses	**(7 220)**	**(7 296)**

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 2017	31 Dec 2016
Short-term employee benefits	180	185
Post-employment benefits	–	–
Other long-term employee benefits	30	34
Termination benefits	–	–
Share-based payments	–	–
Total	**211**	**219**

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

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

	31 Dec 2017	31 Dec 2016
Employees	2 946	2 993
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	31	33

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

2017 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	335	1 170	–
2016 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	380	1 427	–

14. Other operating income and expenses

MCZK	2017	2016
Income from rent	31	29
Other income	50	51
Total other operating income	**81**	**80**
Taxes	(6)	(2)
Fines and penalties	(22)	(15)
Other	(25)	(17)
Total other operating expenses	**(53)**	**(34)**
Total other operating income and expenses	**28**	**46**

15. Cash in hand and cash balances

MCZK	31 Dec 2017	31 Dec 2016
Cash in hand	3 963	4 083
Other balances with central banks	44	109
Total	**4 007**	**4 192**

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 2017				
Debt securities	1 228	58	–	1 286
Shares	–	–	–	–
Derivatives	36	6 798	–	6 834
Total	**1 264**	**6 856**	**–**	**8 120**
31 Dec 2016				
Debt securities	2 803	13	–	2 816
Shares	–	–	–	–
Derivatives	39	6 180	–	6 219
Total	**2 842**	**6 193**	**–**	**9 035**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Government sector	1 283	2 816
Other	3	–
Shares		
Financial services	–	–
Other	–	–
Total	**1 286**	**2 816**

17. Available-for-sale securities

(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 2017				
Debt securities	38 170	9 092	–	47 262
Shares	–	–	260	260
Total	**38 170**	**9 092**	**260**	**47 522**
31 Dec 2016				
Debt securities	65 539	14 424	–	79 963
Shares	–	–	229	229
Total	**65 539**	**14 424**	**229**	**80 192**

(b) Securities by Type of Issuer

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Banking	7 501	12 240
Governments and central banks	29 615	57 759
Other public sector	2 032	2 185
Other	8 114	7 779
Shares		
Investment funds	–	–
Other	260	229
Total	**47 522**	**80 192**

(c) Participation Interests

MCZK Name	Registered office	Date of acquisition	Acquisition price	Net book value 2017	Net book value 2016	Share of the Bank at 31 Dec 2017	Share of the Bank at 31 Dec 2016
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 2017	31 Dec 2016
Debt securities	175	186
Total	**175**	**186**

(b) Securities by activities of issuers

MCZK	31 Dec 2017	31 Dec 2016
Debt securities		
Governments and central banks	175	186
Other		–
Total	**175**	**186**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2017	31 Dec 2016
Current accounts	1 263	1 153
Term deposits	648	6 830
Loans	4 945	7 977
Reverse repurchase commitments (see Note 37)	199 020	117 501
Obligatory minimum reserves	4 246	6 388
Total	**210 122**	**139 849**

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

MCZK	31 Dec 2017	31 Dec 2016
Czech Republic	203 393	127 896
Slovakia	429	349
Other EU countries	1 842	5 150
Other	4 458	6 454
Total receivables from banks	**210 122**	**139 849**

20. Receivables from clients

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

MCZK	Non-default	Default	Total
31 Dec 2017			
Current accounts (overdrafts)	37 638	475	38 113
Reverse repurchase commitments (see Note 37)	378	–	378
Resident mortgage loans	94 797	611	95 408
Other mortgage loans	39 200	761	39 961
Credit cards and consumer loans	11 400	172	11 572
Factoring	4 454	91	4 545
Other loans	182 891	1 558	184 449
Total	**370 758**	**3 668**	**374 426**
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
Other loans	156 921	1 983	158 904
Total	**362 020**	**5 278**	**367 298**

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 2017				
Standard	366 983	–	(995)	365 988
Watch	4 935	–	(165)	4 770
Substandard	4 853	(2 637)	–	2 216
Doubtful	1 014	(637)	–	377
Loss	5 511	(4 436)	–	1 075
Total	**383 296**	**(7 710)**	**(1 160)**	**372 426**

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**

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

MCZK	31 Dec 2017	31 Dec 2016
Receivables without default		
Internal rating 1	5 696	6 571
Internal rating 2	13 013	10 029
Internal rating 3	38 793	43 091
Internal rating 4	136 290	108 348
Internal rating 5	102 061	119 094
Internal rating 6	59 013	55 874
Other internal rating	16 712	18 742
Receivables without internal rating	350	1 893
Total	**371 918**	**363 642**
Receivables with default	11 378	13 676
Total	**383 296**	**377 318**

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.).
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 2017	31 Dec 2016
Non-default receivables, gross		
Due receivables	369 827	361 790
1–30 days past due	2 071	1 840
31–90 days past due	20	12
91–180 days past due	–	–
More than 180 days past due	–	–
Total	**371 918**	**363 642**

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

MCZK	31 Dec 2017	31 Dec 2016
Financial institutions	43 615	40 412
Non-financial institutions	219 532	223 590
Government sector	2 704	1 656
Individuals and others	108 575	101 640
Total	**374 426**	**367 298**

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

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
31 Dec 2017						
Bank and similar guarantee	9 792	32	1	–	–	9 825
Mortgage	89 205	1 295	804	74	540	91 918
Corporate guarantee	3 039	15	–	–	3	3 057
Other security	6 944	88	12	257	41	7 432
Unsecured	258 003	3 505	4 036	683	4 927	271 154
Total	**366 983**	**4 935**	**4 853**	**1 014**	**5 511**	**383 296**
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**

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 46,869 (as of 31 December 2016: MCZK 53,723). 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 2017	31 Dec 2016
Czech Republic	238 369	227 371
Slovakia	116 964	120 256
Other EU countries	13 868	14 800
Other	5 225	4 871
Total	**374 426**	**367 298**

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

MCZK	31 Dec 2017	31 Dec 2016
Real estate services	61 587	72 829
Financial services	43 615	40 412
Wholesale	19 854	17 736
Households (individuals)	105 490	98 846
Retail (entrepreneurs)	8 456	7 243
Leasing and rental	6 343	5 842
Automotive industry	8 807	8 775
Power industry	28 499	27 237
Other	91 775	88 378
Total receivables from clients	**374 426**	**367 298**

(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 2017							
Non-financial institutions	6 595	1 469	8 064	(72)	(1 052)	(1 124)	6 940
Other financial institutions	129	–	129	–	–	–	129
Individuals and others	37	85	122	–	(28)	(28)	94
Total	**6 761**	**1 554**	**8 315**	**(72)**	**(1 080)**	**(1 152)**	**7 163**
31 December 2016							
Non-financial institutions	8 360	2 400	10 760	(143)	(1 246)	(1 389)	9 371
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**

Net forbearance represented 1.9% of the total receivables from clients as of 31 December 2017 (2016: 2.6%).

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 2017			
Non-default receivables			
Before due	6 205	(55)	6 150
Past due	556	(17)	539
Total non-default forbearance	**6 761**	**(72)**	**6 689**
Default receivables			
Up to 90 days past due	836	(455)	381
91 to180 days past due	129	(100)	29
181 days to 1 year past due	133	(76)	57
Over 1 year past due	456	(449)	7
Total default forbearance	**1 554**	**(1 080)**	**474**
Total	**8 315**	**(1 152)**	**7 163**
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**

The table below shows movements in gross forbearance:

MCZK	
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**
Balance at 1 January 2017	10 892
Transfer to forbearance	3 300
Additions	73
Write-offs	(5)
Settled	(2 519)
Transfer from forbearance	(3 314)
Other	(112)
Total forbearance as of 31 December 2017	**8 315**

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 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)**
Balance at 1 January 2017	(1 409)
Transfer to forbearance	(204)
Charge during the current year	(295)
Release during the current year	178
Receivables written off – use	5
Transfer from forbearance	533
Other	40
Total impairment forbearance as of 31 December 2017	**(1 152)**

(h) Impairment of Receivables from Clients

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)**

MCZK	
Balance as of 1 Jan 2017	(10 020)
Charge during the current year	(2 715)
Release during the current year	2 345
Net effect on profit or loss	(370)
Receivables written off – use	1 077
FX differences	443
Total impairment of receivables from clients as of 31 Dec 2017	**(8 870)**

21. Equity investments

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2017	Net book value 2016	Share of the Bank at 31 Dec 2017	Share of the Bank at 31 Dec 2016
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 2017				
Fair value hedging	–	248	–	248
Cash flow hedging	–	4 193	–	4 193
Total	**–**	**4 441**	**–**	**4 441**
31 Dec 2016				
Fair value hedging	–	122	–	122
Cash flow hedging	–	5 041	–	5 041
Total	**–**	**5 163**	**–**	**5 163**

23. Property and equipment

Movements in Property and Equipment

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)

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2017	2 036	206	611	238	3 091
Accumulated depreciation and impairment					
at 1 Jan 2017	(953)	(167)	(482)	(173)	(1 775)
Net Book Value at 1 Jan 2017	**1 083**	**39**	**129**	**65**	**1 316**
Additions	30	6	15	5	56
Disposals	–	–	–	–	–
Depreciation charges	(246)	(10)	(62)	(24)	(342)
Transfers to assets held for sale	–	–	–	–	–
Other and FX rate gains or losses	(37)	(9)	4	(1)	(43)
Net Book Value at 31 Dec 2017	**830**	**26**	**86**	**45**	**987**
Cost at 31 Dec 2017	1 806	176	553	220	2 755
Accumulated depreciation and impairment at 31 Dec 2017	(976)	(150)	(467)	(175)	(1 768)

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 building was sold before the end of 2016.

24. Intangible assets

Movements in Intangible Assets

MCZK	Software	Other	Total
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)
Cost at 1 Jan 2017	2 073	–	2 073
Accumulated amortisation and impairment at 1 Jan 2017	(846)	–	(846)
Net Book Value at 1 Jan 2017	**1 227**	**–**	**1 227**
Additions	581	–	581
Disposals	–	–	–
Amortisation charges	(56)	–	(56)
Other	(9)	–	(9)
Net Book Value at 31 Dec 2017	**1 743**	**–**	**1 743**
Cost at 31 Dec 2017	2 570	–	2 570
Accumulated amortisation and impairment at 31 Dec 2017	(827)	–	(827)

The increase in the value of software in 2017 and 2016 was caused by the acquisition of assets especially with respect to the implementation of a new banking system. These assets were put into use in 2017.

25. Other assets

MCZK	31 Dec 2017	31 Dec 2016
Deferred expenses and accrued income	262	265
Prepayments made in relation to cash additions to ATMs and cash registers	1 004	1 151
Trade receivables	192	314
Receivables from securities	10	201
Clearing and settlement accounts	748	473
Dividend prepayment	1 002	–
Other	21	11
Total	**3 239**	**2 415**
Impairment of other assets	(16)	(17)
Net other assets	**3 223**	**2 398**

Dividend prepayment represents a dividend receivable from the subsidiary UniCredit Leasing CZ, a.s., which is 100% owned by the Company.

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2017	31 Dec 2016
Deposits from central banks	17 978	11 889
Current accounts	9 140	7 033
Loans	13 078	1 329
Term deposits	123 830	39 210
Repurchase commitments (see Note 37)	378	41 012
Total	**164 404**	**100 473**

The Bank currently uses the European Central Bank's currency instrument TLTRO II ("Targeted Long-term Refinancing Operation") in the amount of MEUR 703.9 which was drawn in two tranches. The Bank drew the first tranche of MEUR 440 in June 2016 and it will mature in June 2020. The Bank drew the second tranche of MEUR 263.9 in March 2017 and it will mature in March 2021. Both tranches are 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 2017	31 Dec 2016
Current accounts	336 735	322 807
Term deposits	21 437	40 877
Repurchase commitments (see Note 37)	–	4 653
Other	2 667	2 967
Total	**360 839**	**371 304**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2017	31 Dec 2016
Mortgage bonds	35 385	49 183
Structured bonds	3 834	8 170
Zero coupon bonds	–	1 664
Other issued debt securities	781	1 090
Total	**40 000**	**60 107**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 7,331 (at 31 December 2016: MCZK 8,512). The positive fair value of these derivatives of MCZK 7 is reported under "Financial assets held for trading" (at 31 December 2016: MCZK 17); the negative fair value of these derivatives of MCZK 370 is recognised under "Financial liabilities held for trading" (at 31 December 2016: MCZK 293).

