# One Bank, One UniCredit.

2018

Annual Report

Banking that matters. | UniCredit Bank

# One Bank, One UniCredit.

Our strategy is clear and long-term. We are transforming the Group to build the bank of tomorrow for our extensive client franchise. Everything we do is designed to make UniCredit a true pan-European winner.

# Chairman's message

"Thanks to the support of both our shareholders and stakeholders, I am confident that UniCredit will meet its goals ensuring sustainable profitability and an ever increasing high level of service."

**Fabrizio Saccomanni**
Chairman

# Dear Shareholders,

I have greatly enjoyed my first year as chairman of UniCredit. Over the course of 2018, there have been many opportunities to admire the group's incredible potential, thanks to the unique European positioning and high levels of professional and personal excellence of everyone in the group.

The financial community shares this positive view. The solidity of our governance system, which guarantees the quality and integrity of our decision-making processes, is widely recognised. UniCredit will continue to invest in ensuring transparency and in maintaining an open dialogue with all of our stakeholders.

The past year has also confirmed the increasing challenges that our sector faces. Firstly, a more complex macroeconomic context. Secondly, a continuously evolving regulatory environment. Last, but not least, growing competitive pressures, mainly from digitalisation. These trends are driving transformation in banking business models.

The UniCredit board of directors, who I represent, is very focused on these topics. Renewed in April, they bring diverse professional experiences, including vast economic and financial knowledge at both national and international levels. Their active involvement, through new insights and ideas, allow our excellent management team, expertly led by our CEO, Jean Pierre Mustier, to keep making UniCredit a successful pan-European bank.

Our results demonstrate that we have made the right choices. Where necessary, the group has taken decisive actions, especially related to non-recurring events, without compromising on stability. We are optimistic for the future.

Progress on our strategic plan is ahead of schedule. We are protecting the bank's capital position and have accelerated the de-risking process, which will allow us to complete the rundown of non-performing legacies in three years. We have achieved important results on efficiency, risk management, process simplification and the digitisation of services we provide to customers – all through significant investments.

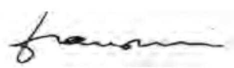
To continue our progress in the transformation of the bank, we will leverage on the new transformation & innovation advisory board, which gives us access to thought leaders in technology and innovation. This team will regularly debrief the UniCredit board of directors.

Looking to 2019, we will continue to support the "real economy" in the countries in which we operate. As a simple, successful pan-European commercial bank, UniCredit is dedicated to supporting customers, contributing to Europe's economic and social development. For example, we will remain focused on supporting the growth of SMEs, the backbone of the European economy, and our social banking initiatives.

UniCredit is characterised by solidity, credibility and a clear outlook on our future, distinguishing the group in a challenging competitive landscape. Thanks to the support of both our shareholders and stakeholders, I am confident that UniCredit will meet its goals, ensuring sustainable profitability and an ever increasing high level of service.

Sincerely,

**Fabrizio Saccomanni**
Chairman
UniCredit S.p.A.



# Chief Executive Officer's message

“We are focused on sustainable business growth, based on ethics and respect, to ensure UniCredit remains a pan-European winner.”

**Jean Pierre Mustier**
Chief Executive Officer

# Dear Shareholders,

Thank you for your valuable, ongoing support. We have closed a second, successful year of our Transform 2019 strategic plan. UniCredit is a solid bank with strong capital ratios and an unstinting focus on value creation for all of its stakeholders through innovative commercial actions, digital transformation, enhanced risk management, transparent corporate governance and key social impact banking initiatives – based on ethics and respect. For us this means doing the right thing.

As the banking industry continues to evolve, UniCredit will stay focused on "what matters" – the changing needs of our customers – to protect the value of our business and ensure sustainability.

Our strategy is One Bank, One UniCredit: we are and will remain 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 and growing client franchise.

The combined energy, commitment and hard work of all UniCredit team members is what allows us to deliver tangible results. We confirm our Transform 2019 targets: net profit target of 4.7 billion Euro and a RoTE of above 9 per cent, with our Group Core RoTE above 10 per cent.

We will maintain a **strong capital position** by generating solid profits and ensure we have a comfortable MDA buffer. Our CET1 capital ratio is fully loaded and compliant with all regulatory requirements. The UniCredit Group fared well in the EBA stress test results, with one of the highest CET1 ratios compared to Eurozone peers.

In terms of **asset quality**, we have decisively continued to de-risk our balance sheet, completing the final phase of Project FINO. Our disciplined risk management strategy is ensuring improved asset quality as well as high quality origination across the Group. We are fully on track for the accelerated rundown of our Non Core portfolio, brought forward by four years to 2021.

We are leveraging on digitalisation to **transform our operating model**, with an improved cost reduction. We will continue to enhance the customer experience through simpler processes, ensuring greater efficiency and effectiveness.

We continue to **maximise commercial bank value** thanks to a renewed and dynamic focus on our clients, pursuing a multichannel strategy with best-in-class products and services. Our CIB is fully plugged into the Group's strong commercial banking and focused on supporting the real economy.

Finally, I extend a warm welcome to Fabrizio Saccomanni, our new Chairman. Fabrizio's significant experience in international monetary and financial cooperation, particularly in terms of supervisory and regulatory knowhow, brings great value to our Group.

Together we have started to actively prepare for the next strategic cycle. We will focus on the development of our business activities and the continued optimisation of our processes, while providing all colleagues with a best in class work environment and experience, to continue to attract the right people. This begins with an even more energised leadership team, and a changed leadership structure, that will bring this new strategy to fruition.

We will keep working hard to ensure that UniCredit remains a true pan-European winner.

Sincerely,

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

# Ethics and respect: Do the right thing!

UniCredit's Board and Senior Management consider that the way in which results are achieved is as important as the actual results. Therefore, the following Group Principles[1] should guide all employees' decisions and behaviors irrespective of seniority, responsibility and geographical area: **"Ethics and respect: Do the right thing!"**

Group Principles are designed to help all UniCredit employees, to guide their decision-making and their behaviours towards all stakeholders in their day to day activities.

In particular, such Principles require:
- compliance with the highest ethics standards - beyond banking regulation and beyond the law - in relationships with clients, colleagues, environment, shareholders and any other *stakeholders*;
- fostering a respectful, harmonious and productive workplace;

to best protect the Bank, its reputation and to be an employer and a counterparty of choice.

Group Principles underpin a set of core guidelines that further clarify expectations about the way to work as **One Team, One UniCredit** and support employees in the fulfillment of UniCredit *Five Fundamentals*. The spirit of each of these principles is extremely important and it will be the subject of more detailed policies that will be developed or updated in the coming months.

## Group principles in day to day activities

- **Ethics as a guiding principle of fairness and respect towards all stakeholders in order to achieve sustainable results.**
  UniCredit colleagues, irrespective of seniority, responsibility and geographical area, are expected to do the right thing in their daily activities and to be fair towards all stakeholders to gain and retain their trust.

- **"Ethics and respect" is a guiding principle which applies to all Group policies.**
  The "Ethics and respect" principle is based on a long term view of the Group business activities and relationships with stakeholders as well as a comprehensive view of the internal and external working environment. Business policies require care to ensure that responsible sales approach work in harmony with balanced, fair and respectful customer interactions, enabling the achievement of sustainable business success and long-term targets. Targets and other business results are not considered achieved if they are not met in compliance with the Group Principles, related policies and the requirements that flow from them.

- **"Ethics and respect" is a guiding principle for interactions amongst all Group employees.**
  UniCredit colleagues are expected to contribute in their daily activities toward creating and maintaining a work environment that is as respectful and harmonious as possible, eliminating intimidating, hostile, degrading, humiliating or offensive behaviors and words. UniCredit must contribute to assuring the respect for the rights, value and dignity of people and the environment. All forms of harassment, bullying and sexual misconduct are unacceptable.

- **“Ethics and respect” is a guiding principle for the promotion of diversity and work life balance which are considered valuable assets.**
  UniCredit colleagues are expected to assure a workplace where all kinds of diversity (e.g. age, race, nationality, political opinions, religion, gender, sexual orientation) are not only respected, but also proactively promoted as well as to contribute to an environment in which respect for, and attention to, colleagues’ needs, health, work-life balance and well being are deemed essential to achieving sustainable results.

- **“Ethics and respect” is a guiding principle underpinning the reinforcement of a “Speak-up culture” and anti-retaliation protection.**
  UniCredit is firmly committed to promoting an environment in which colleagues and third parties feel comfortable engaging in open and honest communication. UniCredit encourages colleagues and third parties to speak up and raise promptly good-faith concerns without fear of retaliation relating to any situation that may involve unethical or illegal conduct or inappropriate interactions with others.

1. Which substitute the former group values.

# 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: 26 million clients.**

UniCredit offers both local and international expertise providing its clients with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide.
UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

## Financial Highlights[1]

Operating income
€ 19,723 m

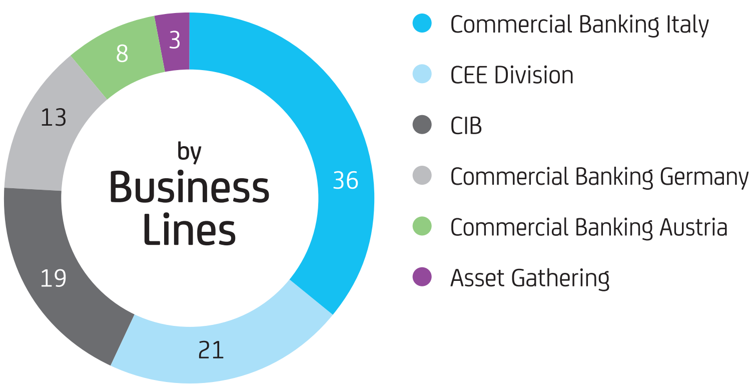
Net profit (loss)
€ 3,892 m

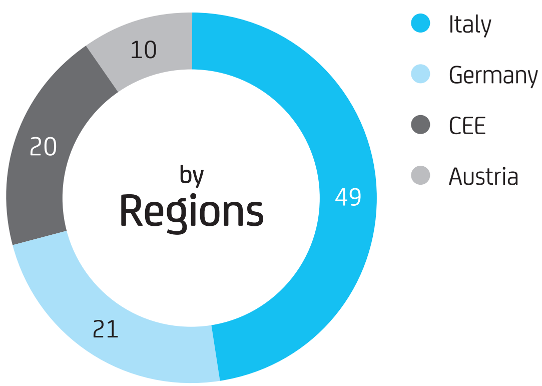
Shareholders' equity
€ 55,841 m

Total assets
€ 831,469 m

Common Equity Tier 1 ratio*
12.07%

## Revenues[1] (%)




1. Data as at December 31, 2018.
* Fully loaded CET1 ratio.

# A pan-European winner

European banks must continue to focus on their clients, supporting European companies aiming for international growth. Achieving both reach and scale is important, to provide customers with efficient products at the best possible price.

UniCredit is a successful pan-European banking group. **We deliver the best products and services to our 26 million clients in 14 core markets, responding to their concrete needs.** Our geographically diversified reach provides all our shareholders, clients and colleagues with greater security. And our **"One Bank, One UniCredit"** strategic approach combines central guidance with local implementation,
to keep making our Group a pan-European winner.