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 2017				
Liabilities from short sales	1 533	–	–	1 533
Derivatives	–	6 666	–	6 666
Total	**1 533**	**6 666**	**–**	**8 199**
31 Dec 2016				
Liabilities from short sales	1 033	–	–	1 033
Derivatives	–	5 536	–	5 536
Total	**1 033**	**5 536**	**–**	**6 569**

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 2017				
Fair value hedging	–	550	–	550
Cash flow hedging	–	4 326	–	4 326
Total	**–**	**4 876**	**–**	**4 876**
31 Dec 2016				
Fair value hedging	–	1 044	–	1 044
Cash flow hedging	–	2 373	–	2 373
Total	**–**	**3 417**	**–**	**3 417**

31. Other liabilities

MCZK	31 Dec 2017	31 Dec 2016
Deferred income and accrued expenses	682	932
Trade payables	1 222	794
Payables to employees	726	724
Unsettled security transactions	65	89
Clearing and settlement accounts	7 643	5 678
Other	101	79
Total other liabilities	**10 439**	**8 296**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2017	31 Dec 2016
Provisions for off-balance sheet credit items	490	542
Legal disputes	67	68
Provision for restructuring	100	10
Other	174	316
Total provisions	**831**	**936**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
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**
Balance at 1 Jan 2017	542
Charge during the year	310
Usage during the year	–
Release during the year	(365)
Other – FX rate gains or losses	3
Total provisions for off-balance sheet credit items at 31 Dec 2017	**490**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
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**
Balance at 1 Jan 2017	68	10	316	394
Charge during the year	5	169	9	183
Usage during the year	–	(60)	(148)	(208)
Release of redundant provisions and other	(6)	(19)	(3)	(28)
Total other provisions at 31 Dec 2017	**67**	**100**	**174**	**341**

33. Income tax

(a) Tax in Profit or Loss

MCZK	31 Dec 2017	31 Dec 2016
Current tax payable	(1 564)	(1 363)
Prior year tax	34	69
Deferred tax	74	(199)
Total income tax	**(1 456)**	**(1 493)**

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 2017	31 Dec 2016
Profit/loss for the year before tax	10 277	6 812
Tax calculated using the tax rate of 19%	(1 953)	(1 294)
Impact of prior years on the current tax payable	34	69
Non-taxable income	460	89
Tax non-deductible expenses	(49)	(116)
Impact of prior years on the deferred tax	2	(83)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(31)	(49)
Unrecognised temporary differences in deferred tax	27	(80)
Recognition of previously unrecognised temporary differences in deferred tax	56	–
Impact of a change in the Slovak tax rate	–	(28)
Other	(2)	(1)
Total income tax	**(1 456)**	**(1 493)**

The effective tax rate of the Bank is 14.2% (2016: 21.9%).

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1,069 (2016: MCZK 1,036), made an additional payment of MCZK 324 (at 31 December 2016: the Bank made an additional payment of MCZK 685) and reports an income tax liability of MCZK 202 to the tax authority in the Czech Republic (at 31 December 2016: a liability of MCZK 387) and a liability of MCZK 101 to the tax authority in the Slovak Republic (at 31 December 2016: a receivable of MCZK 248).

(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 2017 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

MCZK	31 Dec 2017		31 Dec 2016	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	123	–	24	–
Impairment of loans and off-balance sheet items	633	–	516	–
Differences arising from the net book values of assets	44	–	18	–
Reserve from revaluation of hedging instruments	–	(128)	–	(11)
Reserve from revaluation of available-for-sale securities	–	(242)	–	(54)
Other	156	–	15	–
Deferred tax liability/asset	956	(370)	573	(65)
Net deferred tax asset	**586**		**508**	

(ii) Net Deferred Tax Liability

MCZK	31 Dec 2017 Deferred tax asset	31 Dec 2017 Deferred tax liability	31 Dec 2016 Deferred tax asset	31 Dec 2016 Deferred tax liability
Tax non-deductible provisions	–	–	83	(3)
Impairment of loans and off-balance sheet items	–	–	249	–
Differences arising from the net book values of assets	–	–	2	–
Reserve from revaluation of hedging instruments	–	–	–	(434)
Reserve from revaluation of available-for-sale securities	–	–	–	(477)
Other	–	–	9	–
Deferred tax liability/asset	–	–	343	(914)
Net deferred tax liability				**(571)**

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 21 and non-tax deductible provisions recognised by the Slovak branch of MCZK 10.

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 2017.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2017				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2016				
UniCredit S.p.A	Italy	8 755	3 495	100.00
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 2017 Number of shares	31 Dec 2017 MCZK	31 Dec 2016 Number of shares	31 Dec 2016 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 2017 and 31 December 2016, 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 2017	31 Dec 2016
Reserve funds	3 372	3 372
Special-purpose reserve fund	11 611	11 611
Retained earnings	31 510	26 191
Total	**46 493**	**41 174**

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 2017	31 Dec 2016
Receivables from banks	199 020	117 501
Fair value of securities received	195 204	116 305
Receivables from clients	378	–
Fair value of securities received	420	–

Securities received as collateral as part of reverse repurchase transactions of MCZK 420 are further provided as collateral under repurchase transactions (as of 31 December 2016: a total of MCZK 12,786).

(b) Repurchase Transactions

MCZK	31 Dec 2017	31 Dec 2016
Deposits from banks	378	41 012
Fair value of securities provided	420	44 596
Deposits from clients	–	4 653
Fair value of securities provided	–	4 653

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 2017, 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 2017, the aggregate provisions amounted to MCZK 490 (as of 31 December 2016: MCZK 542), see Note 32 (a).

MCZK	31 Dec 2017	31 Dec 2016
Letters of credit and financial guarantees	39 814	41 687
Other contingent liabilities (undrawn credit facilities)	115 928	130 331
Total	**155 742**	**172 018**

Values Taken into Administration and Management

MCZK	31 Dec 2017	31 Dec 2016
Bonds	537 325	474 869
Shares	192 514	205 853
Depository notes	17 305	21 489
Total values taken into administration and management	**747 144**	**702 211**

(b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 383.1 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from Oesterreichische Kontrollbank AG Bank of MCZK 594.8 (MEUR 23.3) 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 194.4 (MUSD 9.1) 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 2017			
Trading instruments – interbank market (OTC)			
Options	69 633	829	843
Interest rate swap contracts	375 596	3 187	2 753
Forward rate agreements (FRA)	10 000	–	–
Cross currency swap contracts	211 237	2 584	2 561
Term currency transactions	34 417	55	369
Other instruments	1 432	143	140
Total	**702 315**	**6 798**	**6 666**
Trading instruments – stock exchange			
Futures	1 379	36	–
Total trading instruments	**703 694**	**6 834**	**6 666**
Hedging instruments			
Interest rate swap contracts	334 078	4 232	4 153
Cross currency swap contracts	156 542	209	723
Total hedging instruments	**490 620**	**4 441**	**4 876**
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)
Term currency transactions	46	–	–
Total hedging instruments	**309 337**	**5 163**	**3 417**

(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 2017				
Trading instruments				
Interest rate instruments	128 862	203 368	72 772	405 002
Equity instruments	2 711	12 170	–	14 881
Currency instruments	223 161	54 591	3 248	281 000
Other	1 381	51	–	1 432
Total	**356 115**	**270 180**	**76 020**	**702 315**
Hedging instruments				
Interest rate instruments	31 086	213 112	89 880	334 078
Currency instruments	92 729	63 272	541	156 542
Total	**123 815**	**276 384**	**90 421**	**490 620**
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**

39. Segment reporting

The Bank presents the segment information based on performance criteria as disclosed in Note 3 (q).

(a) Segment Information by Client Category

MCZK	Retail and private banking	Corporate and investment banking	Other	Total
At 31 Dec 2017				
Net interest and dividend income	2 977	6 277	2 841	12 095
Other net income	1 433	4 814	4	6 251
Depreciation/impairment losses of property and equipment and intangible assets	(191)	(67)	(140)	(398)
Impairment of assets and provisions	1 036	(1 443)	(72)	(479)
Segment expenses	(3 729)	(3 569)	106	(7 192)
Profit before tax	1 526	6 012	2 739	10 277
Income tax			(1 456)	(1 456)
Result of segment	1 526	6 012	1 283	8 821
Segment assets	113 428	531 776	14 129	659 333
Segment liabilities	157 630	401 701	30 560	589 891

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

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 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

(b) Information on Geographical Areas

MCZK	Czech Republic	Slovakia	Total
At 31 Dec 2017			
Net interest and dividend income	9 575	2 520	12 095
Other net income	4 641	1 610	6 251
Depreciation/impairment losses of property and equipment and intangible assets	(175)	(223)	(398)
Impairment of assets and provisions	(22)	(457)	(479)
Segment expenses	(5 150)	(2 042)	(7 192)
Profit before tax	8 869	1 408	10 277
Income tax	(1 195)	(261)	(1 456)
Result of segment	7 674	1 147	8 821
Segment assets	533 967	125 366	659 333
Segment liabilities	484 011	105 880	589 891
At 31 Dec 2016			
Net interest and dividend income	6 587	2 363	8 950
Other net income	6 065	816	6 881
Depreciation/impairment losses of property and equipment and intangible assets	(109)	(135)	(244)
Impairment of assets and provisions	(707)	(818)	(1 525)
Segment expenses	(5 054)	(2 166)	(7 250)
Profit before tax	6 752	60	6 812
Income tax	(1 248)	(245)	(1 493)
Result of segment	5 504	(185)	5 319
Segment assets	483 703	131 892	615 595
Segment liabilities	445 313	106 747	552 060

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 2017	Average for 2017	At 31 Dec 2016	Average for 2016
Aggregate VaR	146,6	132,9	119,5	129,7
VaR of currency instruments	4.5	2.8	2.8	4.5
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 2017 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 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. All the value are translated into CZK using the CNB's exchange rate ruling as of the relevant date.

MCZK	Basic stress test –200bp	Basic stress test +200bp	MM stress test +250bp
Value at 31 Dec 2017	1 520	(1 907)	(827)
Average for the period	1 227	(1 688)	(753)
Maximum value	2 021	(730)	48
Minimum value	178	(2 369)	(1 338)
Value at 31 Dec 2016	1 144	(1 750)	(784)
Average for the year	1 598	(2 104)	(1 058)
Maximum value	2 184	(1 750)	(784)
Minimum value	1 144	(2 361)	(1 307)

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.

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

MCZK	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2017						
Cash in hand and cash balances	1 666	2 159	7	32	143	4 007
Financial assets at fair value through profit or loss, including FA	4 727	3 062	295	–	36	8 120
of which:						
– held for trading	4 727	3 062	295	–	36	8 120
– not held for trading	–	–	–	–	–	–
Available-for-sale securities	19 011	28 035	476	–	–	47 522
Securities held to maturity	–	175	–	–	–	175
Receivables from banks	203 721	5 695	255	96	355	210 122
Receivables from clients	190 472	180 624	1 252	14	2 064	374 426
Positive fair value of hedging derivatives	3 146	1 292	3	–	–	4 441
Equity investments	3 979	–	–	–	–	3 979
Property and equipment	379	608	–	–	–	987
Intangible assets	1 549	194	–	–	–	1 743
Tax receivables	43	543	–	–	–	586
Non-current assets held for sale	–	2	–	–	–	2
Other assets	2 580	401	181	13	48	3 223
Total assets	431 273	222 790	2 469	155	2 646	659 333
Deposits from banks	8 259	148 928	7 198	–	19	164 404
Deposits from clients	229 106	117 967	10 731	608	2 427	360 839
Debt securities issued	15 961	23 914	125	–	–	40 000
Financial liabilities held for trading	4 209	1 982	347	–	1 661	8 199
Negative fair value of hedging derivatives	3 118	1 596	162	–	–	4 876
Tax liabilities	202	101	–	–	–	303
Other liabilities	4 634	5 189	432	12	172	10 439
Provisions	436	385	5	–	5	831
Equity	51 193	18 017	35	191	6	69 442
Total liabilities and equity	317 118	318 079	19 035	811	4 290	659 333
Gap	114 155	(95 289)	(16 566)	(656)	(1 644)	–

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
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)	–

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 2017							
Cash in hand and cash balances	4 007	4 007	4 007	–	–	–	–
Financial assets at fair value through profit or loss, including FA	8 120	8 423	1 085	693	4 487	2 158	–
of which:							
– held for trading	8 120	8 423	1 085	693	4 487	2 158	–
– not held for trading	–	–	–	–	–	–	–
Available-for-sale securities	47 522	51 982	486	4 568	24 431	22 497	–
Securities held to maturity	175	228	2	34	192	–	–
Receivables from banks	210 122	210 151	207 947	2 157	47	–	–
Receivables from clients	383 296	396 352	32 517	56 642	151 178	147 005	9 010
Positive fair value of hedging derivatives	4 441	4 441	77	189	2764	1 411	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property and equipment	987	987	–	–	–	–	987
Intangible assets	1 743	1 743	–	–	–	–	1 743
Tax receivables	586	586	.	586	–	–	–
Non-current assets held for sale	2	2	2	–	–	–	–
Other assets	3 223	3 223	1 958	1 264	–	–	1
Deposits from banks	164 404	164 437	78 477	531	84 211	1 218	–
Deposits from clients	360 839	360 922	352 657	6 452	703	1 110	–
Debt securities issued	40 000	42 653	1 267	7 115	24 509	9 762	–
Financial liabilities held for trading	8 199	8 199	2 707	1 032	3 432	1 028	–
Negative fair value of hedging derivatives	4 876	4 876	133	352	2 119	2 272	–
Tax liabilities	303	303	–	303	–	–	–
Other liabilities	10 439	10 439	9 130	1 309	–	–	–
Provisions	831	831	–	–	–	–	831
Equity	69 442	69 442					69 442
Undrawn loan facilities	39 814	39 814	4 788	9 001	16 880	1 650	7 495
Bank guarantees	115 928	115 928	8 477	31 228	20 876	55 347	–

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	–

(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 line with the 2017 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. 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 2017, 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 (CET1) 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 2017

The Czech economy was successful in 2017 and with a growth of 4.5% it was near the peak of the economic cycle. Its growth was supported by all components of aggregate demand. Household consumption was stimulated by the decreasing unemployment rate, which reached its historically lowest level during the year, and in combination with a record number of available job positions it created pressure on salary growth acceleration. Enterprises cited lack of workers as the main obstacle in business development with increasing frequency. The creation of fixed capital recovered from the previous year's drop predominantly thanks to the investment activity of private entities. The environment described was suitable for the creation of demand inflation pressures that maintained year-on-year inflation above the level of 2% throughout the year. Average inflation amounted to 2.5%, the highest level in five years.