## Achievements 2018

**Top Employers Institute: Top employer Europe 2018**

Awarded thanks to local certification achieved in Bulgaria, Croatia, Germany, Italy and Russia

- **The Banker: Bank of the Year in Italy 2018**
- **The Banker: Bank of the Year in Bosnia 2018**

**Euromoney: Trade Finance Survey 2019**

#1 across 28 categories

Global Best Service Provider for: "All Services", "Advisory", "Financing/payments", "Overall Execution" and "Products"

## Digital Partnerships

### Key transaction partnerships

- Apple Pay
- Samsung Pay
- Alipay
- Google Pay

### Digital innovation for customers

- Alexa in Austria, to bank through Amazon's voice assistant
- U-days in Italy, to promote knowledge of digital payments and payment apps: **Apple Pay, Samsung Pay, Alipay, Google Pay**

# Business Growth

Our positive overall financial performance proves our good progress in **strengthening the Group through strategic business initiatives and a focus on digitalisation and process simplification, leveraging on best practices across the Group**. This is already driving significant growth. As the banking industry continues to evolve, we will maintain our focus on changing customer needs, ensuring the future sustainability of our business.

**In UniCredit, building the bank of tomorrow means:**

- Constant focus on customer satisfaction and consistent service quality
- Continued review of processes to improve the customer experience and optimise cost, with a strong focus on risk management
- Further revenues growth

## Key Performance Indicators

| | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|
| Cost-Income Ratio | 56.9% | 54.2% | 52-53% |
| Group Gross NPEs Ratio | 10.33% | 7.67% | 7.5% |
| Revenues | 19.9 bil. € | 19.7 bil. € | 19.8 bil. € |

# Transform 2019 Milestones

**Through Transform 2019 – our strategic plan – we are building the bank of tomorrow.**

Our strategy is clear and long-term: we are 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. We are and we will remain a pan-European winner.

**2018**

**Improve Asset Quality** – **07.02**

**PROJECT FINO**

Completion of final phase of Project Fino

**Adopt Lean but Steering Corporate Center** – **13.04**

**CORPORATE GOVERNANCE**

New Chairman appointed (Fabrizio Saccomanni) based on the Board presenting its own list of candidates

**Transform Operating Model** – **23.05**

**GROUP CHIEF TRANSFORMATION OFFICER**

Group Chief Transformation Officer appointed (Finja Carolin Kütz)

**Strengthen and Optimise Capital** – **02.11**

**EBA STRESS TEST**

EBA stress test results: third highest CET1 ratio among systemic banks in the Eurozone

**Maximise Commercial Bank Value** – **31.12**

**NEW CLIENTS ACQUISITION**

Over **1.9 million** gross new clients acquired

**Transform 2019**

# Banking that matters.

We are dedicated to creating tangible value for all our clients, employees and stakeholders by providing real solutions to real needs. Everything we do is grounded on ethics and respect.

# UniCredit Bank Czech Republic and Slovakia, a.s.

Contents

# Chairman's Statement


„The year of 2018 was very successful for UniCredit Bank. We took the business opportunities that appeared in the market and achieved excellent business results."

**Jiří Kunert**
Chairman of the Board of Directors and CEO

# Dear Shareholders, Ladies, and Gentlemen,

You are now holding in your hands the 2018 Annual Report of UniCredit Bank Czech Republic and Slovakia, a.s. This year we celebrated the 100th anniversary of the formation of independent Czechoslovakia, as well as 100 years of domestic banking and the 150th anniversary of Živnostenská banka, a predecessor of UniCredit Bank. Following the creation of the Czechoslovak state, Živnostenská banka took the lead in banking as well as in the economic life of the country and we at UniCredit Bank have proudly carried on its tradition. It is an honour that thanks to our clients, their families and companies, we have been able to be a mover of the domestic economy for several decades.

**Development in the banking sector**
The financial sector was affected by economic growth in the Czech Republic and in Slovakia in 2018, however, the dynamics gradually slowed down in Czechia and, on the contrary, accelerated in Slovakia. The Czech banking market was characterised by a high demand for credit and the volume of bank loans for housing and household consumer credit grew at comparable rates. Due to tightening regulation, Slovakia reported a moderate decline in the growth dynamics of loans to households; nevertheless, the demand rose at double-digit rates.

**UniCredit Bank reported dynamic growth**
The year of 2018 was very successful for UniCredit Bank. We took the business opportunities that appeared in the market and achieved excellent business results as well as leading positions in the CEE within UniCredit Group.

The consolidated net profit grew **by 18.6% year-on-year to CZK 9.047 billion**. UniCredit Bank Czech Republic and Slovakia has thus achieved results in accordance with the objectives of the Group's Transform 2019 programme. The increasing volumes of client transactions, consistent management of credit risk cost, optimisation of operating costs and active management of the bank's balance sheet structure particularly contributed to such a strong year-on-year increase.

The key to growth in retail banking were simple products, regular innovations to the offers, such as U konto Business or U konto online, and emphasis on the customer experience. Our total number of clients exceeded 700 thousand in both countries, representing a yoy growth of 4.3%. The volume of lending rose, too, with mortgages reporting a year-on-year increase of 5.8% while deposits rose by 7.4% in 2018.

In the Corporate and Investment Banking Division, UniCredit Bank Czech Republic and Slovakia continued to grow in the strategically important segment of small and medium-sized enterprises, which reported a year-on-year growth in loans of 9.6%. Owing to the wide representation of UniCredit Group in the main European markets and the unique experience in banking services for international corporations, the credit portfolio in this segment grew by 13.8%. Corporate Banking continues to use synergies between the Bank, leasing companies and the factoring company of the Group and, thanks to this, can offer clients a comprehensive portfolio of credit products. The use of these synergies is evidenced by the growth of the credit portfolio for leasing (6.7% year-on-year) and factoring (22% year-on-year).

We also participated in a number of large transactions in structured finance, mergers and acquisitions, export financing, financing of commercial real estate, treasury and leasing. Financing of the PPF Arena 1 project has become the largest transaction in the region of Central and Eastern Europe in the last 7 years.

We achieved excellent results last year in all key indicators in accordance with the five fundamentals of UniCredit Group and objectives of the **Transform 2019** programme. We also maintain a very solid quality of assets and return on capital. The Bank continues to strengthen its capital position, which allows us to finance our transactions.

**Growth, simplification and customer experience**
Our visions and goals remain unchanged – we want to be a **successful simple universal commercial bank**. In 2019, we want to focus on the further **growth of our business, streamline** and digitise our processes, products and

services and seek to achieve the best **customer experience** in all segments.

**Prestigious awards for UniCredit Bank**
The quality of our offered products and services is evidenced by the increasing number and validation of clients as well as a number of awards granted by national professionals.

We were awarded the "Best Sub Custodian Bank" by the Global Finance magazine, won first place in Trade Finance by Euromoney and became the "Best Corporate Bank in the Czech Republic" according to Global Banking & Finance.

In the Finparáda competition, we won first place in the Czech Republic owing to our PRESTO Loan – Consolidation of Loans. On the Finanční hitparáda portal, Slovak users of financial products chose the U konto as the best account of the year, owing to its wide range of services within the package and favourable price.

The Bank scored two third places in the Golden Crown competition, for the Business konto ACTIVE and FinAuto Leasing. The jury in a similar competition in Slovakia was most impressed by the PRESTO Loan and PRESTO Business, with both products occupying an excellent second place. We were favoured by professional and laymen assessors, but also by our clients. Within the **Net Promoter Score**, our clients recommended us most both in the Czech and Slovak financial markets and we even became the most awarded bank within UniCredit Group.

**Promotion of socially responsible activities, sports and education**
UniCredit Bank pursues its long-term and systematic support of socially responsible activities, art, sports and education. Last year, we also supported scientific institutions and charitable organisations which help sick and disadvantaged children overcome barriers. Through the Embassy of the Republic of Italy, we participated in education projects for children and teenagers.

Through the Group's Social Impact Banking initiative, we provide available financing in both markets of municipalities, charitable and non-profit organisations, micro-credit for start-up entrepreneurs as well as support for financial education and volunteering. Our Bank also continues its partnership with Poradna při finanční tísni (Debt Advisory Centre), which helps people avoid financial constraints and issues related to the proper and timely repayment of debts.

We are proud signatories of the HM Treasury Women in Finance Charter in 2018, committing to fully promoting more balanced gender distribution in the financial services sector.

The Gift Matching Program has become a tradition in our Bank. Within the programme, employees can support a non-profit organisation at their own discretion and UniCredit will subsequently double their donations. We again value being a partner of the Karlovy Vary International Film Festival this year. However, we promote culture as well as sporting events. For example, we supported the next series of running events called RunCzech.

**Thanks to you**
We can only achieve excellent results thanks to you, in particular, thanks to the long-term trust of you, our UniCredit Bank clients, as well as to the efforts and commitment of our employees. For that, I would like to express my great appreciation and sincere thanks to all UniCredit Bank employees and our clients in retail, private and corporate banking not only for the successful year of 2018. Your trust and efforts are an acknowledgement as well as an obligation to us for in the upcoming years.

March 2019

**Jiří Kunert**
Chairman of the Board
of Directors and CEO

# Financial Highlights – Consolidated

## (IFRS audited)

| UniCredit Bank Czech Republic and Slovakia, a.s. | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|
| **Operating results** | | |
| Net interest income and similar income | 14 231 | 11 218 |
| Net fee and commission income | 3 892 | 3 465 |
| Administrative expenses | (7 487) | (7 752) |
| Profit before income tax | 11 144 | 9 289 |
| Net profit after tax | 9 047 | 7 626 |
| | | |
| **Statement of financial position figures** | | |
| Total assets | 671 615 | 672 078 |
| Receivables from clients – net value | 412 036 | 386 672 |
| Deposits from clients | 374 745 | 360 473 |
| Issued capital | 8 755 | 8 755 |
| | | |
| **Alternative performance indicators*** | | |
| Return on average assets (ROAA) | 1,3 % | 1,2 % |
| Return on average equity (ROAE) | 13,9 % | 12,7 % |
| Assets per employee | 206,6 | 204,3 |
| Administrative expenses per employee | 2,3 | 2,4 |
| Net profit per employee | 2,8 | 2,3 |
| | | |
| **Information about capital and capital adequacy** | | |
| Tier 1 | 66 369 | 63 941 |
| Tier 2 | 1 415 | 1 424 |
| **Capital** | **67 784** | **65 365** |
| | | |
| **Capital requirement for credit risk under the standardised approach:** | **6 152** | **5 481** |
| Capital requirements for exposure to central government or central banks | 147 | – |
| Capital requirements for exposure to regional government or local authorities | 6 | 6 |
| Capital requirements for exposure to institutions | – | 4 |
| Capital requirements for exposure to businesses | 2 453 | 2 152 |
| Capital requirements for retail exposures | 2 186 | 1 986 |
| Capital requirements for exposures secured by real estate | 913 | 842 |
| Capital requirements for exposures at default | 79 | 124 |
| Capital requirements for equity exposures | 123 | 82 |
| Capital requirements for other items | 245 | 285 |
| | | |
| **Capital requirement for credit risk under the IRB approach:** | **18 865** | **18 993** |
| Capital requirements for exposure to central government or central banks | 289 | 398 |
| Capital requirements for exposure to institutions | 740 | 901 |
| Capital requirements for exposure to businesses | 15 884 | 15 522 |
| Capital requirements for retail exposures | 1 781 | 1 781 |
| Capital requirements for other non credit-obligation assets | 171 | 391 |
| | | |
| Capital requirements for position risk | 333 | 313 |
| Capital requirements for currency risk | – | 61 |
| Capital requirements for settlement risk | – | – |
| Capital requirements for commodity risk | 1 | 55 |
| Capital requirements for operational risk | 1 841 | 1 939 |
| Capital requirements for credit valuation adjustment | 70 | 85 |
| | | |
| CET1 capital ratio | 19,48 % | 19,00 % |
| Tier 1 capital ratio | 19,48 % | 19,00 % |
| Total capital ratio | 19,89 % | 19,42 % |
| | | |
| Average number of employees | 3 251 | 3 289 |
| Number of branches | 130 | 132 |

# Reconciliation of equity to regulatory capital (consolidated)

| UniCredit Bank Czech Republic and Slovakia, a.s. | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|
| **Data from the Statement of Financial Position:** | | |
| Share capital | 8 755 | 8 755 |
| Share premium | 3 495 | 3 495 |
| Valuation reserves | 912 | 1 874 |
| Retained earnings, reserve funds and other capital funds | 53 530 | 49 746 |
| Profit for the year | 9 047 | 7 626 |
| **Total equity** | **75 739** | **71 496** |
| | | |
| CET1 capital adjustments: | | |
| Profit for the year | (6 070) | (3 732) |
| Reserve from revaluation of hedging instruments | (203) | (539) |
| Reserve from revaluation of available-for-sale securities | – | – |
| Foreign exchange rate differences from the foreign branch | – | 49 |
| Intangible assets | (2 179) | (1 936) |
| Credit risk adjustments for non-defaulted exposures | 1 375 | 1 181 |
| Anticipated losses for non-defaulted exposures | (2 175) | (2 152) |
| Effect of companies not included in the prudential consolidation group | (23) | (510) |
| Other adjustments | (77) | 84 |
| **Total CET 1** | **66 369** | **63 941** |
| **Total Tier 1 (T1)** | **66 369** | **63 941** |
| | | |
| Credit risk adjustments for exposures at default | 7 233 | 7 048 |
| Anticipated losses for exposures at default | (3 850) | (5 039) |
| Non-deductible surplus above the risk-weighted assets limit | (1 968) | (585) |
| **Total Tier 2 (T2)** | **1 415** | **1 424** |
| | | |
| **Capital** | **67 784** | **65 365** |

*** Definition of used alternative performance indicators**

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

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

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

Assets per employee

Administrative Expenses per employee

Net profit per employee

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

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

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

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

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

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

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

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

Where X = 2018 and X-1 = 2017

# Financial Highlights – Separate

## (IFRS audited)

| UniCredit Bank Czech Republic and Slovakia, a.s. | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|
| **Operating results** | | |
| Net interest income and similar income | 13 084 | 9 990 |
| Net fee and commission income | 3 458 | 3 095 |
| Administrative expenses | (6 961) | (7 220) |
| Profit before income tax | 10 866 | 10 277 |
| Net profit after tax | 8 923 | 8 821 |
| | | |
| **Statement of financial position figures** | | |
| Total assets | 660 140 | 659 333 |
| Receivables from clients – net value | 401 589 | 374 426 |
| Deposits from clients | 374 904 | 360 839 |
| Issued capital | 8 755 | 8 755 |
| | | |
| **Alternative performance indicators*** | | |
| Rentability of average assets (ROAA) | 1,4 % | 1,4 % |
| Rentability of average Tier 1 Capital (ROAE) | 14,1 % | 15,1 % |
| Assets per employee | 226,0 | 223,8 |
| General Administrative Expenses per employee | 2,4 | 2,5 |
| Net profit per employee | 3,1 | 3,0 |
| | | |
| **Information about capital and capital adequacy** | | |
| Tier 1 | 64 400 | 62 499 |
| Tier 2 | 1 603 | 1 584 |
| **Capital** | **66 003** | **64 083** |
| | | |
| **Capital requirement for credit risk under the standardised approach:** | **2 610** | **2 444** |
| Capital requirements for exposure to central government or central banks | 147 | – |
| Capital requirements for exposure to regional government or local authorities | 5 | 5 |
| Capital requirements for exposure to institutions | – | 3 |
| Capital requirements for exposure to businesses | 318 | 352 |
| Capital requirements for retail exposures | 901 | 757 |
| Capital requirements for exposures secured by real estate | 865 | 842 |
| Capital requirements for exposures at default | 27 | 28 |
| Capital requirements for equity exposures | 347 | 339 |
| Capital requirements for other items | – | 118 |
| | | |
| **Capital requirement for credit risk under the IRB approach:** | **21 374** | **21 120** |
| Capital requirements for exposure to central government or central banks | 289 | 397 |
| Capital requirements for exposure to institutions | 740 | 901 |
| Capital requirements for exposure to businesses | 18 392 | 17 649 |
| Capital requirements for retail exposures | 1 781 | 1 781 |
| Capital requirements for other non credit-obligation assets | 171 | 392 |
| | | |
| Capital requirements for position risk | 333 | 313 |
| Capital requirements for currency risk | – | 68 |
| Capital requirements for settlement risk | – | – |
| Capital requirements for commodity risk | 1 | 55 |
| Capital requirements for operational risk | 1 681 | 1 686 |
| Capital requirements for credit valuation adjustment | 70 | 85 |
| | | |
| CET1 capital ratio | 19,76 % | 19,40 % |
| Tier 1 capital ratio | 19,75 % | 19,40 % |
| Total capital ratio | 20,25 % | 19,89 % |
| | | |
| Average number of employees | 2 921 | 2 946 |
| Number of branches | 130 | 132 |

# Reconciliation of equity to regulatory capital (separate)

| UniCredit Bank Czech Republic and Slovakia, a.s. | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|
| **Data from the Statement of Financial Position:** | | |
| Share capital | 8 755 | 8 755 |
| Share premium | 3 495 | 3 495 |
| Valuation reserves | 913 | 1 878 |
| Retained earnings, reserve funds and other capital funds | 51 496 | 46 493 |
| Profit for the year | 8 923 | 8 821 |
| **Total equity** | **73 582** | **69 442** |
| | | |
| CET1 capital adjustments: | | |
| Profit for the year | (6 070) | (3 732) |
| Reserve from revaluation of hedging instruments | (204) | (543) |
| Reserve from revaluation of available-for-sale securities | – | – |
| Foreign exchange rate differences from the foreign branch | – | 49 |
| Intangible assets | (1 950) | (1 743) |
| Credit risk adjustments for non-defaulted exposures | 1 396 | 1 181 |
| Anticipated losses for non-defaulted exposures | (2 277) | (2 239) |
| Other adjustments | (77) | 84 |
| **Total CET 1** | **64 400** | **62 499** |
| **Total Tier 1 (T1)** | **64 400** | **62 499** |
| | | |
| Credit risk adjustments for exposures at default | 7 233 | 7 048 |
| Anticipated losses for exposures at default | (3 850) | (5 039) |
| Non-deductible surplus above the risk-weighted assets limit | (1 780) | (425) |
| **Total Tier 2 (T2)** | **1 603** | **1 584** |
| | | |
| **Capital** | **66 003** | **64 083** |

*** Definition of used alternative performance indicators**

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

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

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

Assets per employee

Administrative Expenses per employee

Net profit per employee

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

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

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

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

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

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

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

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

Where X = 2018 and X-1 = 2017

# Macroeconomic situation

## Czech Republic

Compared to the previous, exceptionally successful year, the Czech economy decelerated considerably, reporting a 3.0% growth. The main reason for the cooling of the economy was weakening foreign demand, affected by economic issues of some emerging economies, slowdown in China and the halting of the growth of passenger vehicle registrations in Europe. Industrial production thus increased by only 3.0% throughout the year, rising at just half the rate of the previous year. Nevertheless, all components of domestic demand of grew at a solid rate. Strong growth was mostly reported by fixed capital, due in particular, but not limited to, the building boom. Private consumption benefited from the all-time highest real wage increase, which accelerated due to labour market tensions. The number of job vacancies reached an all-time high, well exceeding the number of unemployed.

The overheating labour market pushed up the prices of services considerably, which, however, due to the decline in food prices, was only reflected to a limited extent in headline inflation, reporting at 2.1%. The Czech National Bank continued to tighten its monetary policy by increasing its repo rate by 125 basis points on the aggregate to a final 1.75%. However, the growing interest rate differential of the CZK rates vs. EUR did not lead to a stronger CZK exchange rate. Due to the global risk aversion of investors, the CZK exchange rate was corrected in the second half of the year, closing the year falling by 0.7% year-on-year vs. EUR. The CNB was also active in the field of financial stability. Through two steps, it further increased the future requirements for capital adequacy of banks (countercyclical buffer) and, in particular, tightened the regulatory conditions for banks in providing mortgage loans. The latter measure aimed at cooling down the prices of real estate, whose year-on-year growth reported double-digit figures on average for the entire country.

A key issue of the business environment outside the financial sector was clearly labour shortage, which the government sought to address, so far with limited success, by controlled labour immigration from select non-EU countries. Besides pressure on wages due to the tight labour market, enterprises had to deal with an increase in the minimum wage and guaranteed wage by nearly 11%. There were no other material changes in the business environment during the year. However, legislation revoking the waiting period in the event of illness was adopted, which will apply to the business sector from mid-2019.

## Slovakia

In 2018, the growth of the Slovak economy accelerated from 3.2% to 4.1%, in particular due to increasing domestic demand, which more than fully offset the decelerating growth of external demand. The economy benefited from the restart of the automotive industry and strong investments in the sector, which entered the production stage later in the year. Domestic investments were also increased by the public sector. Household consumption was boosted by the strong labour market. Unemployment moved to new historic lows and labour shortages rose mostly in the west of the country, increasing pressures on wages and labour imports. The strong wage growth also translated into inflation, mainly through services. During the year, the accelerating demand-pull inflation increased inflation up to 3%, but the base effect and lower oil prices relieved the inflation pressure later in the year.

Inflation in the eurozone gave the ECB no cause for changing the monetary policy settings. The ECB kept the key interest rates unchanged and continued in its asset purchase programme, terminating it in December 2018. Interest rates remained close to historic lows, which slowed down the recovery of interest income in the Slovak banking sector. Nevertheless, net interest income resumed its growth after three years (3.6%). This was owing to the growth of assets (5.6%), in particular loans (9.3%). A strong double-digit growth (11.3%) was reported by loans to individuals. The effect of regulation tightening in this area has, to date, been limited. The upward trend was also maintained by corporate loans (5.1%). The dynamic growth of loans was only partially accompanied by a growth of deposits and, for the first time in history, the volume of loans slightly exceeded the volume of deposits. The profit of the banking sector was also boosted by higher fee and commission income. On the other hand, the growth of profit was dampened by lower income from trading, higher wage costs, regulatory levies and risk, despite the declining rate of non-performing loans, when banks prudently increased the rate of their coverage. In 2018, the banks' profit after tax rose by 4.7%.

Despite several turbulences, the governing coalition remained relatively stable. It managed to reduce public finance deficits. The business environment saw several new measures increasing the costs of employers in the field of labour costs (additional payments for weekend and night work, holiday vouchers) as well as prices (a special levy for retail chains).

# Corporate, investment, and private banking

2018 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 markets. 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 division grew on both markets by more than 4% compared to 2017, and we acquired almost 3,428 new clients.

As for primary sources, we focused on further optimisation in the first half of the year, which resulted in a controlled decline of less stable deposits in the amount of CZK 6 billion, which corresponds to a 3% decline compared to 2017. The Division's priority in 2018 remained the same, i.e. to strengthen the portfolio of CZK deposits, which reported considerable growth in the second half of the year.

In the field of credit, we responded to a slightly increasing demand of companies for lending by increasing the loan volume. In accordance with our long-term strategy, we focused on improving our position within the segment of small and medium-sized enterprises. 2018 was again a very successful year, in which the volume of lending in this segment increased by more than 13% year-on-year and revenues grew by more than 13% compared to 2017. Excellent results were also reported in the segment of large and international corporates, where we further strengthened the traditionally strong portfolio within the Group, benefiting from the pan-European presence of the UniCredit banking group. The volume of lending grew by 8% year-on-year and revenues by more than 8% in both markets.

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.