The inflationary environment prompted the Czech National Bank to tighten its monetary conditions. First, in April it abandoned its foreign exchange interventions, thus ceasing to prevent the crown from strengthening. By the end of the year, the crown strengthened by 5.5% with respect to the euro. At the same time, the Czech National Bank tightened its monetary policy also through the interest rate channel and it increased the repo rate two times during the year, with the final value of the year being 0.5%. The end of the interventions on the foreign exchange market was preceded by a period of extremely high demand for crowns from exporters and foreign investors, which led to an increase in the Czech National Bank's foreign exchange reserves equalling almost two thirds of annual GDP. A secondary effect of the growth of crown positions of foreign entities was the increased demand for Czech government bonds, which temporarily decreased their yield to the level of the German ones. The share of crown bonds held by non-residents therefore grew from 32% in late 2016 to 42% in December 2017 and during the year it even briefly exceeded 50%. The total volume of loans in the Czech economy accelerated slightly to 7.3% year-on-year thanks to a stronger household demand along with the slowing down of the growth of corporate loans. The demand for residential real estate fuelled the acceleration of the prices to two-figure values and prompted the Czech National Bank to endeavour to slow down this development using macroprudential instruments.

In the business environment outside of the finance sector, a significant change occurred in the form of the launch of the second stage of electronic sales records, affecting the area of trade. The implementation of the following stages, planned for next year, was halted by the Constitutional Court. No other legislative changes relevant for the business environment occurred due to the election cycle. Government regulations increased tariff salaries in the public sector to an unusual extent. Minimal wage also grew by a significant 11%.

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 2017, the Bank continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk

– Update of specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
– Adjustment of 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

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Receivables from banks	145	3 451
Securities available for sale	1 814	1 929
Total	**1 959**	**5 380**
Liabilities		
Deposits from banks	112 590	16 534
Total	**112 590**	**16 534**
Off-balance sheet items		
Issued guarantees	273	347
Irrevocable credit facilities	96	101
Total	**369**	**448**

MCZK	2017	2016
Interest and similar income	35	65
Interest and similar expenses	(14)	(4)
Income from fees and commissions	4	21
Expenses for fees and commissions	(35)	(20)
General administrative expenses	(8)	15
Total	**(18)**	**77**

(b) Transactions with subsidiaries

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Receivables from clients	37 672	30 664
of which:		
UniCredit Leasing CZ, a.s.	22 744	16 918
UniCredit Leasing Slovakia, a.s.	9 175	8 254
UniCredit Fleet Management, s.r.o. (CZ)	1 784	1 465
UniCredit Factoring Czech Republic and Slovakia, a.s.	1 780	1 056
HVB Leasing Czech Republic s.r.o.	1 175	1 723
Total	**37 672**	**30 664**
Liabilities		
Payables to clients	758	794
of which:		
UniCredit Leasing Slovakia, a.s.	447	491
UniCredit pojišťovací makléřská spol. s r.o.	251	101
Total	**758**	**794**
Off-balance sheet items	178	187
Issued guarantees		
of which:		
UniCredit Factoring Czech Republic and Slovakia, a.s.	178	187
Irrevocable credit facilities	2 763	15 039
of which:		
UniCredit Leasing CZ, a.s.	1 289	9 726
UniCredit Fleet Management, s.r.o. (CZ)	467	536
UniCredit Factoring Czech Republic and Slovakia, a.s.	347	1 806
UniCredit Leasing Slovakia, a.s.	341	2 901
Total	**2 941**	**15 226**

MCZK	2017	2016
Interest income and similar income	216	191
of which:		
UniCredit Leasing CZ, a.s.	131	106
UniCredit Leasing Slovakia, a.s.	59	57
Interest expense and similar expense	(9)	(12)
of which:		
UniCredit Leasing CZ, a.s.	(9)	–
UniCredit Leasing Slovakia, a.s.	–	(12)
Fee and commission income	37	47
of which:		
UniCredit Leasing CZ, a.s.	15	19
UniCredit Leasing Slovakia, a.s.	20	27
General administrative expenses	(25)	(28)
of which:		
UniCredit Fleet Management, s.r.o. (CZ)	(22)	(23)
UniCredit Fleet Management, s.r.o. (SK)	(8)	(9)
Total	**219**	**198**

(c) Transactions with key management members

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Receivables from clients	106	89
of which:		
Board of Directors	–	2
Other management members	106	87
Total	**106**	**89**
Liabilities		
Payables to clients	225	170
of which:		
Board of Directors	120	88
Other management members	105	82
Total	**225**	**170**
Off-balance sheet items		
Irrevocable credit facilities	13	11
of which:		
Board of Directors	1	1
Other management members	12	10
Total	**13**	**11**

(d) Transactions with other related parties

MCZK	31 Dec 2017	31 Dec 2016
Assets		
Financial assets held for trading	1 631	1 067
of which:		
UniCredit Bank AG	1 247	1 036
Receivables from banks	5 337	7 309
of which:		
UniCredit Bank AG	259	287
UniCredit Bank Austria AG	710	722
Yapi ve Kredi Bankasi AS	4 102	5 524
UniCredit Bank Hungary Zrt.	70	25
AO UniCredit Bank	142	730
Receivables from clients	766	270
of which:		
UCTAM Czech Republic s.r.o.	407	–
UCTAM SVK, s.r.o	265	270
Positive fair value of hedging derivatives	1 883	2 078
of which:		
UniCredit Bank AG	1 274	2 023
Total	**9 617**	**10 724**
Liabilities		
Deposits from banks	23 648	63 047
of which:		
UniCredit Luxembourg S.A.	–	11
UniCredit Bank Austria AG	22 144	48 475
UniCredit Bank AG	1 431	10 288
UniCredit Bank Hungary Zrt.	32	4 233
Deposits from clients	250	1 222
of which:		
Pioneer Asset Management a.s.	–	897
Pioneer Investment Company	–	95
UniCredit Business Integrated Solutions S.p.A.	59	84
Financial liabilities held for trading	1 801	2 086
of which:		
UniCredit Bank AG	1 625	2 025
Negative fair value of hedging derivatives	2 010	2 105
of which:		
UniCredit Bank AG	1 211	2 072
Total	**27 709**	**69 424**

MCZK	31 Dec 2017	31 Dec 2016
Off-balance sheet items		
Issued guarantees	1 251	3 916
of which:		
UniCredit Bank AG	546	656
UniCredit Bank Austria AG	488	2 949
UniCredit Bank Hungary Zrt.	51	112
AO UniCredit Bank	13	20
Irrevocable credit facilities	164	276
of which:		
UniCredit Bank AG	102	108
Total	**1 415**	**4 192**

MCZK	2017	2016
Interest income and similar income	514	408
of which:		
UniCredit Bank AG	359	288
UniCredit Bank Austria AG	76	55
Interest expenses and similar charges	183	51
of which:		
UniCredit Bank AG	16	(3)
UniCredit Bank Austria AG	164	55
Fee and commission income	120	69
of which:		
UniCredit Bank AG	72	40
UniCredit Bank Hungary Zrt.	4	6
UniCredit Bank Austria AG	26	15
Fee and commission expenses	(9)	(31)
of which:		
UniCredit Bank Austria AG	(4)	(26)
Net income from financial assets and liabilities held for trading	444	553
of which:		
UniCredit Bank AG	246	578
UniCredit Bank Austria AG	206	(24)
Net income from hedging against risk of changes in fair value	112	(172)
of which:		
UniCredit Bank AG	109	(174)
General administrative expenses	(1 441)	(1 476)
of which:		
UniCredit Business Integrated Solutions S.p.A.	(1 438)	(1 475)
Total	**(77)**	**(601)**

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 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	210 122	210 133	139 849	139 895
Receivables from clients	374 426	381 880	367 298	371 978
Financial liabilities				
Deposits from banks	164 404	164 404	100 473	100 272
Deposits from clients	360 839	360 839	371 304	371 304
Debt securities issued	40 000	40 436	60 107	61 637

The following table shows transfers of financial assets and liabilities at fair value between 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 2017					
Transfer from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–
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

For the years ended 31 December 2017 and 31 December 2016, 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 2016	**–**	**–**	**635**	**–**	**635**
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					–
Opening balance at 1 Jan 2017	**–**	**–**	**229**	**–**	**229**
Revaluation gains and losses					
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	33	–	33
Purchases	–	–	–	–	–
Sales/maturity	–	–	(2)	–	(2)
Transfers from/to other levels	–	–	–	–	–
Other	–	–	–	–	–
Closing balance at 31 Dec 2017	**–**	**–**	**260**	**–**	**260**
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 2017 and 2016, 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 2017						
Derivatives	8 804	–	8 804	7 524	–	1 280
31 Dec 2016						
Derivatives	3 545	–	3 545	1 674	–	1 871

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

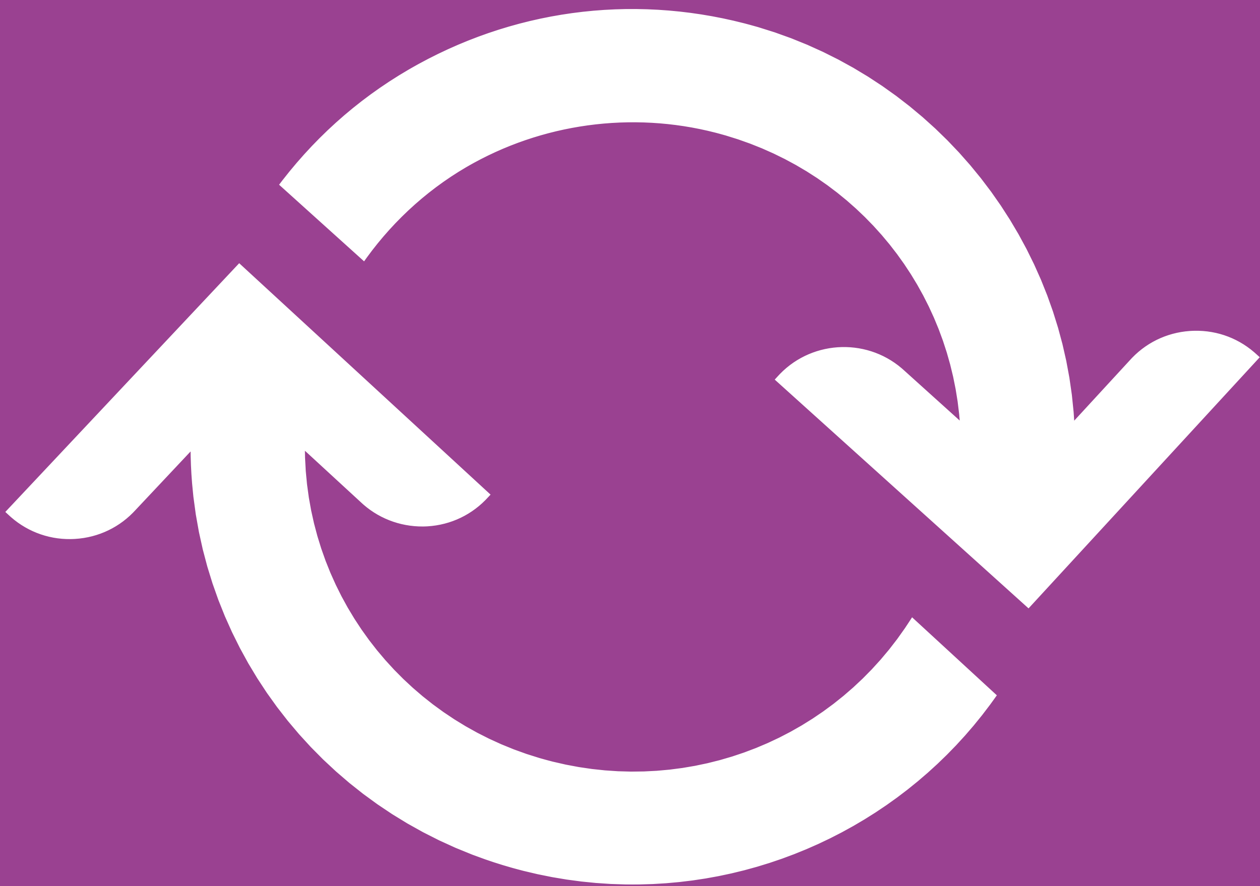
MCZK	Gross reported financial liabilities	Gross reported financial assets	Net reported financial liabilities	Relating amounts that are not offset Financial instruments	 Provided cash collateral	Net amount
31 Dec 2017						
Derivatives	9 998	–	9 998	7 524	–	2 474
31 Dec 2016						
Derivatives	2 157	–	2 157	1 674	–	483

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):
28 February 2018	Ing. Jiří Kunert Chairman of the Board of Directors Ljubiša Tešić Member of the Board of Directors	Ing. Jiří Houška	Mgr. Michaela Mrštíková

Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

Auditor's report on the annual report

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Karolinská 654/2
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Czech Republic

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DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.:49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bank Czech Republic and Slovakia, a.s.