In 2018, the Corporate and Investment Banking Division reinforced its outstanding 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 transaction was the financing in the amount of EUR 3.025 billion for PPF Group for the purchase of telecommunication assets in Hungary, Bulgaria, Montenegro and Serbia from Telenor Group. UniCredit here acted as Global Coordinator and Lead Arranger. UniCredit also coordinated, for example, the refinancing of Dr. Max Group for Penta Group in the amount of EUR 500 million, or the financing of Italian Gaming Holding in the amount of EUR 280 million; we also participated in the financing of, for example, EP Infrastructure, Sazka, Škoda Transportation and MJM.

In terms of structured and project finance, 2018 was another very successful year on the Slovak market. We managed to conclude several significant transactions which strengthened our position in this field. Among others, we also participated in the provision of a syndicated loan in the amount of EUR 460 million for U.S. Steel Košice, financing of construction of a new combined heat and electricity generation source for TEKO, a.s., and in the issuance of Eurobonds for ZSE, a.s.

Our Bank also maintains an important position in the financing of commercial real estate in the Czech Republic and Slovakia in all major segments of the real estate market – office, retail and industrial real estate, as well as in residential construction and the hotel segment. The largest transactions of 2018 were concluded in the segment of office buildings and industrial real estate. In Czechia, new financing of real estate projects in total volume of CZK 16 billion was concluded in 2018.

As regards office buildings, the most prominent transaction was refinancing of the Quadrio project, financing of construction of the Rustonka project and club financing of the Bořislavka offices, where UniCredit Bank acts as Lead Loan Agent. In terms of industrial real estate, the most prominent transaction was financing of the acquisition of a portfolio of logistics parks for a major foreign fund.

As regards residential projects, we managed to conclude a number of transactions for existing and new clients from among developers and investment groups. This was also the case of retail, where smaller shopping centres and retail parks gained in importance. In Slovakia, we participated in the highest real estate loan granted in 2018. The syndicated loan amounting to EUR 175 million was provided by a consortium of banking companies to HB Reavis Group for construction of the "Nivy Bus Station" project in Bratislava, where we also act as Agent of this consortium.

As regards residential projects, we provided, among others, financing for construction of a residential complex entailing 300 flats in Bratislava as well as financing for several acquisitions in the field of industrial real estate in Slovakia, and the Bank continued to cooperate in this field with major foreign and domestic partners.

Other significant activities include financing of the energy sector and renewable energy sources, agriculture, the public and municipal sector as well as church entities. In 2018, the number of clients serviced increased, confirming the Bank's important position in these sectors of the economy.

At UniCredit, 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 2018 was mainly characterised by the financing of projects of the 2014–2020 programming period. This predominantly included real estate renovations or purchases of new technologies. In 2018, an agreement with the SZRB was signed, focusing on the need for financing of small and medium-sized enterprises up to EUR 172 million, with EUR 80 million allocated for start-ups.

In Slovakia, UniCredit maintains its leading position in financing of the agricultural sector with a market share of approximately 40% in the number of serviced clients.

Transaction banking products reported positive development owing to the fulfilment of the growth macroeconomic scenario underpinned by the central bank's policy for the management of interest rates and exchange rates.

The number of payment transactions grew in both countries in accordance with the economic parameters. On the other hand, interest income from deposits on the Czech market resumed its strong dynamic growth following stagnation and decline in the previous years.

Focus on the improvement of quality of services and systemic infrastructure translated into above-average growth, in particular in acquiring (payment card acceptance), factoring of receivables and services for commodity clearing. Following the digitisation trend, card transactions at the Bank's POS terminals grew by nearly 20% in one year.

The key parameter for soundness of investment and improvement in transaction banking is the reaction of clients. In 2018, UniCredit also managed to strengthen or improve its leading position in the market in the field of cashflow management, trade finance and services provided in securities management. This is proved by awards in the surveys of leading expert media:

- Euromoney Cash Management Survey 2018: #2 in the category of Market Leader on the market of non-financial companies in the Czech Republic
- Euromoney Trade Finance Survey 2019: #1 in the categories of Market Leader and Best Service in the Czech Republic
- Global Finance The World's Best Sub Custodian Banks 2018: #1 in the Czech Republic

In 2018, the factoring market reported a year-on-year increase of the overall turnover of receivables by 11.5%. Our subsidiary UniCredit Factoring grew by 22.5% in this indicator, thereby increasing its market share from 14.5% in 2017 to 15.9% at the end of 2018. This accomplishment is mostly owing to the acquisition of new clients and the extension of cooperation with existing clients.

The dynamically growing client and customer portfolio and the related increase in financing volume is aligned with risk management, which translated into a year-on-year increase of operating profit by 60.9% and profit after tax by 65.7%.

In 2018, we continued to strengthen our very successful cooperation model with our subsidiary UniCredit Leasing in the Czech and Slovak markets, reporting an all-time volume of the new financed value delivered through a banking channel.

# Retail banking

Last year, the retail banking market was mostly marked by gradually rising interest rates, which considerably affected deposits of households and entrepreneurs, the mortgage market as well as consumer finance. The increasing pressure and volume of regulation as well as the intensity of competition continue to grow.

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. In 2019, we will continue the 2018 trend, focusing on the acquisition of new active clients, strengthening digital banking services and continuing the trend of more sales made through online channels. The number of digital clients reflects the boost provided by this multichannel strategy. We have made significant progress in this direction and rank among the pioneers in the launch of various apps and services in the sector.

UniCredit Bank Czech Republic & Slovakia Retail and Private Banking Division continuously improves the quality of services for clients; customer experience is an absolute priority for us, which is also evidenced by the Net Promoter Score results, where we scored the best results as regards individual clients within the Czech and Slovak Market in the UniCredit CEE Division in 2018.

## Bank's activities in retail and private banking

In 2018, the Bank continued to pursue its strategic goal of reinforcing its position of being a universal provider of banking and financial services and becoming a leading bank on both markets. We want to achieve a major increase in market share not only by concentrating on selected perspective segments of the retail market, but mainly owing to innovations in availability through alternative distribution channels and product offer.

On the retail market, the Bank provides a full range of banking products – current and savings accounts, savings and investment products, payment cards, housing financing products, and consumer loans. With all these products, the Bank aims to provide innovative products and make maximum use of electronic distribution channels. In 2018, in accordance with this strategy, we introduced, for example, a fully digital process for opening a current-account via third parties and websites of the Bank.

Our orientation on growth is, on one hand, based mainly on fully using the potential and activation of our existing clients, and on the other hand, the acquisition of new clients from target segments. In 2018, the Bank continued to pay special attention to acquisition in cooperation with other retail institutions which are not our direct competitors, such as leasing companies, insurance companies, etc. In 2018, the growth in the number of clients of our Bank continued, with 90 thousand new clients starting to use the services and products of modern banking provided by UniCredit Bank.

In spite of ever-increasing competitive pressure and a number of new regulations in the field of credit products, the Bank managed to increase the volume of retail loans by almost 6%. The main driver was mortgage loans with a year-on-year growth of 6.2%.

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 2 billion.

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

## Loans

In 2018, we continued to extend our offer of PRESTO Loans with a reward for due repayment both in the Czech Republic and Slovakia. Clients can choose the form of their reward, either having the reward credited to their account following the due repayment of loan or using the reward as an early payment by the Bank and thereby shortening the overall loan repayment period. As a standard, we offer four categories of loans in both countries: refinancing or transfer of loans, simple and fast general-purpose loans under special conditions for existing clients, general-purpose loans in general and PRESTO Loans for Housing.

Our flagship product, the PRESTO Loan - Transfer of Loans or Consolidation of Loans, is undoubtedly very popular and was awarded the best financial product of 2018 by 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

As in 2017, 2018 was affected by growing regulation by the CNB and NBS, as well as by commencing hikes in interest rates.

In particular in the second and third quarter, we made most of our sales owing to our attractive offer. The fourth quarter was strongly affected by new regulation. Clients demanded almost exclusively fixed-rate mortgages and the vast majority of our clients in the Czech Republic took advantage of the ten-year fixation offer. In Slovakia, given the legislation limiting the amount of early repayment costs, there is still intensive competition mostly in the field of refinancing.

We have considerably simplified our pricing, we offer a unique “all for the price of one” concept where ten-year fixations are offered at the same rate as, for example, one-year fixations. Together with one-time insurance, we offer our clients attractive insurance paid on a monthly basis. In 2018, we focused mostly on streamlining and accelerating our process, with emphasis on customer experience.

## Current accounts

In 2018, we also focused on expanding our client portfolio with regard to our key product, the U konto.

Throughout the year, we carried out a number of innovative acquiring campaigns, whether in cooperation with large food chains or individually through the “Good News Every Month” campaign offering rewards for clients’ activity. We have thus added extra benefits to the excellent conditions of the U konto account.

## Investments and deposits

Despite increasing interest rates, investment products are still one of the main pillars of our product offer.
The basis of our offer still consists of three Amundi Fund Solutions funds (conservative, balanced and dynamic), i.e. strongly diversified investment solutions together with active and flexible management, where each of these funds represents a comprehensive 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 simple and systematic way, while spreading the investment over time strongly mitigates the risk of potential wrong timing of purchase.

In Slovakia, we have successfully launched the sale of Protect 90, a product with partial capital guarantee, in mid-2018.

## Direct banking

In 2018, we managed again to successfully increase the number of active users of direct banking applications. We introduced a number of new features in the Smart Banking application and streamlined the process for providing pre-approved consumer credit in the Online Banking application.

## Small Business

In line with our intention to provide clients with the best possible services together with simple and transparent products at every branch, we considerably streamlined the product offer of accounts and introduced our only U konto Business product (with the ancillary U konto for Entrepreneurs product in Slovakia) in 2018.

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

## Payment cards

During 2018, we carried out a number of activities focused on boosting our clients’ transactional activity, in particular through our U-šetřete loyalty programme, which was kicked off as U-šetrite in the second half of the year in Slovakia as well.

## Private banking

For Private Banking, 2018 was a year of a continued development of business following considerable expansion of the segment in 2016. Our endeavours were designed to intensify our cooperation with new Private Banking clients from 2016 while maintaining the first-class care of our long-term clients.

Throughout the year, we focused on comprehensive services for our clients in all major areas of their financial needs (investments, transactions and financing). The gradual growth of interest rates for deposits resulted in our clients' repeated interest in term deposits. Throughout the year, interest in financing was stable. The increased volatility in the financial markets later in 2018 resulted in a moderate decline in interest in investment products.

Private Banking is successfully building on the tradition of corporate banking. Thus, we focus on providing private services to owners of small and medium-sized enterprises, where we today perceive a high added value for our services and products. Cooperation between corporate and private clients significantly contributed to the total number of newly acquired clients in private banking in 2018.

In the field of investment, private banking in the Czech Republic and Slovakia is based on a controlled open fund architecture, which is still a unique concept on both markets. Thus, the Bank provides its clients with access 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 2018, the Bank successfully extended its offer of mutual funds from partner companies. In cooperation with UniCredit Bank AG Munich, we 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. In response to the interest expressed by our clients, the Bank intermediated the placement of several bond issues of select issuers during the year.

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. 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 Czech and Slovak economy still reporting solid growth.

An integral part of Markets is also represented by the Debt Capital Markets, where UniCredit Bank operates in the long run, whether through its own issuance activities or through the arrangement and distribution of corporate bonds. In 2018, UniCredit Bank also successfully placed several corporate bond issues among financial institutions and corporate customers as well as among clients of the private banking segment. The Bank also managed to place its own structured bond and investment certificate issues in this segment last year.

# Sponsoring and charity

In 2018, UniCredit Bank continued its long-term and systematic support of socially responsible activities, art, sports and education.

Last year, we also supported scientific institutions and charitable organisations which help sick and disadvantaged children overcome barriers. Through the Embassy of the Republic of Italy, we participated in education projects for children and teenagers.

The Gift Matching Program has become a tradition in our Bank. Within the programme, employees can support a non-profit organisation at their own discretion and UniCredit will subsequently double their donations.

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.

Through the Group's Social Impact Banking initiative, we provide available financing in both markets of municipalities, charitable and non-profit organisations, micro-credit for start-up entrepreneurs as well as support for financial education and volunteering. Our Bank also continues its partnership with Poradna při finanční tísni (Debt Advisory Centre), which helps people avoid financial constraints and issues related to the proper and timely repayment of debts.

We are proud signatories of the HM Treasury Women in Finance Charter in 2018, committing to fully promoting more balanced gender distribution in the financial services sector.

We again value being a partner of the Karlovy Vary International Film Festival this year. However, we promote culture as well as sporting events. For example, we supported the next series of running events called RunCzech. Together with UniCredit Group, we were the official bank of the UEFA Champions League until mid-2018.

## Environmental protection

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

## Employment relations

UniCredit Bank ranks among the most attractive employers in the Czech Republic and Slovakia, not only because of its offer of responsible and demanding work in the banking sector, but also thanks to the care it gives its employees. Employees are entitled to meal vouchers, fresh water in the workplace, sick days and recovery days, and can also use UniCredit Bank products with special benefits, or use the company cottage in Horní Malá Úpa. They also appreciate an extra week of holiday, an extra day off for birthdays 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 and families with children throughout the year.

# Report of the Board of Directors

On the Business Activity and the Property Status of UniCredit Bank Czech Republic and Slovakia, a.s., for 2018

## Vision, Mission and Corporate Values

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

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, UniCredit Bank Czech Republic and Slovakia, a.s., belongs to the strategic countries of the Central and Eastern European region together with Russia and Turkey. The Group perceives our Bank as an example of successful dynamic growth in the corporate client segment and in particular in the segment of individual clients. Our successful, innovative solutions are shared with other countries of the Group as best practices.

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

## Economic Development of the Market in the Czech Republic and in Slovakia in 2018

The Czech economy considerably decelerated as compared to the previous, exceptionally successful year, reporting a 3.0 % growth, whereas the growth of the Slovak economy accelerated to 4.1 %. While both economies were negatively affected by the weakening foreign demand, the Slovak economy benefited from the creation and kick-off of new capacities in the automotive industry. Both economies reported growth of private consumption and creation of fixed capital. The Czech Republic and Slovakia reported record lows in their unemployment rate and faced growing tensions on their labour markets. The banking sector in the Czech Republic was affected by increase of the CNB repo rate by 125 basis points on the aggregate to a final 1.75 %, whereas the banking sector in Slovakia remained under the influence of the record loose monetary policy of the ECB. At the end of the year, the CZK to EUR exchange rate was lower by 0.7 % year-on-year.

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

In 2018 UniCredit Bank Czech Republic and Slovakia, a.s., achieved an all-time high net profit. The main growth factor was the net interest income, which were positively affected by the increasing interest rates in CZK and growth of client transactions. The all-time result was achieved despite the year-on-year decline in profit from trading and increase of the costs of risk, which grew after reporting record-low values in 2017, however, they remained well below the planned value. The positive news for structure and sustainability of the result is the decreasing development of administrative expenses, in particular owing to the projects and activities of the Transform 2019 programme focused on digitisation, process optimisation and distribution cost cutting.

## Finacial results of UniCredit Czech Republic and Slovakia Group for 2018

The consolidated net profit of UniCredit Bank Czech Republic and Slovakia Group went up by 18.6 % year-on-year, namely from CZK 7,626 million as of 31 December 2017 to CZK 9,047 million as of 31 December 2018. In 2018 UniCredit Bank Czech Republic and Slovakia Group hereby confirms its long-term growth, in line with the objectives of the Group programme Transform 2019.

**Statement of Comprehensive Income**

Compared to the end of 2017, net interest income rose by 26.9 % to CZK 14,231 million (CZK 11,218 million as of 31 December 2017). In particular in the Czech Republic, the year of 2018 reported growth of market interest rates and ongoing structural changes in deposits in order to reduce interest expenses.

Net income from fees and commissions by the end of 2018 was at CZK 3,892 million (CZK 3,465 million as of 31 December 2017), which represents a growth of 12.3 %.

Net income from the sale of financial assets and liabilities as of 31 December 2018 dropped to CZK 239 million (CZK 508 million as of 31 December 2017). However, it should be noted that the income from the sale of financial assets and liabilities are not the main strategy for achieving profit for UniCredit Bank Czech Republic and Slovakia Group.

The Group reduced its participation in profit in the field of trading, i.e. the income from trading fell by 34.3 % from CZK 2,682 million as of 31 December 2017 to CZK 1,761 million as of 31 December 2018. This result was mostly due to the change in market conditions and fewer market opportunities than in the previous years.

Total operating income amounted to CZK 20,202 million, rising by 13.2 % compared to CZK 17,846 million as of 31 December 2017. The main growth contributor was the net interest income, i.e. the part of operating income which may be strategically declared to be the most in-demand in the financial market.

Administrative expenses were reported at CZK 7,487 million (CZK 7,752 million as of 31 December 2017), which represents a decline of 3.4 %. Optimisation of the branch network and a thorough fulfilment of the objectives laid down by Transform 2019 contributed to the achievement of this excellent result in administrative expenses.

The losses from decreased loan and receivable values rose by 32.6 % year-on-year (from CZK 460 million as of 31 December 2017 to CZK 610 million as of 31 December 2018). Although growth is reported in this item of the Statement of Comprehensive Income, this result was still better as compared to the 2018 Group budget.

The depreciations and losses from the tangible asset value drop decreased from CZK 960 million as of 31 December 2017 to CZK 908 million as of 31 December 2018, nevertheless, the depreciations and losses from the intangible asset value drop increased from CZK 89 million as of 31 December 2017 to CZK 302 million as of 31 December 2018. This increase is associated with the activation of the intangible assets at the end of 2017, i.e. implementation of the new banking system in the Czech Republic.

**Statement of Financial Position**

*Assets*
Total assets of UniCredit Bank Czech Republic and Slovakia Group as of 31 December 2018 achieved the value of CZK 671.6 billion, which represents a growth by 0.1 % compared to the end of 2017, when the balance amount was CZK 672.1 billion.

From the end of 2017, the financial assets at fair value ratio to expense and gain account rose by 23.5 % from CZK 8.1 billion to CZK 10 billion.

The value of realisable securities decreased by 38.6 % to CZK 29.2 billion (as of the end of 2017, this value was CZK 47.5 2017). In this portfolio, the Bank has in particular the highly liquid sovereign bonds. The fall in value is due to the failure to renew the purchase of new volumes in the event of maturity of the relevant bond or sales made during 2018.

Retail Banking continued to focus on the growth of its client base and volumes of loans and deposits. The main growth product as regards credit were, as usual, mortgage loans, where the total portfolio increased by nearly 6 %. The total volume of clients' deposits exceeded the year-on-year growth of 7 %. The growth drivers for retail banking clients is the U-konto – an account with a ten-year guarantee of conditions and free-of-charge withdrawals from any ATM in the Czech Republic, Slovakia and abroad. The sale of products and use of services of the Bank via digital channels is a strategic direction, which is proved by the year-on-year growth of the number of active mobile banking users at 40 %.

In Corporate Banking, UniCredit Bank Czech Republic and Slovakia Group reported further growth in the strategically important SME segment, which reported a year-on-year growth of loans at 10 %. Owing to the wide representation of UniCredit Group in the main European markets and owing to the unique experience in banking services for international corporations, the credit portfolio in this segment grew by 14 %. Corporate Banking continues to use synergies between the Bank, leasing companies and the factoring company of the Group and, thanks to this fact, can offer clients a complete range of credit products. The use of these synergies is evidenced by the growth of the credit portfolio of leasing (by almost 7 % year-on-year) and factoring (by 22 % year-on-year).

Receivables from banks decreased by 4.8 % (CZK 200.1 billion as of 31 December 2018 compared to CZK 210.2 billion at the end of 2017).

The growth of the value of intangible assets from CZK 1,940 million as of 31 December 2017 to CZK 2,179 million at the end of 2018 was affected by additional activation of intangible assets related to the implementation of the common IT architecture of the Czech Head Office and Branch Slovakia throughout 2018.

*Liabilities*
By the end of 2018, liabilities to banks dropped by 1.2 % to a total of CZK 172.2 billion from CZK 174.3 billion as of 31 December 2017.

Compared to the end of 2017, client deposits increased by 4 % to a total of CZK 374.7 billion from CZK 360.5 billion as of 31 December 2017.

Compared to the end of 2017, issued debt securities dropped by 42.9 % to CZK 22.8 billion (CZK 40 billion as of 31 December 2017). The Bank did not renew the repaid issued bonds.

*Capital*
As of 31 December 2018, the Group's equity amounted to CZK 75.7 billion, which represents a year-on-year growth of 5.9 % (from CZK 71.5 billion as of 31 December 2017). In 2018 UniCredit Bank

Czech Republic and Slovakia, a.s., paid a dividend of CZK 3,732 million from the 2017 profit to the sole shareholder UniCredit S.p.A.

The consolidated capital adequacy as of 31 December 2018 was 19.9 %.

## Expected Economic and Financial Situation of UniCredit Bank Czech Republic and Slovakia, a.s., in 2019

The outlook for 2019 is based on the assumption that both economies will be solid, with signs of gradual slowdown, in particular in the Czech Republic. No further material CZK interest rate hikes are expected and a moderate economic growth will affect the growth of the cost of risk.

Opportunities of 2018 in the interest rate market, which were successfully utilised by the Bank in 2018, will not repeat in 2019, nevertheless, an organic growth of client transactions, emphasis on growth of the client base and further digitisation and optimisation of processes leading to lower operating cost will lead to maintaining a high level of profitability, return on capital and capital adequacy. A balanced growth of both sides of the Bank's client balance is expected and thereby maintenance of the Bank's self-financing, with no need for issuing instruments in order to obtain external refinancing sources.

## Strategic Plan of the UniCredit Group – Transform 2019

In July 2016, UniCredit Group introduced its strategic plan for 2017–2019 called "Transform 2019". This programme entails strategic initiatives across the banking group with a particular focus on the 5 main pillars:

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

After a very successful year of 2017, the Bank and the entire UniCredit Group managed in 2018 to further increase the trading dynamics, gaining a head start both in terms of key strategic indicators and in terms of fulfilment of the entire implementation plan. The Group has already fulfilled its goal in terms of FTEs at 100 %, reaching a 93 % compliance with reduction of the number of branches in its 14 core markets. Also, UniCredit Group gained a head start in the fulfilment of goals in terms of costs or non-performing loans and it is also ahead in meeting specific capital requirements imposed by the ECB.

In 2018 UniCredit Bank Czech Republic and Slovakia, a.s., confirmed its position of a core market for the Central and Eastern Europe Division. Besides excellent financial results, the Bank also managed to successfully implement a number of initiatives within the strategic programme, for example:

- Launch of a fully digital online process for bank account opening
- Launch of the project of robotisation of the Bank's internal processes
- Integration of Operations into the Bank
- Partnership with leading insurance groups
- Retail campaigns in large chain stores

We have the last challenging part of the ambitious strategic programme Transform 2019 ahead of us in 2019, nevertheless, the excellent financial and commercial results in the last two years have created a convenient position for the Bank to fulfil all the objectives.

## Bank's Activities in Corporate Banking

In 2018 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. The key SME segment as well as the segment of international enterprises recorded another very successful year as both revenues and volume of loans granted grew at a double-digit pace.