Having its registered office at: Želetavská 1525/1, 140 92, Prague 4 - Michle

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 2017, 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 2017, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of receivables from clients	
(See Notes 20 and 40(b) to the Consolidated and Separate Financial Statements for the details) At 31 December 2017, gross receivables from clients (hereinafter "receivables") were CZK 397 291 million and CZK 383 296 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 10 609 million and CZK 8 870 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.	We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (IAS 39). Testing of internal controls 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 Identification of receivables in default 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. Impairment determined individually (1.) 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. Impairment determined using statistical models for impaired loans (2.) For the impairment determined by models used by the Group, we were assessing for selected internal models the model methodology, the

Key audit matter	**Related audit procedures**
	internal validation reports and results of the models back-testing. We assessed whether the modelling assumptions used considered all relevant 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. <u>Allowances for loans determined using statistical models for non-impaired loans (3.)</u> We performed analytical procedures and benchmarking.
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 2017 interest income and similar income comprised of CZK 12 327 million and CZK 10 936 million for the Group and the Company respectively. Fee and commission income for the same period comprised of CZK 4 660 million and CZK 4 214 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 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. 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. We assessed the completeness and accuracy of data used for the calculation of interest using data analytics. We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Company.

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 between the Controlling and Controlled Entities (the "Report on Relations")

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2017 which is included in this annual report on pages 181 to 192. 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 2017 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on Other Legal and Regulatory Requirements

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

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 18 April 2017 and our total uninterrupted engagement including previous renewals has lasted for 9 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 5 April 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

<u>Provision of Non-audit Services</u>

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

Non-financial Information Report

As stated in point 22 on page 180 of the annual report/notes to the financial statements, the Company does not prepare non-financial information since the relevant information is to be presented in the consolidated annual report or separate report of the consolidating entity. As a result, we do not report on the preparation of non-financial information.

In Prague on 25 April 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Diana Rádl Rogerová
registration no. 2045

Maximise commercial bank value.

We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

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

UniCredit Bank Czech Republic and Slovakia, a.s., is a strong and rapidly developing bank offering a wide range of quality products to both corporate and private clients in the Czech Republic and Slovakia. It is one of the strongest banks in both markets in the area of project, structured and syndicated corporate finance.
The bank has also built an extraordinarily strong position in acquisition financing and ranks first in commercial real estate financing. Among other services, UniCredit Bank's clients can utilise services to obtain project financing from the EU structural funds offered through UniCredit Bank's European Competence Centre.
In the area of services for private clients, UniCredit Bank plays a significant role in the market of private banking or securities and, in the retail segment, it is a significant player in the field of consumer loans, mortgages, and credit cards. It is doing very well in serving clients in freelance professions (doctors, judges, attorneys-at-law, notaries, etc.). The Bank's Competence Centre for Freelance Professions is devoted to these clients.

UniCredit Bank Czech Republic and Slovakia, a.s., operates in all regional cities in both countries and currently has 132 branches and 402 ATMs.

The merged Bank holds more than 9.4% of the market share with its balance sheet sum totalling more than CZK 659.3 billion (non-consolidated data) and is the fourth largest bank in the Czech Republic and the largest in Slovakia. The Bank is a universal bank, providing the services of small, commercial and investment banking in Czech crowns as well as in foreign currencies to local and foreign clients mainly in the Czech Republic, in Slovakia and, further, in other EU countries.

3.2 Issued share capital

The Bank's share capital amounts to CZK 8,754,617,898 divided as follows:
a) 100 registered shares, each with a nominal value of CZK 16,320,000;
b) 200 registered shares, each with a nominal value of CZK 13,375,000;
c) 436,500 registered shares, each with a nominal value of CZK 10,000;
d) 10 registered shares, each with a nominal value of CZK 7,771,600;
e) 106,563 book-entry registered shares with a nominal value of CZK 46.

All the aforementioned shares are registered to the shareholder's account maintained by Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.).

UniCredit Bank's share capital has been fully paid up.

In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank's shares entitle the shareholder to participate in the company's management and to share in its profit as well as in its liquidation balance upon dissolution of the company. UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares. UniCredit Bank does not hold any of its own participating securities nor does any entity in which UniCredit Bank has a direct or indirect ownership interest exceeding 50% of that entity's share capital or voting rights hold any such securities.

The Bank's shares are freely transferable and no consent of any Bank's body is required for the transfer or pledge thereof to be effective.

The sole shareholder of UniCredit Bank is UniCredit S.p.A., having its registered office at Piazza Gae Aulenti 3, Tower A – 20154 Milan, Republic of Italy, Reg. No.: 00348170101.

In accordance with UniCredit Bank's Articles of Association, the sole shareholder may only influence the Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. UniCredit Bank is not party to a controlling contract or a contract for transfer of profit.
The nature of the control by the controlling entity, which is UniCredit S.p.A., results from the directly owned portion of the issuer's shares.
To prevent misuse of the control and controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the Report on Relations between the controlled entity and other entities controlled by the same controlling entity (Report on Relations between the related entities). No agreements that could lead to a change of control over the issuer are known.

3.3 Additional information

In accordance with the Bank's Articles of Association, the members of the Board of Directors are elected and dismissed by the Supervisory Board. UniCredit Bank has no special rules for changing the Articles of Association.

Currently there exist no authorisations or special powers of the Board of Directors in terms of Section 118, par. 5h) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended. UniCredit Bank has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.
There are no programmes in UniCredit Bank that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions.
UniCredit Bank has concluded no significant contracts that will take

effect, change or expire in case of a change in the control of the issuer as a result of a takeover bid.

4. Summary of business activities

4.1 Scope of business activities:

The company's business activities include banking transactions and provision of financial services fully in accordance with Banking Act No. 21/1992 Coll., as amended, and Act No. 219/1995 Coll., the Foreign Exchange Act, as amended, i. e.

a) receiving deposits from the public;
b) granting loans;
c) investing in securities on its own account;
d) finance lease;
e) operating a system of payments and clearing;
f) issuing and administering payment products;
g) granting guarantees;
h) opening letters of credit;
i) administering cash collection;
j) providing investment services:
- main investment service pursuant to Section 8, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), receipt of and conveying instructions related to investment instruments on 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

- Corporate, investment and private 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 of 2017 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 across all segments, owing to the provision of comprehensive services and high flexibility.

In 2017, in accordance with our long-term strategy focused on small and medium-sized enterprises, we accomplished recent modifications in the setting of this segment's service model in Slovakia. Within the segment's operational arrangement, we made modifications in internal processes with focus on their increased automation and simplification, primarily within approval of loans, credit reviews, preparation of contractual documentation and monitoring.

Further changes within internal processes across the Division are going to be made in 2018, with the aim to enhance internal effectiveness and automation, and to ensure better quality of services and satisfaction of clients.

Last year, we continued to successfully develop the area of support of financing with cooperation partners. Recently, we have kicked off a programme by EBRD in Slovakia, focused on promoting projects of energy saving and investments in renewable sources.

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 cooperation 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 2017, we extended our product offer by a special PRESTO Loan for Housing (applicable to Slovakia) and continued in the successful concept of refinancing or transfer of loans. We also launched special loans for small companies (PRESTO Business and Business Kontokorent).

As regards mortgage loans for individuals, we focused in particular on simplification and upgrade of the product offer; together with the replacement of the IT system, we also accelerated and simplified the credit process.

In the Czech Republic, we introduced the possibility of applying for and drawing on pre-approved loans in Online Banking all online. In 2017, we enabled our clients to display their PRESTO Loan and Mortgage Loan repayment schedule in their Online Banking.

Owing to the implementation of a new internal application for trading in securities, the work of bankers became considerably more simple and effective. Moreover, by implementing this application, we as a bank prepared for the fulfilment of requirements arising from the new Markets in Financial Instruments Directive (MiFID II), which entered into force on 3 January 2018.

We completed the implementation of changes in the Small Business service model with respect to the strategic decision: to focus on small enterprises and entrepreneurs and to simplify the product offer for this segment. We completed the settings of fast and simple internal processes, which may be effectively processed by all branches. At the same time, we anchored our credit product offer so as to cover the needs of most small-enterprise and entrepreneur clients and be simply comprehensible for clients.

Accounts

As regards accounts for individuals, we focused on the development of loyalty of the U-šetřete programme, which is connected to an account's payment card. Within the development, we engaged new partners and increased the number of registered users. In 2017, the number of partners involved in the programme stood at 372 and the number of registered users was 102 thousand.

Investments and deposits

In order for our offer to keep pace with the 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

Further, in 2017, we extended our offer of insurance products, adding a new insurance for business accounts. Good results were reported by the sale of U5 – accident insurance for U Konto account – which has recently been added in the offer of Branch Slovakia. The unique Medic accident insurance, offered via telemarketing, had a really good response among our clients.

Payment cards

In 2017, there was no major product innovation in cards. Owing to the 3DS implementation in Slovakia in late 2016, we have considerably reduced the number of complaints and damage of clients when conducting transactions on the Internet, and thereby enhanced the security of client funds when paying on the Internet. During the year, we introduced several campaigns in Czechia and Slovakia to promote increased use of cards with merchants. We joined the promotion of cashless transactions within the MasterCard and Visa campaigns, and we also introduced an internal campaign to increase the use of cards. In the long run, we have also used the u-šetřete programme in the Czech Republic, owing to which clients get discounts from popular merchants when making cashless transactions.

Small enterprises and entrepreneurs

We created a new portfolio of credit products, reflecting the new service model and the need of our clients. We made fundamental changes in the internal credit process. We deployed a new credit approval tool, which is fully automated, user-friendly and prevents users from making mistakes. This tool has significantly reduced the time required for making a decision on credit approval. In 2018, we focus on adding other features which make other lending-related processes easier for branches. Owing to the deployment of this tool, we have managed to involve all branches in servicing of small-enterprise and entrepreneur clients. Branches can thus effectively offer new and simplified credit products outside the packages, including credit products for liberal-profession clients.

Online sale

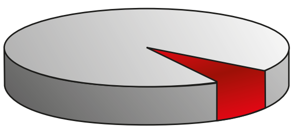
As regards online sale, the possibility of applying for a PRESTO Loan or Bank Overdraft was introduced to all clients with Online Banking in the Czech Republic in 2017. For clients who already had a Bank Overdraft, we prepared a possibility of increasing this loan online. Our clients' response was really positive.

4.3 Competitive position of the issuer

All charts below provide non-consolidated data.

(i) Profit after tax

Profit after tax (MCZK)	2017
Banking sector CZ	75 906
UCB CZ & SK	8 821

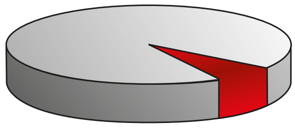


non-consolidated data

Other banks	88,38 %
UCB CZ & SK	**11,62 %**

(ii) Total net assets

Total assets (MCZK)	as at 31 Dec 2017
Banking sector CZ	7 009 594
UCB CZ & SK	659 333

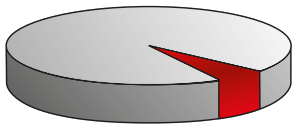


non-consolidated data

Other banks	90,59 %
UCB CZ & SK	**9,41 %**

(iii) Gross receivables from clients in CZ*

Receivables from clients (MCZK)	as at 31 Dec 2017
Banking sector CZ	2 820 360
UCB CZ & SK	242 834

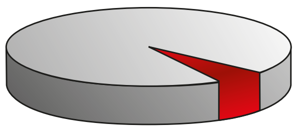


non-consolidated data, residents

Other banks	91,39 %
UCB CZ & SK	**8,61 %**

(iv) Gross receivables from clients in SK***

Receivables from clients (MCZK)		as at 31 Dec 2017
Banking sector CZ	52 453 MEUR**	1 339 649
UCB CZ & SK		112 523

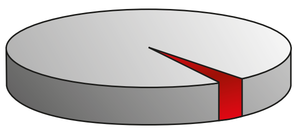


non-consolidated data, residents

Other banks	91,60 %
UCB CZ & SK	**8,40 %**

(v) Liabilities to clients in CZ*

Liabilities to clients CZ (MCZK)	as at 31 Dec 2017
Banking sector CZ	3 973 057
UCB CZ & SK	261 739

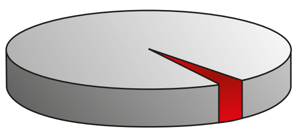


non-consolidated data, residents

Other banks	93 41 %
UCB CZ & SK	**6,59 %**

(vi) Liabilities to clients in SK***

Liabilities to clients CZ (MCZK)		as at 31 Dec 2017
Banking sector CZ	52 956 MEUR**	1 352 491
UCB CZ & SK		70 121



non-consolidated data, residents

Other banks	94,82 %
UCB CZ & SK	**5,18 %**

* 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 25,54/EUR as at 29 December 2017.
*** Data for SK branch

5. Organisational structure

The Bank is part of the UniCredit Banking Group (hereinafter referred to as the “Group”). As a member of the Group, the Bank must comply, with the exception of certain relevant legal regulations, with directives issued by UniCredit S.p.A , as the parent company (hereinafter the “Parent Company”). The Parent Company shall monitor the proper implementation and observation of the directives (hereinafter the “Holding Guidelines”) issued by the Parent Company (hereinafter the “Holding Company”) in the Bank.

The Holding Guidelines are rules that define the management, organisational structure and managerial responsibilities within key processes in the Group that are issued in exercising its powers to supervise and co-ordinate the Group in accordance with the instructions issued by the Italian surveillance authority, with the aim to maintain the Group’s stability.