Another of the Bank's long-term strategic goals is the improvement of customer experience and sustainability of its leadership in the Czech and Slovak market as regards customer satisfaction. We are on track to meet this goal by focusing on clients' needs, strengthening human resources as well as by targeted streamlining of processes.

We will continue to rely on our traditional strong competences in the provision of sophisticated and individual solutions for our clients and we plan to maintain our position of number one in the real estate financing (developer project financing) area in the future. From the 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 project, structured and acquisition financing, which was proved by a number of arranger mandates and a successful conclusion of many large and complex transactions for our clients.

Strong focus has been put on cross-border cooperation in serving clients with an international background, where we were again very successful in 2018. Extension of the key SME segment enables the strengthening of acquisition activity through a better allocation of human resources in the regions.

In 2018 the successful cooperation with UniCredit Leasing in the Czech Republic and in 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.

## Bank's Activities in Retail and Private Banking

Retail Banking continued in the strategy of growth of the client base, in particular owing to U konto with free-of-charge withdrawals from any ATM in the Czech Republic, Slovakia and abroad. The number of active clients increased by 9 % year-on-year. The total number of clients exceeded 700 thousand. Development of the costs to income ratio continued in its downward trend, by 11.4 % year-on-year.

Strong growth was reported by the segment in all main product lines – loans, mostly mortgages, deposits and investment. Loans to clients grew by almost 6 % year-on-year and total financial assets (deposits and investment products) by more than 7 %. One of the priorities of the retail division was the penetration of digital distribution channels. This area reported a 40 % increase in the number of mobile banking users.
The retail division increasingly focuses on customer satisfaction. Owing to this priority, we achieved one of the best results in UniCredit Group and also in the Czech and Slovak market measured by the customer satisfaction survey (a so-called NPS Net Promoter Score).

Private Banking continued to develop trade with a broader client base, considerably underpinned by a strategic decision to reduce the segment's threshold to an amount of CZK 3 million of total financial assets. In cooperation with our partner companies, we continued to extend our product offer in the field of investments. Throughout 2018, we worked intensively together with our colleagues from Corporate Banking in order to provide comprehensive services to our Bank's clients who are owners and members of the management of companies.

## Bank's Activities in the Area of Support Structures

### Risk management

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

The Bank manages its credit risk both at the level of individual business transactions and at the whole portfolio level, in particular in compliance with the basic principles defined in the Bank's credit policy and in order to adhere to the risk parameters set out in the credit strategy for the particular year. 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 most of its portfolio. The Bank regularly monitors and evaluates expected losses of its credit portfolio and expected losses of newly concluded deals, as well as actually realised losses arising from impaired assets.

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 2018 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. All limits are monitored broken down into trading portfolio (Regulatory Trading Book) and banking book (IRRBB).

The basic management tool comprises limits for volumes of individual transactions, limits for portfolio sensitivity (BPV, CPV), stop loss limits (maximum loss limits LWL) and Value at Risk (VaR) limits. In 2018 the Bank did not record any significant events leading to a revaluation of the strategy or significant reset of the applicable limits.

### Services

There was a considerable change in the operational model in Operations services in 2018. Throughout the year, Operations services were relocated from sister company UniCredit Business Integrated Solutions S.C.p.A. directly into the Bank's organisational structures. This change resulted in a more direct link between the commercial and operational parts of processes, thereby allowing better concentrations on the improvement of customer experience. The Bank continues to promote a balanced approach, i.e. the achievement of cost savings thanks to centralisation and specialisation of operational structures with concurrent preservation of the availability and quality of services provided to clients. The centralisation and specialisation lead to better control over the fulfilment of regulatory requirements regarding contractual arrangements and the quality of document processing between the Bank and its clients.

In the IT area, the Bank continues to use the same service model as in previous years, providing IT services through its sister company within UniCredit Group. In 2018, only the name of this company was changed from UniCredit Business Integrated Solutions S.C.p.A. to UniCredit Services S.C.p.A.

In relation to the comprehensive change of IT systems in 2017, the IT Projects in 2018 focused mainly on the completion, stabilisation, harmonisation, development of mobile banking and digital sale channels, implementation of impacts of regulatory changes on IT systems (in particular of GDPR and PSD2) and the improvement of security of IT systems. A basis has been made for further development and modernisation of payment and mobile platforms the Bank plans to focus on in the near term.

**Assets and Liabilities Management**

In 2018, despite the growth in the volume of loans, the Bank maintained a high CZK liquidity surplus from internal and client funds over CZK financial assets. The Bank placed that surplus mostly in the form of reverse repurchase transactions in the Czech National Bank and used it partially to finance its subsidiaries. A strong liquidity position in CZK allowed the Bank to maintain low costs of CZK liquidity.

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

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

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

**Human resources**

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 considerably influence the service quality and thereby also the satisfaction and 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 play 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.

The Bank continues in its strategic development of talented employees with managerial potential, namely in the form of several development programmes, with 194 of our colleagues participating in 2018.

In 2018, the Bank introduced a number of initiatives focused on health and well-being of employees in order to improve their work-life balance, e.g. flexible working hours, home-office and related managerial training aimed at improving remote management styles and promoting home-office among managers. Moreover, the Bank provides employees with an opportunity to participate in sporting events, as well as in a running club and yoga at workplace.

A stress prevention programme for employees has been launched recently, entailing several training sessions concerning stress management. In May 2018, a so-called Stress-Reduction Line was launched in the Czech Republic, offering psychological assistance to employees. The same line will be introduced in Slovakia in 2019.

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. In 2018, we also promoted strengthening of the compliance with laws and regulations through structured processes and mechanisms focused on raising the awareness, knowledge and control with regard to all employees; the compliance with regulations was also directly accounted for in the incentive system, when we focused on the achievement of specific results with real benefits.

# Social Responsibility

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

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

**Sponsoring and Charity**
In 2018, as in previous years, UniCredit Bank focused on a wide range of activities with an overlap into social responsibility, whether as regards art, education, sports or charity.

Last year, we supported a number of scientific institutions and charitable organisations which help sick and disadvantaged children overcome barriers. Through the Embassy of the Republic of Italy, we participated in education projects for children and teenagers.

By signing the HM Treasury Women in Finance Charter, we committed to promote a more balanced gender distribution in the financial service sector.

We continue our partnership with Poradna při finanční tísni (Debt Advisory Center) and in cooperation with our partners in Slovakia, we also support 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, and we also support select non-profit organisations through employees' fundraising activities throughout the year.
We value our long-term cooperation with and support of the Karlovy Vary International Film Festival.

In 2018, UniCredit Group terminated its partnership with UEFA. On the other hand, we extend our partnership by a series of running events called RunCzech at a local level.

## 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 2018 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 2019

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 2018 together with the Auditor's Reports by Deloitte Audit s.r.o., which is the independent auditor of UniCredit Bank for the year 2018, 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 2018 and its financial performance for the 2018 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 2018, 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.

2019

## 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 2018, the basis for calculating the contribution to the Guarantee Fund was CZK 695,377,744.31. The contribution to the Guarantee Fund is 2% of this amount, i.e. CZK 13,907,554.89.

# Strengthen and optimise capital.

We will maintain a strong capital position by generating solid profit. We confirm our MDA buffer. The Group fared well in the EBA stress test results, with the third highest CET1 ratio among systemic banks in the Eurozone.

# Consolidated financial statements

## Consolidated statement of comprehensive income for the year ended 31 December 2018

| | Note | 2018 MCZK | 2017 MCZK |
|---|---|---|---|
| Interest income | 5 | 15 435 | 12 327 |
| Interest expense | 5 | (1 204) | (1 109) |
| **Net interest income** | | **14 231** | **11 218** |
| | | | |
| Fee and commission income | 6 | 5 101 | 4 660 |
| Fee and commission expenses | 6 | (1 209) | (1 195) |
| **Net fee and commission income** | | **3 892** | **3 465** |
| | | | |
| Dividend income | 7 | 4 | 4 |
| Net income/(loss) from financial assets and liabilities held for trading | 8 | 1 761 | 2 682 |
| Net income/(loss) from hedging against risk of changes in fair value | 9 | 2 | (31) |
| Net income/(loss) from the sale of financial assets and liabilities | 10 | 239 | 508 |
| Net income/(loss) from financial assets and liabilities at fair value through profit or loss not held for trading | 11 | 73 | – |
| **Operating income** | | **20 202** | **17 846** |
| | | | |
| Impairment losses on financial assets | 12 | (610) | (460) |
| | | | |
| Administrative expenses | 13 | (7 487) | (7 752) |
| Creation and release of provisions | | (549) | (160) |
| Depreciation and impairment of property and equipment | | (908) | (960) |
| Amortisation and impairment of intangible assets | | (302) | (89) |
| Other operating income and expenses | 14 | 732 | 775 |
| **Operating expenses** | | **(8 514)** | **(8 186)** |
| | | | |
| Profit/loss from investments in associates | | 66 | 94 |
| Profit/(loss) from the sale of non-financial assets | | – | (5) |
| **Profit before income tax** | | **11 144** | **9 289** |
| | | | |
| Income tax | 33 | (2 097) | (1 663) |
| Profit after tax | | 9 047 | 7 626 |
| **Net profit attributable to the Group‘s shareholders** | | **9 047** | **7 626** |
| | | | |
| **Other comprehensive income** | | | |
| **Items that can be subsequently derecognised to profit or loss** | | | |
| Reserve from revaluation of hedging instruments: | | (336) | (1 341) |
| Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income | | (337) | (1 304) |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss | | 1 | (37) |
| Reserve from revaluation of financial assets at fair value through other comprehensive income | | (697) | n/a |
| Change in revaluation reported in other comprehensive income | | (616) | n/a |
| Revaluation transferred to profit or loss | | (81) | n/a |
| *Reserve from revaluation of available-for-sale securities [1]* | | *n/a* | *(857)* |
| *Change in revaluation of available-for-sale securities reported in other comprehensive income* | | *n/a* | *(566)* |
| *Revaluation of available-for-sale securities transferred to profit or loss* | | *n/a* | *(291)* |
| Foreign exchange rate gains from the consolidation of a foreign branch | | 101 | (710) |
| **Other comprehensive income** | | **(932)** | **(2 908)** |
| Other comprehensive income attributable to the Group‘s shareholders | | **(932)** | **(2 908)** |
| | | | |
| **Total comprehensive income** | | **8 115** | **4 718** |
| Total comprehensive income attributable to the Group‘s shareholders | | 8 115 | 4 718 |

[1] In line with IAS 39

The notes on pages 43–105 form a part of these financial statements.