History of the Group

While the banking group’s history dates as far back as 1473, the year in which Rolo Banca was created, the contemporary history of UniCredit Group begins with the merger of nine leading Italian banks, the subsequent integration with the German HVB Group and, most recently, with the Italian Capitalia. In 1999, acquisition of Bank Pekao of Poland meant the beginning of the Group’s expansion (at that time under the name UniCredito Italiano) into Central and Eastern Europe (CEE). Growth continued over the next few years with purchase of the Pioneer Investments group, the subsequent formation of Pioneer Global Asset Management, and then further strategic acquisitions gradually carried out in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic, and Turkey. In 2005, UniCredit merged with the German group HVB, which had itself been formed in 1998 by the joining of two Bavarian banks: Bayerische Vereinsbank and Bayerische Hypotheken- und Wechsel-Bank. The result was a single, major European bank.

Integration with the HVB Group – reinforced by its own merger in 2000 with Bank Austria Creditanstalt, which was strongly represented in many areas of post-communist “new” Europe – creates a basis for UniCredit Group to continue strengthening its European focus. By merging in 2007 with Capitalia, the third-largest Italian banking group, UniCredit Group further consolidated and strengthened its position in one of its most important markets, Italy. Capitalia had been established in 2002 from the integration of two previously independent entities, the Bancaroma Group (itself the result of a merger between some of the oldest Roman banks: Banco di Santo Spirito, Cassa di Risparmio di Roma and Banco di Roma) and the Bipop-Carire Group.

UniCredit is now a simple and successful pan-European commercial bank with a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 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, 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 2017 it had seven members. Members of the Board of Directors exercise their functions in person. Members of the Board of Directors are elected by the Supervisory Board for a period of three years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office. Only persons meeting the relevant legal requirements may be appointed as members of the Board of Directors. The Board of Directors makes decisions in the form of resolutions usually adopted at its meetings. The Board of Directors shall have a quorum if an absolute majority of all its members is present. The approval of an absolute majority of the Board members present is required for a resolution to be valid. In the event of a parity of votes, the presiding member of the meeting shall have the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The competence of the Board of Directors 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 an information as to where the financial statements is available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the bank's website is the financial statements available in accordance with Sec 436, par. 1, second sentence of the Act on Business Corporations,

e) to decide on establishing 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 the prior approval by the Supervisory Board,

i) to grant and withdraw authorisations to act on behalf of the Bank and the powers of attorney to the Bank's representatives,

j) in accordance with generally binding legal regulations, 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 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 the finance, human resources and legal issues.
Work address: Želetavská 1521/1, Prague 4
Domicile: Čerchovská 1981/6, Vinohrady, 120 00 Prague 2
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
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: U dětského hřiště 743/13, Jinonice, 158 00 Prague 5
Born: 6 August 1976

Ing. MIROSLAV ŠTROKENDL
Member of the Board of Directors and Head of Branch Slovakia
Work address: Šancová 1/A, 813 33 Bratislava
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic
Born: 12 November 1958

Changes in the Board of Directors in 2017
There were no changes in the Board of Directors in 2017.

7.3 Supervisory Board of UniCredit Bank

The Supervisory Board has nine members, of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Act on Business Corporations with reference to the Act on Transformations of Commercial Companies and Cooperatives. Members of the Supervisory Board exercise their functions in person. Members of the Supervisory Board are elected for the period of three years and may be re-elected. The Supervisory Board shall have a quorum if an absolute majority of all its members is present or otherwise participating (for example, via teleconference). The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to be valid. In the event of a parity of votes, the Chairman shall cast the deciding vote. If the majority of the Supervisory Board members so agrees, the Supervisory Board may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all members of the Supervisory Board to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The Supervisory Board established the Remuneration Committee, which consists of three members of the Supervisory Board (Simone Marcucci, Heinz Meidlinger and Miloš Bádal). The competence of the Remuneration Committee includes preparation of draft resolutions on remuneration, including those adopted by the Bank's Supervisory Board and having impact on the obligor's risks and risk management. When preparing those resolutions, the Remuneration Committee takes into consideration long-term interests of the Bank's shareholders, investors and other stakeholders and the public interests. Under direct supervision of the Remuneration Committee is remuneration of managers responsible for risk management, internal audit and compliance functions.

The Supervisory Board further established the Appointment Committee, which consists of three members of the Supervisory Board (Simone Marcucci, Heinz Meidlinger and Andrea Diamanti). The competence of the Appointment Committee includes the selection of candidates for vacancies in the Bank's Board of Directors and submitting them for approval by the Supervisory Board. In discharge of this task the Appointment Committee assesses, inter alia, proper proportion in competence, skills and diversity in composition of the bank's body as a whole. The Appointment Committee develops draft job descriptions including skills required for the position and estimated the time schedule for meeting the goals related to exercise of the office.

Additionally, the Appointment Committee recommends the target gender proportion in the Board of Directors and the principles as to how the share of less represented gender in the Board of Directors can be increased to match the target goal;

a) regularly, at least on an annual basis, evaluates the structure, size, composition and activities of the Board of Directors and submits recommendations to the Supervisory Board regarding amendments, if any,

b) regularly, at least on an annual basis, evaluates the integrity, professional competence and skill of each member of the Board of Directors and the Board of Directors as a whole and submits the evaluation reports to the Supervisory Board,
c) regularly reviews policies of the Board of Directors as to the selection and appointment of a candidate to top management and submits recommendations to the Supervisory Board.

The Supervisory Board further established the Risk Management Committee, which consists of three members of the Supervisory Board (Wolfgang Schilk, Heinz Meidlinger and Andrea Diamanti).

The competence of the Risk Management Committee includes, in particular, the following activities:
a) regularly, at least on an annual basis, evaluates the integrity, professional competence and skill of each member of the Board of Directors and the Board of Directors as a whole and submits the evaluation reports to the Supervisory Board,
b) examines whether 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 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 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.

SIMONE MARCUCCI
Chairman of the Supervisory Board
Domicile: 20832 Desio (MI), Via Parini 3, Republic of Italy
Born: 2 September 1966

HEINZ MEIDLINGER
Vice-Chairman of the Supervisory Board
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Austria
Born: 6 September 1955

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Italy
Born: 24 March 1967

EVA MIKULKOVÁ
Domicile: Kladno, Kročehlavy, Dlouhá 512
Born: 29 January 1957

Ing. JANA SZÁSZOVÁ
Domicile: Bratislava, Hany Meličkovej 2989/18, 84105, Slovakia
Born: 17 January 1963

Mgr. MILOŠ BÁDAL
Domicile: Prague 5 – Motol, Podhorská 88/19
Born: 11 April 1970

WOLFGANG SCHILK
Domicile: 2603 Felixdorf, Steinfeldgasse 36, Republic of Austria
Born: 16 March 1967

ANDREA DIAMANTI
Domicile: 1090 Vienna, Wasagasse 6/20, Republic of Austria
Born: 1 June 1973

IVAN VLAHO
Domicile: 1020 Vienna, Laufbergergasse 6/21-22, Republic of Austria
Born: 8 December 1973

Changes in the Supervisory Board in 2017
As at 1 January 2017, Susanne Malibas resigned from her office of member of the Supervisory Board. As at 1 March 2017, the sole shareholder appointed Simone Marcucci, Andrea Diamanti, Ivan Vlaho and Wolfgang Schilk.

7.4 Audit Committee

The Audit Committee is an independent committee with the task to oversee, monitor and advise 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.
The Audit Committee consists of three members appointed and dismissed by the General Meeting for a term of three years from among the Supervisory Board members or third persons. The Chairman and the majority of the members of the Audit Committee must be independent from the Bank and competent.
The Audit Committee can order inspections and specifically focused audit investigation of the Bank's functions, other Bank'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.
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.
The Audit Committee appoints and dismisses a chairman from among its members. The Chairman coordinates and plans activities of the Audit Committee, convenes the meetings and chairs the meetings.

MARCO RADICE
Chairman of the Audit Committee
Domicile: Via S. Simpliciano, 5 - 20121 Milan, Republic of Italy
Born: 28 August 1957

HEINZ MEIDLINGER
Domicile: Vienna, Kalmusweg 46/Haus 107, 1220, Republic of Austria
Born: 6 September 1955

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Republic of Italy
Born: 24 March 1967

Changes in the Audit Committee in 2017
Stefano Cotini resigned from his office of member of the Audit Committee as at 27 October 2017. As at the same date, the sole shareholder appointed Marco Radice.

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 2017, 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 2017, 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 8 571 thousand
Interest rate:	3M EURIBOR + 0,33%
Loan origination date:	28.7.2014
Maturity date:	27.7.2021
Collateral:	Collateralised by bonds
Creditor:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	EUR 14 286 thousand
Interest rate:	3M EURIBOR + 0,03%
Loan origination date:	16.11.2015
Maturity date:	16.11.2022
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 871 thousand
Interest rate:	6M USD LIBOR + 0,75%
Loan origination date:	5.6.2014
Maturity date:	5.6.2019
Collateral:	No collateral
Creditor:	**The European Bank for Reconstruction and Development**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	EUR 5 000 thousand
Interest rate:	6M EURIBOR + 0.40%
Loan origination date:	30 October 2017
Maturity date:	23 February 2023
Collateral:	No collateral
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 15 000 thousand
Interest rate:	3M EURIBOR + 0,421%
Loan origination date:	29.6.2011
Maturity date:	29.6.2018
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 8 227,5 thousand
Interest rate:	3M EURIBOR + 0,559%
Loan origination date:	30.9.2011
Maturity date:	30.9.2023
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 2 000 thousand
Interest rate:	0,809%
Loan origination date:	22.1.2014
Maturity date:	31.12.2018
Collateral:	Collateralised by bonds

Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 2 812,5 thousand
Interest rate:	0,41%
Loan origination date:	28.8.2014
Maturity date:	31.8.2018
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 3 750 thousand
Interest rate:	0,229%
Loan origination date:	25.11.2014
Maturity date:	30.11.2018
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 9 000 thousand
Interest rate:	0,170%
Loan origination date:	26.2.2015
Maturity date:	26.2.2020
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 5 625 thousand
Interest rate:	0,003%
Loan origination date:	29.4.2015
Maturity date:	30.4.2019
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	EUR 7 500 thousand
Interest rate:	0,326%
Loan origination date:	29.6.2015
Maturity date:	30.6.2020
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 123 682,5 thousand
Interest rate:	0,787%
Loan origination date:	22.1.2014
Maturity date:	22.1.2019
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 423 244 thousand
Interest rate:	0,545%
Loan origination date:	10.9.2014
Maturity date:	10.9.2019
Collateral:	Collateralised by bonds

Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	EUR 4 800 thousand
Interest rate:	0,524%
Loan origination date:	10.9.2014
Maturity date:	10.9.2019
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 165 960 thousand
Interest rate:	0,297%
Loan origination date:	15.12.2014
Maturity date:	12.12.2019
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	CZK 138 400 thousand
Interest rate:	0,188%
Loan origination date:	26.2.2015
Maturity date:	26.2.2020
Collateral:	Collateralised by bonds
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Czech Republic, a.s.
Loan amount:	EUR 5 000 thousand
Interest rate:	0,177%
Loan origination date:	26.2.2015
Maturity date:	26.2.2020
Collateral:	Collateralised by bonds
Total loans as at 31 December 2017	**CZK 3 208 580 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 2017: CZK 40,000,050,062.

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, a.s. (hereinafter the "Remuneration Committee") approves the remuneration for each calendar year for members of the Board of Directors on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group. In 2017, the Remuneration Committee consisted of Simone Marcucci (from 1 March 2017), Heinz Meidlinger and Miloš Bádal (until 14 July 2017 and, subsequently, from 27 October 2017). Starting from May 2014, in line with new civil code, members of the Board of Directors perform work according to the Agreement on Discharge of Office of Members of the Board of Directors and receive the remuneration that is set as a fixed amount paid monthly, an annual variable bonus, and they are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for executing their offices; remuneration to the Bank's foreign executive managers (members of the Board of Directors) is provided by the parent company. These remuneration costs are accounted for by the parent company and included in the remuneration summary.

Contractual salaries of the Bank's executive managers

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, 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 "2017 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";
March "Group and Local Risk Adjustments";
4. "Performance Screen";
5. "Bonus cap";
6. "Compliance Assessment", "Continuous Employment Condition", "Claw Back" and "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, Zero Factor is not activated, and further adjustments are performed pursuant to Performance & Risk Factor Adjustments.

Ad 3.

Group and Local Risk Adjustments ensures that the bonus pools are aligned with the overall performance and risk assessment. Application of the "Group and Local Risk Adjustments" parameters affirms, reduces or entirely terminates an executive manager's bonus payment.

In accordance with applicable regulatory requirements, final evaluation of sustainable performance parameters and risk-reward, alignment is reviewed by the Remuneration Committee and defined under the responsibility and governance of the Board of Directors.

In 2017, 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 (Common Equity Tier 1 Ratio Transitional)	
Short-term liquidity indicator (Liquidity Coverage Ratio)	
Net Stable Funding Ratio (NSFR)	

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 2017 included, for example:
– ROAC,
– EVA,
– Expected Loss (New Business EL, Performing Stock EL),
– Revenue Sharing.

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 the cap on bonuses with an effective date of 1st of 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 the bonus cap set at 80% of the yearly fixed compensation.