# Consolidated statement of financial position as of 31 December 2018

| | Note | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand and cash balances | 15 | 4 842 | 4 008 |
| Financial assets at fair value through profit or loss, of which | | 10 020 | 8 115 |
| – held for trading | 16 | 9 674 | 8 115 |
| – other than held for trading mandatorily at fair value | 16 | 346 | n/a |
| Financial assets at fair value through other comprehensive income | | 29 188 | n/a |
| *Available-for-sale securities* [1] | *17* | *n/a* | *47 522* |
| *Securities held to maturity* [1] | *18* | *n/a* | *175* |
| Financial assets at amortised cost, of which: | | 612 101 | 596 860 |
| – receivables from banks | 19 | 200 065 | 210 188 |
| – receivables from clients | 20 | 412 036 | 386 672 |
| Positive fair value of hedging derivatives | 22 | 5 636 | 4 441 |
| Equity investments | 21 | 332 | 398 |
| Property and equipment | 23 | 4 749 | 4 883 |
| Intangible assets | 24 | 2 179 | 1 940 |
| Tax receivables, including: | | 889 | 731 |
| – current income tax | 33 | 57 | 24 |
| – deferred tax | 33 | 832 | 707 |
| Non-current assets held for sale | | 0 | 2 |
| Other assets | 25 | 1 679 | 3 003 |
| **Total assets** | | **671 615** | **672 078** |
| | | | |
| **LIABILITIES** | | | |
| Financial liabilities at amortised cost, of which: | | 569 736 | 574 747 |
| – deposits from banks | 26 | 172 151 | 174 274 |
| – deposits from clients | 27 | 374 745 | 360 473 |
| – debt securities issued | 28 | 22 840 | 40 000 |
| Financial liabilities held for trading | 29 | 8 714 | 8 199 |
| Negative fair value of hedging derivatives | 30 | 5 657 | 4 876 |
| Changes in fair value of the portfolio of hedged instruments | | 608 | 0 |
| Tax liabilities, including: | | 1 108 | 926 |
| – current income tax | 33 | 406 | 320 |
| – deferred tax | 33 | 702 | 606 |
| Other liabilities | 31 | 8 733 | 10 979 |
| Provisions | 32 | 1 320 | 855 |
| **Total liabilities** | | **595 876** | **600 582** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 34 | 8 755 | 8 755 |
| Share premium | 34 | 3 495 | 3 495 |
| Reserve funds from revaluation of financial instruments | | 912 | 1 874 |
| Retained earnings and reserve funds | 36 | 53 530 | 49 746 |
| Profit for the period | | 9 047 | 7 626 |
| **Total shareholder's equity** | | **75 739** | **71 496** |
| | | | |
| **Total liabilities and shareholder's equity** | | **671 615** | **672 078** |

[1] In line with IAS 39

The notes on pages 43–105 form a part of these financial statements.

# Consolidated statement of cash flows for the year ended 31 December 2018

| | 2018<br>MCZK | 2017<br>MCZK |
|---|---|---|
| **Net profit for the period** | **9 047** | **7 626** |
| | | |
| Adjustments for non-cash items | | |
| Impairment of loans and receivables and financial investments | 1 095 | 460 |
| Revaluation of securities and derivatives | 1 212 | (361) |
| Creation and release of other provisions | (150) | (64) |
| Depreciation and amortisation of property and equipment, and intangible assets | 1 210 | 1 049 |
| Profit (loss) from sale of financial assets at fair value through other comprehensive income | 113 | n/a |
| *Profit (loss) from securities available for sale [(1)]* | *n/a* | *(308)* |
| Profit (loss) from property and equipment and intangible assets sold | – | 5 |
| Taxes | 2 097 | 1 663 |
| Other non-monetary changes | (6) | (775) |
| **Operating profit before change in operating assets and liabilities** | **14 618** | **9 295** |
| | | |
| Financial assets and liabilities held for trading | (3 719) | 2 548 |
| Receivables from banks | 10 118 | (70 284) |
| Loans and receivables from clients | (25 970) | (1 820) |
| Other assets | 1 323 | 78 |
| Deposits from banks | (1 995) | 58 768 |
| Deposits from clients | 14 266 | (10 668) |
| Other liabilities | (1 777) | 2 050 |
| Income tax paid | (1 374) | (1 499) |
| **Net cash flows from operating activities** | **5 490** | **(11 532)** |
| | | |
| Acquisition/sale and maturity of financial assets at fair value through other comprehensive income and other financial investments | 16 984 | n/a |
| *Acquisition/sale and maturity of securities available for sale and other financial investments [(1)]* | *n/a* | *32 848* |
| Gains from the sale of property and equipment and intangible assets | 1 282 | 886 |
| Acquisition of property and equipment and intangible assets | (2 170) | (2 330) |
| Dividends received | 4 | 4 |
| **Net cash flows from investment activities** | **16 100** | **31 408** |
| | | |
| Dividends paid | (3 732) | 0 |
| Debt securities issued | (17 024) | (20 060) |
| **Net cash flows from financial activities** | **(20 756)** | **(20 060)** |
| | | |
| **Cash and other highly liquid funds at the start of the period** | **4 008** | **4 192** |
| Net cash flows from operating activities | 5 490 | (11 532) |
| Net cash flows from investment activities | 16 100 | 31 408 |
| Net cash flows from financial activities | (20 756) | (20 060) |
| **Cash and other highly liquid funds at the end of the period** | **4 842** | **4 008** |
| | | |
| Interest received | 14 704 | 12 978 |
| Interest paid | (777) | (1 196) |

[(1)] In line with IAS 39

The notes on pages 43–105 form a part of these financial statements.

# Consolidated statement of changes in equity for the year ended 31 December 2018

| 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 of 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) |
| **Other comprehensive income for the period** | | | **(1 341)** | **(857)** | **(710)** | | | | | | **(2 908)** |
| **Balance as of 31 December 2017** | **8 755** | **3 495** | **539** | **1 555** | **(220)** | **5 217** | **11 611** | **(99)** | **33 017** | **7 626** | **71 496** |
| | | | | | | | | | | | |
| Impact of implementation of IFRS 9 | | | | (30) | | | | | (96) | | (126) |
| **Balance as of 1 Januar 2018** | **8 755** | **3 495** | **539** | **1 525** | **(220)** | **5 217** | **11 611** | **(99)** | **32 921** | **7 626** | **71 370** |
| | | | | | | | | | | | |
| **Transactions with owners, contributions from and distributions to owners** | | | | | | | | | | | |
| Allocation of the 2017 profit | | | | | | 23 | 812 | | 6 791 | (7 626) | – |
| Dividend payment | | | | | | | | | (3 732) | | (3 732) |
| Consolidation impact | | | | | | | | 11 | (25) | | (14) |
| **Total comprehensive income for the period** | | | | | | | | | | | |
| Net profit for 2018 | | | | | | | | | | 9 047 | 9 047 |
| **Other comprehensive income** | | | | | | | | | | | |
| **Change in revaluation of financial assets at fair value through other comprehensive income** | | | | | | | | | | | |
| Change in revaluation reported in other comprehensive income | | | | (733) | | | | | | | (733) |
| Revaluation transferred to profit or loss | | | | (97) | | | | | | | (97) |
| Deferred tax | | | | 133 | | | | | | | 133 |
| **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 | | | (416) | | | | | | | | (416) |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss | | | 1 | | | | | | | | 1 |
| Deferred tax | | | 79 | | | | | | | | 79 |
| Foreign exchange rate gains or losses from the consolidation of a foreign branch | | | | | 101 | | | | | | 101 |
| **Other comprehensive income for the period** | | | **(336)** | **(697)** | **101** | | | | | | **(932)** |
| **Balance as of 31 December 2018** | **8 755** | **3 495** | **203** | **828** | **(119)** | **5 240** | **12 423** | **(88)** | **35 955** | **9 047** | **75 739** |

The notes on pages 43–105 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 2018, 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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.***

*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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 Liabilities – the accounting policy for measuring financial assets was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements; the part of the accounting policy for measuring financial liabilities remains unchanged for both reporting periods***

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

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

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

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

***(iv) Day 1 Profit/Loss***

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

***(v) Fair Value Measurement Principles***

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

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

Where pricing models are used, inputs are based on market rates at the balance sheet date.

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

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

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

If there is no market price available as a source of valuation or the number of actual contributions is not sufficient, the Group will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Group continues to apply this method until:

- Market quotations are again available;
- The credit spread of a particular bond is adjusted based on a comparison of credit spreads of similar bonds;
- The Group receives other information about a change of the spread applied;

– The issuer's credit rating changes (change of internal and/or external rating, evidence from the market that creditworthiness is worsening); and
– The liquidity of the specific securities has deteriorated significantly.

Subsequently, the Group will carry out the valuation comprising new aspects of the market price, including an assessment of possible impairment losses (see Note 3g (ii)).
The Group's management believes that the fair value of the assets and liabilities presented in these financial statements can be measured reliably.

Financial assets and financial liabilities are recognised at fair value depending on the quality of the input used in the valuation. Individual levels are defined as follows:

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

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

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

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

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

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

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

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

***(vi) Gains and Losses on Subsequent Measurement – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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.

In the area of hedge accounting, the Group additionally used the option to continue applying the existing requirements for hedge accounting pursuant to IAS 39.
If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in 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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 either not measured at fair value or it 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 – *this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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

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

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

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

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

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

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

***(ii) Available-for-sale Financial Assets***

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

**(h) Property and Equipment and Intangible Assets**

Property and equipment and intangible assets are assets which may be used for a period longer than one year.

The Bank has property and equipment to conduct its activities as well as property and equipment held as an investment. Both types of property and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.

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

| | |
|---|---|
| • Buildings | 20–50 years |
| • Technical improvement of buildings protected as cultural heritage | 15 years |
| • Technical improvement of rented premises | 10 years or in accordance with the contract |
| • Air-conditioning equipment | 5 years |
| • Machinery and equipment | 3–10 years |
| • Bank vaults | 20 years |
| • Fixtures and fittings | 5–10 years |
| • Motor vehicles | 4–5 years |
| • IT equipment | 4 years |
| • Software and intangible assets | 2–6 years or in accordance with the contract |
| • Low value tangible assets | 2–3 years |

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

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

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

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

**(i) Leases**

*Provided Finance Lease*

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

Receivables arising from finance leases are reported as equal to the net investment in the lease upon the receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equate to the gross investment in the lease (given that finance lease contracts include a clause on the purchase at the end of the lease period, there is no unsecured net book value). The difference between the gross and net investment in the lease represents deferred financial income which is reported as interest income over the lease period with the constant periodic profitability of the net investment in the finance lease. The amounts received from the lessee reduce the net investment. Receivables of the Group arising from finance leases also include the cost of assets leased under finance leases in contracts where the asset has been already acquired but the finance lease contract was not capitalised at the balance sheet date.

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 – *this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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** – ***this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 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**

- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018*)*, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018), ), refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.
- 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.
- 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 IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

**(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 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. For the lessee IFRS 16 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.

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

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

In this respect, the Group has decided in line with the standard not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets.

In order to calculate the lease liability and related assets based on the right to use, the Group discounts future lease payments using an appropriate discount rate.

The lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, because the obligation to pay this tax originates at the moment of issuing the invoice by the lessor and not as of the date of commencement of the lease contract.

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

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

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

The Group has decided not to recalculate the comparative information for the reporting period before 1 January 2019 and for the purposes of initial recognition as of 1 January 2019 it recognised the right to use in the amount corresponding to the lease liability.

The impact of implementing IFRS 16 in terms of the application of new rules from the perspective of the lessee can be preliminarily estimated at approximately MCZK 2,213 representing the right to use an asset and approximately MCZK 2,297 representing the lease liability. The difference between the right to use and the lease liability is caused primarily by the derecognition of accrued expenses in relation to the economic lease concerning selected lease contracts and thus a decrease in the right to use the respective assets.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for the annual period beginning on or after 1 January 2019. Earlier adoption is permitted).

The purpose of IFRIC 23 interpretation is to clarify the accounting treatment for income tax that has not yet been accepted by the tax authority together with increasing transparency. According to IFRIC 23, the key issue is whether the tax authority is likely to accept the reporting entity's selected tax treatment. If the tax authority is likely to accept the uncertain tax procedure, then the tax amounts recognised in the financial statements will be in accordance with the tax return, and determining the amount of tax payable and deferred tax will not reflect any uncertainty. Otherwise, the taxable profit (or tax loss), tax bases and unused tax losses will be determined in a way that provides a better estimate of the situation after the uncertainty has been settled, using either the single most probable amount or the expected value (the sum of probability weighted amounts). An entity must assume that the tax authority will examine the process and be fully familiar with all relevant information.
The Group anticipates that this interpretation will not have a material impact on the financial statements at initial application, since the Group does not have uncertain tax positions.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for the annual period beginning on or after 1 January 2019).