Ad 6.
Any payment of the variable component of remuneration for an executive manager is subject to the "Compliance Assessment", which confirms, reduces or entirely cancels the payment to which an employee is entitled in each year of deferred remuneration.
An executive manager's direct superior shall assess whether the executive manager acted during the evaluated period in accordance with the principles of UniCredit Group's Integrity Charter and Articles of Association; whether he or she committed serious errors, including errors, which could have a tangible impact on banking risk or the balance sheet; as well as whether or not he or she breached legal norms, UniCredit Group's rules or UniCredit Bank's internal regulations, regardless of whether a disciplinary hearing is taking place or other disciplinary sanctions have already been imposed. This evaluation is carried out by the executive manager's direct superior and approved by the Remuneration Committee.

As with the evaluation of individual performance objectives, this assessment may reduce or entirely cancel (depending on the gravity of the violation) the potential variable remuneration.

The "Continuous Employment Condition" stipulates that an employee is entitled to payment of the variable remuneration component or its deferred part only if he or she is an employee of the Bank or another company within UniCredit Group at the time of payment.

Any remuneration that a worker can get in any year pursuant to the System are subject to the Clawback application in compliance with legislation in force, including payment of remunerations effected on a basis later proved to be incorrect.

Executive managers are required to undertake not to use personal hedging strategies on remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Involvement in any form of hedging transaction shall be considered as 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 (2017) is spread out over a multiple-year period:

<u>Executive Vice-Presidents and Senior Positions</u>
– The first part (2018) 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 (2019) is payable in cash and comprises 10% of the bonus established for the given period.
- The third 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 fourth 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 fifth part (2022) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The sixth part (2023) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2019-2023, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Senior Vice-Presidents & Other Identified Staff
- The first part (2018) 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 (2019) is payable in cash and comprises 10% of the bonus established for the given period.
- The third 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 fourth part (2021) 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 2019-2022, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Local Incentive System
- The first part (2018) is payable in cash and comprises 40% of the bonus established for the given period.
- The second part (2019) 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 (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 third year, which confirms, reduces or entirely cancels the entitlement to payment of the third portion of the bonus.
- The fourth part (2021) 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 completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

The Remuneration Committee approves the fulfilment of the payment conditions in each year and the release of the deferred bonus payment on the bases of a proposal from UniCredit Group's Board of Directors.

Benefits of the Bank's executive managers

Benefits are defined in accordance with the priorities of UniCredit Group's human resources strategy and the classification of the manager's position into a pre-defined employee benefits category.
- The following benefits are provided to executive managers by virtue of their Agreement on 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 Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board, who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code, and by two foreign members 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 Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.
In 2017, the aforementioned fixed contractual remuneration was agreed with three members of the Audit Committee, and the total amount thereof is stated in the remuneration summary.

15. Information on remuneration to auditors recognised in the reporting period

(CZK thousand)	Bank	Consolidated companies	Total consol. group
Audit	24 893	8 406	33 299
Tax advisory	–	–	–
Other advisory services	–	–	–
Total	**24 893**	**8 406**	**33 299**

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
64 751 564		**12 449 996**		**5 206 036**	**82 407 596**
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
3 345 179		**0**		**0**	**3 345 179**

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
788 940		**0**		**0**	**788 940**

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
104 894 749		**4 177 300**		**480 432**	**109 552 481**

Note: The mentioned data contain amounts actually paid during 2017, as compared to the financial statements, which contain information on costs concerning 2017.

17. Major future investments other than financial investments (planned for 2018)

Other investments, excl. financial investments, for 2018 are planned in the amount of CZK 2.637 billion, of which CZK 2 billion is the purchase of assets for rent for UniCredit Leasing and CZK 74 million is the investment in renting real estate to third parties (rented buildings). Investments in IT (HW and SW) will amount to CZK 486 million and they are intended to adjust the existing information systems of the Bank, to upgrade the digital sales platform and internet banking, as well as to satisfy various local and Group requirements. It is only part of total IT investment because IT services on the part of the Bank are primarily supplied on an outsourcing basis and recognised in operating costs. Investments in the fixed capital are focused mainly on the development and renovation of the distribution network.

18. Guarantees provided by the insurer

(CZK thousand)	31 Dec 2017	31 Dec 2016
Granted guarantees and collaterals	38 690 054	39 981 670
Guarantees granted under L/Cs	1 124 273	1 517 788
Total	**39 814 327**	**41 499 458**

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 in the UniCredit Czech Republic and Slovakia Group. including the risks connected with these processes. Controls with varying periodicity have been set up in order to eliminate these risks. All processes are evaluated and updated twice a year, and the controls set up to eliminate the described risks are inspected.

The goal of the aforementioned effort was to establish corresponding internal controls that guarantee the accuracy of the financial reporting, achieve broader awareness of the risks connected with creating financial reports and keep these risks under control and at an acceptable level. The entire process is in accordance with the 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. Information on regulated markets and 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 (please see a summary overview 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.

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 2017.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
HZL HVB 5.00/25	CZ0002000680	23 November 2005	15 November 2025	23 November 2005	–
UCB HZL 10Y FLOAT/37	CZ0002001910	21 December 2007	21 December 2037	21 December 2007	Aa3
UCB HZL 6.00/18	CZ0002002520	27 April 2012	27 April 2018	7 May 2012	Aa3
UCB HZL 2.00/2020	CZ0002003080	3 June 2013	3 June 2020	19 August 2013	Aa3
UCB HZL 3.04/2028	CZ0002003114	7 June 2013	7 June 2028	19 August 2013	Aa3
UCB HZL 6M VAR/2020	CZ0002003148	18 July 2013	18 July 2020	26 August 2013	–
UCB HZL EUR 2.00/18	CZ0002003262	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 2017.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 1.875/18	XS1002162136	13 December 2013	13 December 2018	13 December 2013	Aa3
UCB HZL 3M FLOAT/23	XS1206759406	20 March 2015	15 September 2023	20 March 2015	Aa3
UCB HZL 3M FLOAT/21	XS1206761139	20 March 2015	16 March 2021	20 March 2015	Aa3
UCB HZL 0.625/20	XS1225180949	30 April 2015	30 April 2020	30 April 2015	Aa3
UCB HZL 0.75/22	XS1559750671	3 February 2017	3 February 2022	3 February 2017	Aa3
UCB HZL II 0.75/22	XS1643471250	11 July 2017	11 July 2022	11 July 2017	Aa3
UCB HZL II 0.75/22 TAP*	XS1732340747	7 December 2017	11 July 2022	7 December 2017	Aa3

*Temporary ISIN, which was merged with XS1643471250 as at 16 January 2018.

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 2017.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UUCBSK10H	SK4120009051	27 March 2013	27 March 2018	6 March 2013	–
UCBSK11H	SK4120009598	20 November 2013	20 November 2018	2 December 2013	–
UCB HZL 3M floater 2018	SK4120009903	31 March 2014	28 March 2018	10 November 2014	–
UCB HZL 1.55/2021	SK4120010208	28 August 2014	30 August 2021	22 December 2014	–
UCB HZL 1.20/2022 (UCBHZL14H)	SK4120010752	25 May 2015	25 May 2022	20 January 2016	Aa3
UCB HZL EUR 1.40/2024	SK4120011131	15 October 2015	15 October 2024	20 January 2016	–
UCB HZL EUR 1.80/2025	SK4120011123	15 October 2015	15 October 2025	20 January 2016	–
UCB HZL EUR 3M floater 2018	SK4120011248	26 November 2015	26 November 2018	20 January 2016	–
UCB HZL EUR 6M floater 2020	SK4120011313	17 December 2015	17 December 2020	20 January 2016	Aa3
UCB HZL EUR 0.65/2021	SK4120011305	10 December 2015	10 December 2021	20 January 2016	Aa3

22. Non-Financial Information

UniCredit Bank Czech Republic and Slovakia, a.s. uses the exemption under Section 32g(7) of the Act on Accounting and the non-financial information is published by parent company UniCredit SpA.
UniCredit SpA published non-financial information for 2017 in English at https://www.unicreditgroup.eu/en/a-sustainable-bank/sustainability-reporting.html.

A report on relations

between controlling and controlled entity and on relations between controlled entities and other entities controlled by the same controlling entity

Pursuant to Article 82 et seq. of Act No. 90/2012 Coll. on Commercial Corporations, the Board of Directors of **UniCredit Bank Czech Republic and Slovakia, a.s.** having its registered office at Prague 4, Želetavská 1525/1, 140 92, Reg. No. 64948242, registered in the Commercial Register maintained by the Prague Metropolitan Court, Section B, Insertion 3608 (" UniCredit Bank"), for the **period from 1. 1. 2017 to 31. 12. 2017** (hereinafter referred to as the "Period") prepared a report on relations.

1. Structure of Relations between UniCredit Bank and the Controlling entity and entities Controlled by the same Controlling entity

Over this period, UniCredit Bank was directly controlled by **UniCredit, S.p.A.** having its registered office at Piazza Gae Aulenti 3 – Tower A – 20154 Milan, Italy (until 12 December 2017 having its registered office at Via Alessandro Specchi 16, 00186 Roma, Italy.)
UniCredit Bank itself controlled during the period the companies **UniCredit Leasing CZ, a.s.,** Reg. No. 15886492, Želetavská 1525/1, 140 10 Prague 4**, UniCredit Factoring Czech Republic and Slovakia, a.s.** Reg. No.: 15272028, Želetavská 1525/1, Michle, 140 00 Prague 4. **UniCredit Leasing CZ, a.s.** during the period, was the sole shareholder of the following companies: **UniCredit Leasing Slovakia, a.s.,** Reg. No.: 35730978, Šancová 1/A, 814 99 Bratislava, **UniCredit Fleet Management, s.r.o.,** Reg. No.: 62582836, Želetavská 1525/1, Michle, 140 00 Prague 4, **UniCredit pojišťovací makléřská spol. s r.o., Reg. No.:** 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4, **HVB Leasing Czech Republic s.r.o.**, Reg. No.: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4 (until 13 February 2016), **CA-Leasing EURO, s.r.o.**, Reg. No.: 49617044, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, Reg. No.:25751841, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing OVUS s.r.o.**, Reg. No.: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing, s.r.o.**, Reg. No.: 25708376, Prague 4 – Michle, Želetavská 1525/1, 140 10
UniCredit Leasing Slovakia, a.s. is the sole shareholder of the following companies: **UniCredit Leasing Insurance Services, s. r. o.,** Reg. No.: 47926481, Šancová 1/A, Bratislava 814 99, **UniCredit Broker, s. r. o.**, Reg. No.: 35800348, Šancová 1/A, Bratislava 814 11 a **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35820381, Šancová 1/A, Bratislava 814 99.
On 3 July 2017, the Amundi Group completed the acquisition of the Pioneer Investments Group. As of this day, the companies of the Pioneer Investment Group ceased to be controlled by the same entity as UniCredit Bank and therefore this Report on Relations only reflects on the relations of UniCredit Bank with these entities only within the period until this date.
On 7 June 2017, the UniCredit Group completed the sale of its share in Bank Pekao SA (Bank Polska Kasa Opieki Spółka Akcyjna). This Report on Relations only reflects on the relations of UniCredit Bank with this company and its subsidiaries only within the period until this date.
The structure of the UniCredit Group is described in detail in Annex No. 1 of this Report.

2. UniCredit Bank's Role within UniCredit Group:

The Czech and the Slovak Republics are among 3 key markets the UniCredit Group intends to develop in the long term within the CEE division. The merged entity UniCredit Bank is the second largest bank within the CEE region in terms of the volume of assets and generated profits (data from 2016).
UniCredit Bank performs the role of a universal bank in Slovak and Czech markets; within the CEE region it often has a role of product innovator. UniCredit Bank supports group-wide solutions in the area of products, processes or sales channels, which piloted within different countries and in case they are confirmed as successful, they are later implemented in other UniCredit banks in the Central and Eastern Europe divisions. UniCredit Bank is very active in this area.
In the area of standard banking activities, in addition to the contracts provided below, the controlled entity concluded with the controlling entity and with related parties, interbank, derivative and other banking transactions, and these entities cooperated in the issue of bonds, and also entered into client operations (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of controlled entities is backed by bank guarantees provided by UniCredit S.p.A., UniCredit Bank Austria AG and UniCredit Bank AG.
Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

3. Method and Means of Control

The general meeting is the supreme body of UniCredit Bank. UniCredit Bank S.p.A. manifests its will through exercising the authority of the general meeting through by sole shareholder's resolutions acting in capacity of the General Meeting.
According to UniCredit Bank Articles of Association, also the election of Supervisory Board members falls within the competence of the general meeting. The Supervisory Board monitors the conduct of Bank business and the exercise of Board of Directors responsibilities. The Supervisory Board also elects and removes the members of the Board of Directors and recommends candidates for the Chairman and Vice-Chairman of the Board of Directors. However, the members of the Board of Directors are not bound by such a recommendation in their election.
The controlling entity has its representatives both in the Bank Supervisory Board and in the Board of Directors.
UniCredit Bank as a member of the UniCredit Group must, subject to relevant legal regulations, perform the regulations issued by UniCredit S.p.A (the "Holding Company")within the Bank and all companies controlled by it through its directives (the "Directives of the Holding"). The Directives of the Holding means rules defining the management,

the organisation chart and responsibilities of the managers within key processes in the UniCredit Group, which are issued in the exercise of Holding Company's powers in the area of supervision of the UniCredit Group and coordination of the UniCredit Group, all this according to instructions issued by Italian supervisory body in order to maintain the stability of the UniCredit Group.

UniCredit Bank performs its influence on its subsidiary companies through the exercise of its shareholder rights and also through its representatives in the bodies of some of these companies, in particular in their supervisory boards.

4. An overview of mutual contracts between UniCredit Bank and the controlling entity or between controlled entities

4.1. Between UniCredit Bank and **UniCredit S.p.A.,** Piazza Gae Aulenti 3, Tower A – 20154 Milan, Italy:

Contract name	Subject-matter of contract	Contract concluded on
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 set-off of payables and receivables from interbank deposits in the event of default.	22.9.2016
Agreement for SPPI/BT Test CEE Banks	Agreement covering the calculation of SPPI/Benchmark test for the loans within IFRS 9	26.7.2017

4.2. Between UniCredit Bank 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	storage, management and settlement of securities	1.8.1997
Brokerage Agreement	Securities trading	2.1.2002
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	24.5.2012
Consultancy Service Agreement	Learning and Development Consultancy Services in the area of special professional skills, soft skills training and development and talent management	2012
Service Level Agreement	Management and assessment of risks Netting Agreements	5.9.2008
Risk Sharing Instrument (RSI) Guarantee Agreement	Tripartite agreement with the European Investment Fund for the provision of guarantees within the RSI programme (Risk Sharing Instrument)	24.6.2014
Agreement Funds Advisory	Purchase and sale of fund units through the platform UC Bank Austria	25.3.2005
Swapclear Dealer Clearing Agreement	Contract for settlement of swap transactions with central counterparties	7.7.2014
Subcustody Agreement	Management and custody of foreign securities	10.11.2014
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic	27.2.2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	16.7.2015
Intercreditor Agreement	Setting of relations between creditors with respect to a syndicated loan extended	11.12.2015
Mandate Agreement	Tripartite agreement with CYRRUS CORPORATE FINANCE, Inc. regarding activities related to the squeeze-out	25.5.2016
Agreement for Fair Value	Calculation of the fair value and fair value hierarchy	25.1.2017

4.3. Between UniCredit Bank and **UniCredit Bank AG**, 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
SLA Sophis „Risque" Sub-Licensing Agreement	Support for the use of SW Murex and Sophis Risque (for OTC derivatives)	16.9.2016

4.4. Between UniCredit Bank, **Unicredit S.p.A** and **UniCredit Bank Austria AG:**

Contract name	Subject-matter of contract	Contract concluded on
Agreement for Data Flow and Reporting	Agreement for Data Flow and Reporting in connection with the reorganization of the Group	30.9.2016

4.5. Between UniCredit Bank, **Unicredit S.p.A**, **UniCredit Bank AG** and **UniCredit Bank Austria AG**

Contract name	Subject-matter of contract	Contract concluded on
UniCredit Group – Master Cost Sharing Agreement	Cost allocation for seconded employees	19.5.2010

4.6. Between UniCredit Bank and **UniCredit 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
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 services Operations and Back Office	Outsourcing contract regarding the Czech part of the Bank – providing back office services in the payment system area, account management, treasury, card processing – new contract According to The Group outsourcing rules (services according to the original contracts of 5.11.2007)	1.12.2017
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
Contract for outsourcing and provision of services Operations and Back Office	Outsourcing contract regarding the Slovak branch – providing back office services in the payment system area, account management, treasury, card processing – new contract according to the Group outsourcing rules (the services remain unchanged)	1.12.2017
Non-residential Lease Agreement dated 20.5.2014	Lease of non-residential premises in Zvolen (from 1.4.2014)	20.5.2014
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

Contract name	Subject-matter of contract	Contract concluded on
Project contract for the project "CZ-BACS Replacement"	Contract for SK	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
Non-residential Premises Lease Agreement	Lease of commercial space at Svätoplukova St. in Bratislava	01.08.2016
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
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement)	1.12.2017
Confidentiality Agreement	Confidentiality Agreement	1.11.2017
Sub-annex Integration Project	Sub-annex Integration Project to Agreement for Outsourcing of the Information System and for Provision of IT services. Service description for years (2014–2018)	31.3.2017
MIFID2&MIFIR Market Stream Core and Local CZ/SK	Project Contract – Project for Sale	31.1.2017
MIFID 2 – CZ-SK Local Developments	Project Contract – Project for Sale	30.1.2017
PSD2 – Open banking solution	Project Contract – Project for Sale	13.11.2017
Not Dealing Directors into EzY Core SIRON	Project Contract – Project for Sale	15.11.2017
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement) (Bank SK)	1.12.2017
Not Dealing Directors into EzY Core SIRON	Not Dealing Directors into EzY Core SIRON (Bank SK)	15.11.2017

4.7. Between UniCredit Bank a **UniCredit Leasing CZ, a.s.**, Reg. No.: 15886492, 14010 Prague 4 – Michle, Želetavská 1525/1:

Contract name	Subject-matter of contract	Contract concluded on
Contract on lease of premises for business purposes	Lease of premises in the building no. 28, Široká 5, Liberec	28.7.2015
Contract on sub-lease of non-residential premises incl. supplements	Sublease of premises in the building no. 1176-1177, Dr. Davida Bechera 26, Karlovy Vary	23.3.2010
Contract for Lease of Security Equipment and Camera System	Lease of system owned by Bank installed on leased premises of UniCredit Leasing CZ, a.s.	1.4.2012
Agency Contract	Sharing of the provision of services of Bank suppliers	2.4.2012
Sublease contract	Sublease of parking spaces in building no. 1525, Želetavská 1, Prague 4	13.3.2013
Non-residential Lease Agreement	Lease of premises in the building no. 545, Divadelní 2, Brno	30.5.2013
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	3.6.2013
Contract for Search for Prospective Clients	Contract for mediation of consumer loans for UCB	1.3.2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 3348, 28. října 65, Ostrava	1.3.2014
Contract for the Provision of Services and Contract of Mandate	UCL CZ outsourced certain its activities into the Bank	6.8.2014
Contract for Processing of Personal Data	Processing of personal data of UCL CZ by the Bank with respect to outsourcing	6.8.2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. Sublease of commercial space at 457, 28.října 15, Olomouc	29.3.2016
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 36, Revoluční 2, Chomutov	24.1.2017

4.8. Between UniCredit Bank and **UniCredit Factoring Czech Republic and Slovakia**, Reg. No.: 152 72 028, 14000 Prague 4 – Michle, Želetavská 1525/1:

Contract name	Subject-matter of contract	Contract concluded on
Contract for Loan and Other Banking Services Provided in the Form of Multi-Purpose Line	Banking services	25.6.2010
General Contract for Trading in Financial Market	Trading in financial market	21.1.2015
Contract for Exchange of Parking Places	Mutual exchange of parking spaces in building Filadelfie, Želetavská 1525/1, Prague 4	4.6.2015
Contract for the Provision of Services and Contract of Mandate	Provision of banking services	4.1.2016
Agreement on Mutual brokerage business cases	Mutual brokerage of business cases	4.1.2016
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	21.1.2016
Risk participation contract (participation contract)	Participation in the risk of receivable non-payment	29.3.2017

4.9. Between UniCredit Bank and **UCTAM Czech Republic s.r.o.**, Reg. No.: 24275671, 11000 Prague 1 – Nové Město, Náměstí Republiky 2090/3a:

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement	Lease of premises in the building no. 2090, náměstí Republiky 3a, Prague 1	12.6.2013 (terminated as of 29.3.2016)
Sublease contract	Sublease of premises for business purposes in building no. 2090, náměstí Republiky 3a, Prague 1	22.3.2016

4.10. Between UniCredit Bank and **UniCredit Leasing Slovakia, a.s.**, Reg. No.: 35 730 978, Šancová 1/A, 814 16 Bratislava, Slovak Republic:

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Sublease Agreement No. 173/3563/2011	Lease of non-residential premises in Prešov at Hlavná ulica – terminated by agreement on 25.10.2017 (as of 31.10.2017)	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
Agreement on Lease of Commercial Space	Lease of Commercial Space Svätoplukova St. v Bratislava	01.08.2016
Non-residential Lease Agreement	Lease of non-residential premises in Štefánikova St. in Trnava	15.01.2017
Non-residential Lease Agreement	Lease of non-residential premises in Železničná St. in Lučenec	15.01.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Hlavná St. In Dunajská Streda	15.01.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Majzonovo nám. in Nové Zámky	15.01.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Nám. s. Anny in Trenčín	15.01.2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Garbiarska St. in Liptovský Mikuláš	15.01.2017
Non-residential Lease Agreement	Lease of non-residential premises in Prešov in Hlavna Street (from 1.11.2017)	25.10.2017

4.11. Between UniCredit Bank 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 Management of Securities	Custody and management of securities	16.1.2007
Agency Contract for Securities Settlement	Securities settlement	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 of premises for business purposes in building no. 2090, náměstí Republiky 3a, Prague 1	22.3.2016

4.12. Between UniCredit Bank 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
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 UniCredit Bank 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 promotionof 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 UniCredit Bank 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 UniCredit Bank and **Pioneer Global Funds Distributor, Ltd.** and **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 UniCredit Bank and **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 mutual funds 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 mutual funds Pioneer Alternative Investments based in Ireland and in Bermuda through the Bank	15.2.2007

4.17. Between UniCredit Bank, **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 UniCredit Bank, **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 UniCredit Bank and **UniCredit Bank Hungary Zrt.**, Szabadság tér 5–6, Budapest, 1054, Hungary:

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	9.1.1999
Subcustody Agreement	Management and custody of securities (a branch in Slovakia)	23.1.2003
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	23.5.2007
Subcustody Agreement	Management and custody of foreign securities	21.12.2007

4.20. Between UniCredit Bank 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 UniCredit Bank and **BANK POLSKA KASA OPIEKI S. A.**, Warsaw, Grzybowska 53/57, Poland:

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	15.11.2007

4.22. Between UniCredit Bank 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 UniCredit Bank and **UniCredit banka Slovenija d.d.**, Šmartinska cesta 140, 1000 Ljubljana, Slovenia:

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of foreign securities	10.11.2014

4.24. Between UniCredit Bank and **UniCredit Broker, s.r.o.**, Reg. No.: 35 800 348, Šancová 1/A, 814 11 Bratislava:

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Mediation of clients	1.1.2011

4.25. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 62582836, 14010 Prague 4 – Michle, Želetavská 1525/1:

Contract name	Subject-matter of contract	Contract concluded on
General Contract for Hire of Vehicles	Specification of general conditions for making individual Lease agreement and Agreement to Amend SLA	4.3.2013
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 266 cars	Contracts valid in 2017

4.26. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35 820 381, Plynárenská 7/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
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 97 cars	Contracts valid in 2017

4.27. Between UniCredit Bank and **UniCredit Bank SA**, Sediul Central Bd., Expozitiei Nr.1F, Sect 1, Bucharest, 012101, Romania:

Contract name	Subject-matter of contract	Contract concluded on
Service Agreement	Temporary advisory actions and support in banking services related to CEE 2020 Trade Finance Back and Project	26.1.2015
Risk participation agreement	participation in the loan to a client in Romania	25.4.2017

4.28. Between UniCredit Bank and **Schoellerbank AG**, Renngasse 3, Vienna, Austria:

Contract name	Subject-matter of contract	Contract concluded on
Cooperation agreement	Offer and mediation of services of Schoellerbank through UniCredit Bank	23.11.2012

4.29. Between UniCredit Bank and **Diners Club CS, s.r.o., organizační složka** (a branch), Reg. No.: 24768669 11000 Prague 1, Široká 36/5:

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 UniCredit Bank 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 UniCredit Bank a **UniCredit Bank AG, London Branch**, London, 120 London wall, United Kingdom:

Contract name	Subject-matter of contract	Contract concluded on
Fee Split Agreement	Consulting services related to M & A / ECM consulting services for specific clients to specific acquisition related to the Czech Republic	11.8.2016

4.32. Between UniCredit Bank a **UNICREDIT BULBANK AD** Sofia, 7 Sveta Nedelya Sq, Bulgaria:

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	25.11.2015

4.33. In addition to the above stated contracts, in the last financial year, also other contracts were effective between UniCredit Bank and some other companies of the Group, which, however, are subject to the obligation of banking secrecy. These contracts relate to interbank, derivative and other banking transactions. UniCredit Bank cooperated with such companies in the issue of bonds, and also entered into client banking transactions (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of UniCredit Bank is backed by bank guarantees provided by UniCredit Bank Austria AG and UniCredit Bank AG. Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

5. Acts occurring in the last financial year, which were made on the initiative of or in the interest of the controlling entity or its controlled entities, if such acts related to assets exceeding 10% of equity of the controlled entity ascertained according to the most recent financial statements,

The limit of 10% of UniCredit Bank equity, according to the financial statements at the end of 2016, was 63.535 mil. CZK, exceeded in 2017 the funding provided by UniCredit Bank to UniCredit Leasing CZ, a.s. and to its subsidiaries. The funding was provided on standard market conditions.

In the course of 2017, the controlling entity and/or its controlled entities deposited amounts on its accounts kept at UniCredit Bank exceeding 10% of UniCredit Bank equity. The deposits were provided on conditions which are standard in the interbank market for the relevant currency and maturity.

6. Evaluation of whether any loss was caused to the controlled entity, and assessment of the compensation pursuant to Articles 71 and 72 of Act on Commercial Corporations

The UniCredit Bank Board of Directors declares that no loss was caused to UniCredit Bank Czech Republic and Slovakia, a.s. under the concluded contracts and arrangements.

7. Evaluation of advantages and disadvantages arising from relationships between entities under paragraph 82 par. 1 of Act on Commercial Corporations

Advantages of integration of UniCredit Bank into the structure of the UniCredit Group:

– A brand known internationally and reputational benefit resulting from the integration of the UniCredit Group into SIFI (Systemically Important Financial Institution).
– Sharing of IT infrastructure, development, maintenance within the UniCredit Group and resulting economies of scale in the following areas:
– Sharing of know-how of a major European bank and one of the most active and most significant banks in Central and Eastern Europe in the commercial area, i.e. in the development of products, introduction of business innovations and management of sales network.
– Possible involvement in growth initiatives of the UniCredit Group, e.g., Transform 2019, providing UniCredit Bank with support and know-how in the area of development of a strong position of a universal bank in the Czech and Slovak markets.
– Human Resources Development associated with sharing the UniCredit Group‘s experience in European markets, possible for employees to gain practical experience in other banks or Holding‘s

management structures, career opportunities within the UniCredit Group.
– Possible to apply, in local conditions, the Sponsoring and Marketing of the UniCredit Group on the European level (e.g., sponsoring of UEFA Champions League and of UEFA European League).
– Participation of UniCredit Bank in a sophisticated system of services for international clients through International desk / International clients Units in relevant countries, and mutual cooperation of these Units in handling and dealing with the needs of international clients.

We can include the following in possible disadvantages of integration of UniCredit Bank into the structure of the UniCredit Group:
– A comprehensive organisational structure of a transnational banking group.
– Possible mutual influence from other countries, mainly in the area of reputation and perception of the UniCredit brand (Cross-border sentiment).

When assessing a total influence of the integration of UniCredit Bank into the UniCredit Group, the advantages resulting from this position significantly outweigh the disadvantages. The Bank prevents actively the possible above stated disadvantages both in the form of operational measures in local management of UniCredit Bank and communication, and by building a strong 'brand' on the local level.

In Prague, on 27 March 2018

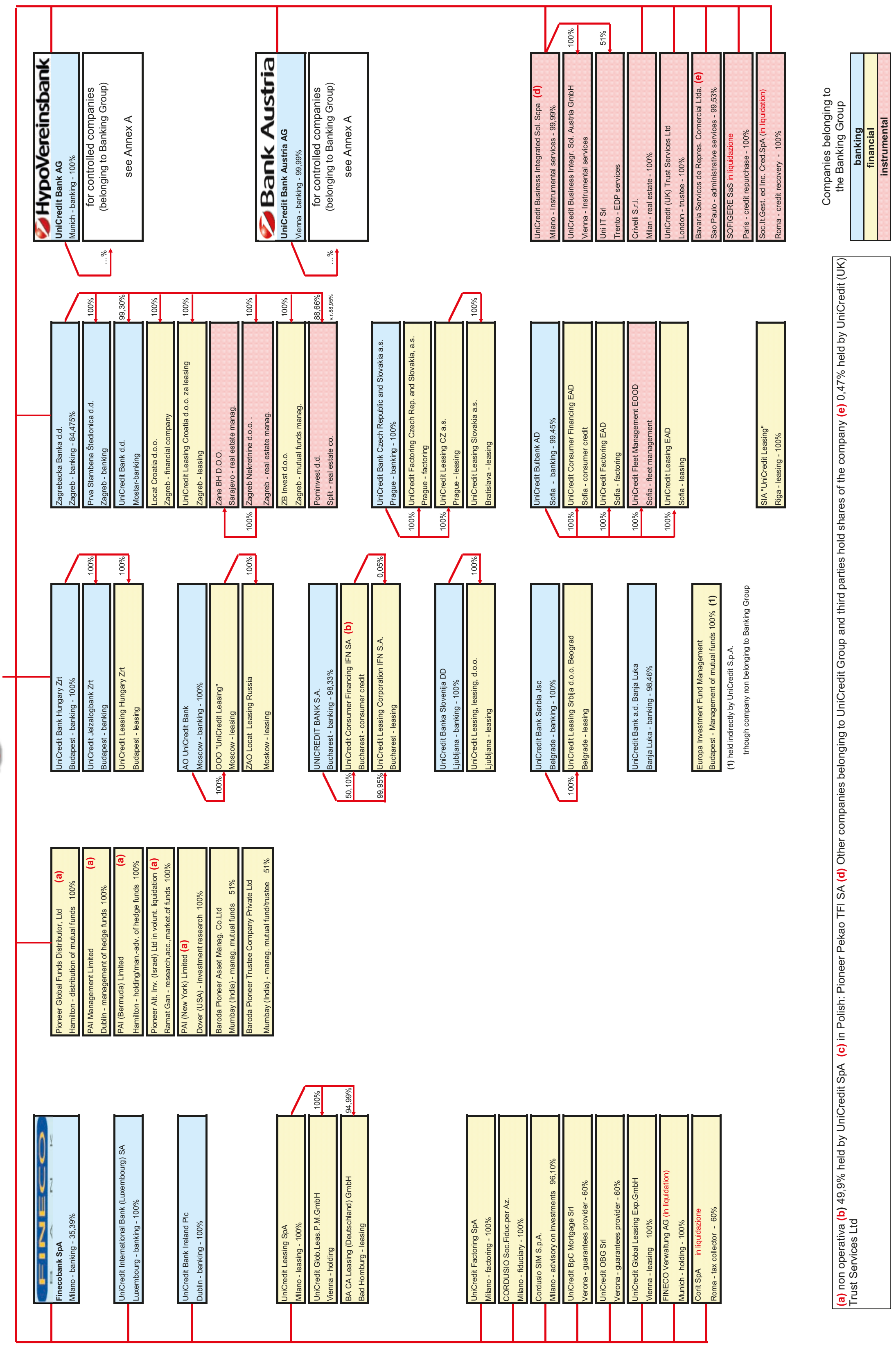
On behalf of the Board of Directors of
UniCredit Bank Czech Republic and Slovakia, a.s.

Ing. Jiří Kunert
Chairman of the Management Board

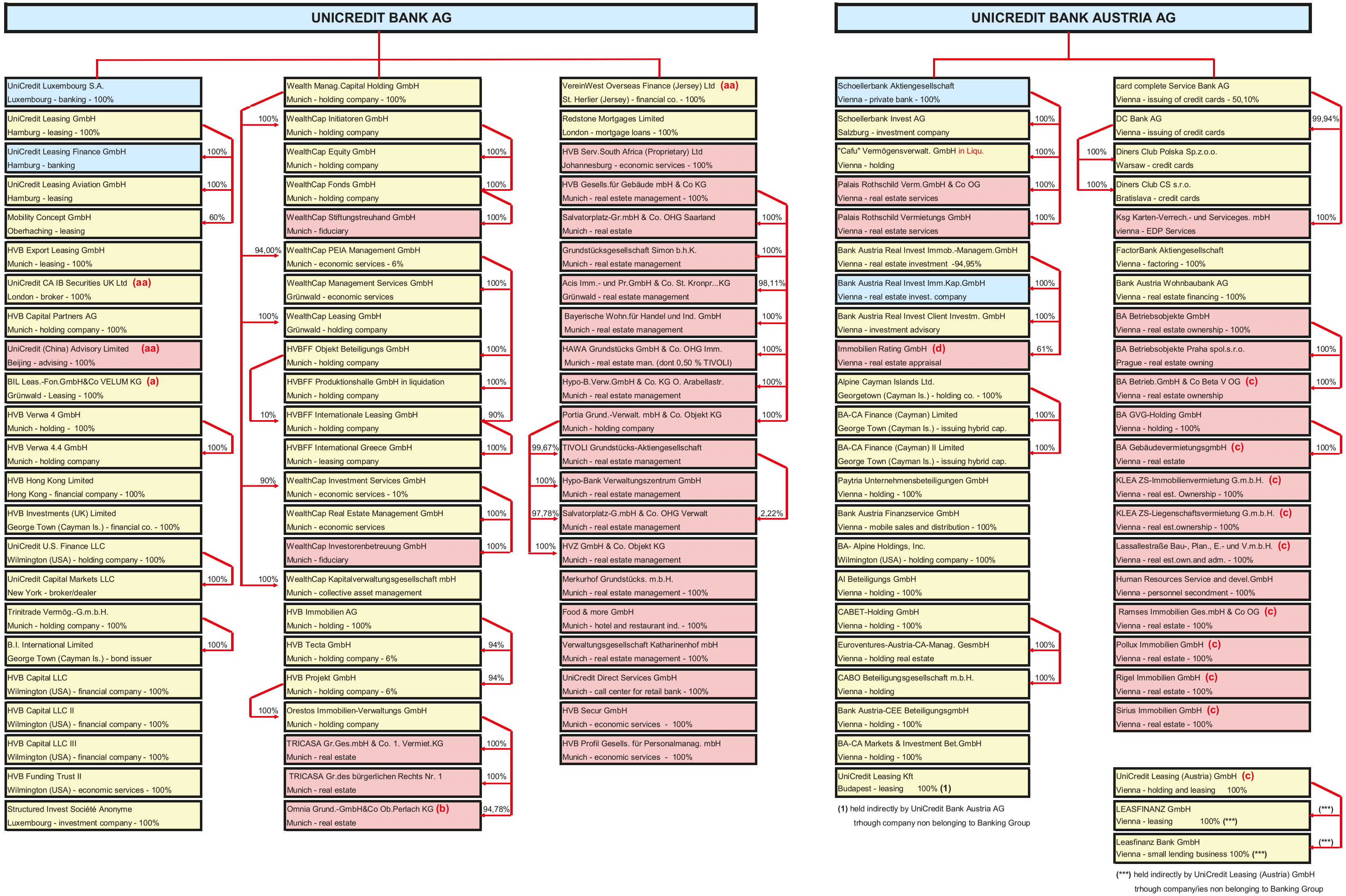
Ljubisa Tesić
Member of the Management Board

Annexes:
1. Organisation Chart of the UniCredit Group

Structure of UniCredit Group



(a) non operativa (b) 49,9% held by UniCredit SpA (c) in Polish: Pioneer Pekao TFI SA (d) Other companies belonging to UniCredit Group and third parties hold shares of the company (e) 0,47% held by UniCredit (UK) Trust Services Ltd



(a) voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (b) 5,22% held by WealthCap Leasing GmbH (c) % considering shares held by other Companies controlled by BA
(d) 19% held by BA and 19% held by UniCredit Leasing (Austria) GmbH

(aa) under liquidation process

Companies belonging to the Banking Group

banking
financial
instrumental

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

List of Branches

Czech Republic

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EXPRES NYMBURK
Palackého Tř. 2553
288 02 Nymburk

EXPRES DOBŘICHOVICE
5. května 348
252 29 Dobřichovice

EXPRES DVŮR KRÁLOVÉ N. L.
Revoluční 79
544 01 Dvůr Králové n. Labem

EXPRES LOUNY
Osvoboditelů 2649
440 01 Louny

EXPRES SLANÝ
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274 01 Slaný

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Petra Jilemnického 15/4
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695 01 Hodonín

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Jungmannova 1310/10
697 01 Kyjov

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Karlovo náměstí 24
413 01 Roudnice nad Labem

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278 01 Kralupy nad Vltavou – Lobeček

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755 01 Vsetín

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T.G.Masaryka 153
342 01 Sušice

EXPRES VRCHLABÍ
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543 01 Vrchlabí

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Plukovníka B. Petroviče 219
263 01 Dobříš

EXPRES LITVÍNOV
nám. Míru 186
436 01 Litvínov

EXPRES LOVOSICE
Osvoboditelů 1228
410 02 Lovosice

EXPRES SVITAVY
Náměstí Míru 133/70
568 02 Svitavy

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789 01 Zábřeh na Moravě

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688 01 Uherský Brod

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535 01 Přelouč

EXPRES JIČÍN
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506 01 Jičín

EXPRES HOLEŠOV
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269 01 Rakovník

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Nádražní 207
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193 00 Horní Počernice

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549 01 Nové Město nad Metují

PBS PŘÍBRAM
Náměstí T.G.Masaryka 157
261 01 Příbram

PBS UHŘÍNĚVES
Nové náměstí 11
104 00 Praha 22 Uhříněves

PBS IVANČICE
Palackého náměstí 187/20
664 91 Ivančice

PBS SEMILY
Tyršova 27
513 01 Semily

PBS BRNO BYSTRC
Kubíčkova 6
635 00 Brno Bystrc

PBS PARDUBICE
17. Listopadu 360
530 02 Pardubice

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Viléma Závady 3679
738 01 Frýdek Místek

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Masarykovo náměstí 53
593 01 Bystřice nad Pernštejnem

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Obroková 271/5
669 02 Znojmo

PBS HLUČÍN
Pode Zdí 156/23
748 01 Hlučín

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Budějovická 1155
252 42 Jesenice

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Dolní náměstí 25
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PBS UHERSKÉ HRADIŠTĚ
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PBS BŘECLAV
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PBS PROSTĚJOV
Poděbradovo náměstí 1590/1
796 01 Prostějov

PBS BEROUN
Havlíčkova 110
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PBS PÍSEK
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397 01 Písek

PBS KOPŘIVNICE
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PBS LIBEREC
Lípová 665
460 01 Liberec

PBS PRAHA – SOKOLOVSKÁ
Sokolovská 979/209
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Dolní náměstí 171/17
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