This amendment addresses concerns about the accounting for financial assets that include certain contractual options for early repayment. Concerns specifically related to how the entity would classify and measure the debt instrument if the borrower had been allowed to repay the instrument prematurely for an amount less than the amount of outstanding principal and interest owed. Such an early repayment amount is often referred to as a "negative compensation". Using IFRS 9, a financial asset with a so-called negative compensation would be valued at fair value through profit or loss. The amendment allows reporting entities to measure some premature financial assets with negative compensation at amortised cost.
The Group anticipates that this amendment will not have a material impact on the financial statements.

**(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 the annual period beginning on or after 1 January 2021; to be applied prospectively. Earlier adoption is permitted).
- Amendments to IFRS 3 Business Combinations (effective for the annual period beginning on or after 1 January 2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective for the annual period beginning on or after 1 January 2020).
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission has decided to defer the approval indefinitely).
- Amendments to IAS 19: Employee Benefits (effective for the annual period beginning on or after 1 January 2019).
- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for the annual period beginning on or after 1 January 2019).
- Annual Improvements to IFRS 2015-2017 Cycle (effective for the annual period beginning on or after 1 January 2019).
- Amendment to Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in IFRS Standards which includes updates on 14 standards and interpretations (effective for the annual period beginning on or after 1 January 2020).

# 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 – this accounting estimate was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting estimate valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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, 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 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 Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

*(iii) Change in Accounting Policy*

During the years ended 31 December 2018 and 2017, the Group did not identify any changes in accounting policies that would significantly affect the Group's financial statements aside from the implementation of accounting policies based on IFRS 9.

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

As of 1 January 2018, the Group has implemented the new standard IFRS 15 "Revenue from Contracts with Customers", which revises the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18 "Revenue" and IFRS 9 "Financial Instruments", which replaces the current standard IAS 39 "Financial Instruments: Recognition and Measurement".

**IFRS 15**

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 the income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligations that must be accounted for separately under the accounting standard, and (iii) different measure of the revenues so as to reflect their variability.

Based on the analysis performed, the adoption of IFRS 15 has no major impacts on the activities of the Group and material accounting estimates and assumptions.

**IFRS 9**

- introduces 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 disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserves and not to profit and loss accounts;
- introduces a new accounting model for impairment, based on (i) the expected losses approach substituting the current approach based on the incurred losses, and (ii) introduces 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 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 IFRS 9, the Group participated in a project of the UniCredit Group with the aim of creating accounting and risk monitoring methodologies harmonised across UniCredit Group legal entities.
Mirroring the main changes required by IFRS 9, the Group wide project was 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 Group has participated in the Group wide project by performing the impact analysis and implementing all changes in line with the UniCredit 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 (i.e. not exceeding 5% of the total carrying amount of the portfolio as of the previous year-end) to be evaluated case by base.
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 other comprehensive income ("held to collect and sell" portfolio").
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").
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 are measured at fair value through profit or loss or at fair value through other comprehensive income depending on the Bank's decision (so-called FVtOCI option). Units in investments funds are 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 2 allocation assessment includes a combination of relative and absolute triggers. The main triggers include:
- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set 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) (this procedure assesses whether there has been a material deterioration in credit quality since initial recognition);
- absolute triggers such as backstops required by the regulation (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 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 UniCredit 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").
The Group has used the option not to adjust comparative information for the previous reporting period as stated in IFRS 9.
With reference to hedge accounting the Group opted to keep applying the existing hedge accounting requirements in IAS 39.
The material accounting estimates and assumptions reflect the new approach of the standard to the classification and measurement of financial assets and the new model for impairment.

<u>Use of Estimates</u>
*Impairment*
Assets accounted for at amortised cost and at fair value recognised through other comprehensive income (except for the FVtOCI option) are subject to impairment. Impairment is determined in the amount of the 12-month (or shorter depending on the instrument's maturity) expected credit loss in the case of assets that have not experienced a significant increase in credit risk since initial recognition, and in the amount of lifetime expected losses in the case of assets which have experienced a significant increase in credit risk since initial recognition or which are impaired. In the assessment of impairment, the return on financial assets is evaluated separately using the best possible estimate of the present value of future cash flows that are expected to be received.
In estimating these cash flows, the management of the Bank makes judgements about the client's financial situation and the net realisable value of any underlying collateral.

<u>Financial Instruments</u>
*Classification*
The Group classifies financial assets as instruments at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income based on:
a) the business model for managing financial assets; and simultaneously
b) characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at *amortised cost* if both the following conditions are met:
a) the asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and simultaneously
b) the contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.
*Financial assets at amortised cost* represent receivables from banks or receivables from clients and debt securities.

A financial asset is measured at *fair value through other comprehensive income* if both the following conditions are met:

a) the asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and simultaneously
b) the contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.

*Financial assets at fair value through other comprehensive income* include investments in debt and equity instruments (as selected by the reporting entity) and certain tradable debt securities acquired in primary issues.

A financial asset is measured at *fair value though profit or loss* if it is not measured at amortised cost or at fair value through other comprehensive income.

*Financial assets at fair value through profit or loss* include financial assets held for trading, financial assets other than held for trading at fair value and financial assets other than held for trading mandatorily at fair value.

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

"Financial assets other than held for trading at fair value" include financial assets that are measured at fair value through profit or loss based on an irreversible choice of the reporting entity made upon the first recognition in accounting records.

"Financial assets other than held for trading mandatorily at fair value" include equity instruments and any debt instruments whose cash flows do not present solely payments of the principal and interest.

*Financial liabilities at amortised cost* – this category includes all financial liabilities with the exception of financial liabilities measured at fair value though profit or loss.

*Financial liabilities measured at fair value though profit or loss* – a financial liability belongs in this category only if:

1) This decision provides more relevant information because:
   a) It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of assets or liabilities or recognition of the respective profits or losses on a different basis; or
   b) The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Group on this basis;
2) The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Group can include the entire hybrid contract in this category, with the exception of cases where:
   a) The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
   b) It is clear at first glance upon the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
3) The transfer of the financial assets does not meet the conditions for derecognition, all expenses incurred for the financial liability must be recognised in the following periods.

*Purchased or originated credit-impaired financial assets (POCI)*
These are financial assets that are credit-impaired already at first recognition. The Bank identified no such financial assets during 2018.

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

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

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

Financial assets at amortised cost are recognised in the Group's accounting books from the moment of settlement.

*Measurement of Financial Assets*
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 financial assets at fair value through other comprehensive income are measured at fair value.

Financial assets at amortised cost 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.

*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 debt instrument assets at fair value through other comprehensive income are recognised in other comprehensive income and become the equity item "Reserves from revaluation of financial assets through other comprehensive income", with the exception of a credit loss that is reported in profit or loss as "Impairment of financial assets". 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".
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, and through the amortisation process.

*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.
Assets measured at fair value through other comprehensive income and assets 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.
The Group derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified at stage 1 for the purposes of ECL calculation.

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

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such a case, the Bank recognises gains on losses from modification (modification accounting), representing the difference between:
- The present value of modified contractual cash flows discounted using the original EIR; and
- The present value of original contractual cash flows discounting using the original EIR.

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing the failure to meet the SPPI test) are considered to be changes that do not significantly affect the related cash flows. Based on the above, the Bank performed an analysis and quantified the impact as immaterial for 2018.

*Impairment losses*
For reporting and provisioning purposes, the Group uses a new three-stage model in line with IFRS 9 that takes into account changes in credit quality since initial recognition ("staging"):
- Stage 1 includes financial assets the credit risk of which has not increased significantly since initial recognition and assets with low credit risk at the balance sheet date. The 12-month expected credit losses (or shorter depending on the maturity of the instrument) are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 2 includes financial assets the credit risk of which has increased significantly since initial recognition but for which there is no objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 3 includes financial assets for which there is objective evidence of impairment. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category will include receivables with default.

*Financial assets at amortised cost*
Financial assets at amortised cost predominantly include receivables from banks, receivables from clients and trade receivables and they are reported net, i.e. reflecting impairment losses.
Individual impairment losses adjust the net book value of financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument.
Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on past experience with incurred losses ("historical losses") while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

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

*Financial liabilities at amortised cost*
Financial liabilities at amortised cost include payables to banks, payables to clients and issued debt securities. These liabilities are measured at fair value on initial recognition. After initial recognition these liabilities are measured at amortised cost.

*Financial liabilities held for trading*
Financial liabilities held for trading include instruments held by the Group principally for the purpose of short-term profit taking. These instruments include short sales and derivatives that are not designated as hedging instruments.

<u>Embedded derivatives</u>
Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) affecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:
- The host instrument is not a financial asset pursuant to IFRS 9;
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is either not measured at fair value or it is measured at fair value but changes in fair value are recognised in other comprehensive income.

<u>Provisions</u>
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.

When creating provisions for off-balance sheet items, the Bank proceeds analogically as for impairment loss on financial receivables in line with IFRS 9.

<u>Interest income and expenses</u>
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 is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
Interest income on financial assets at amortised cost or at fair value through other comprehensive income that are classified at stage 1 and 2 (i.e. non-impaired assets) is calculated from the gross carrying amount (i.e. before allowances). Interest income on financial assets at amortised cost or at fair value through other comprehensive income that are classified at stage 3 (i.e. impaired assets) are calculated from the net carrying amount (i.e. after allowances) using unwinding.
In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expense is presented in interest income.

### Changes made as of 1 January 2018

The following table summarises the changes in the statement of financial position with respect to the initial application of IFRS 9.

| MCZK | 31 Dec 2017 | Reclassification | Change in valuation | 1 Jan 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash in hand and cash balances | 4 008 | – | – | 4 008 |
| Financial assets at fair value through profit or loss, of which | 8 115 | 254 | – | 8 115 |
| – held for trading | 8 115 | – | – | 8 115 |
| – other than held for trading mandatorily at fair value | n/a | 254 | – | 254 |
| Financial assets at fair value through other comprehensive income | n/a | 47 268 | – | 47 268 |
| *Available-for-sale securities (originally under IAS 39)* | 47 522 | (47 522) | – | n/a |
| Financial assets at amortised costs, of which | 596 860 | 175 | (26) | 597 011 |
| – receivables from banks | 210 188 | – | (4) | 210 184 |
| – receivables from clients | 386 672 | 175 | (20) | 386 827 |
| *Securities held to maturity (originally under IAS 39)* | 175 | (175) | – | n/a |
| Positive fair value of hedging derivatives | 4 441 | – | – | 4 441 |
| Investment in associates | 398 | – | – | 398 |
| Property and equipment | 4 883 | – | – | 4 883 |
| Intangible assets | 1 940 | – | – | 1 940 |
| Tax receivables, including: | 731 | – | 3 | 734 |
| – current income tax | 24 | – | – | 24 |
| – deferred tax | 707 | – | 3 | 710 |
| Non-current assets held for sale | 2 | – | – | 2 |
| Other assets | 3 003 | – | (1) | 3 002 |
| **Total assets** | **672 078** | **–** | **(22)** | **672 056** |
| | | | | |
| **LIABILITIES** | | | | |
| Financial liabilities at amortised cost, including: | 574 747 | – | – | 574 747 |
| – Deposits from banks | 174 274 | – | – | 174 274 |
| – Deposits from clients | 360 473 | – | – | 360 473 |
| – Debt securities issued | 40 000 | – | – | 40 000 |
| Financial liabilities held for trading | 8 199 | – | – | 8 199 |
| Negative fair value of hedging derivatives | 4 876 | – | – | 4 876 |
| Tax liabilities, including: | 926 | – | (25) | 901 |
| – current income tax | 320 | – | (22) | 298 |
| – deferred tax | 606 | – | (3) | 603 |
| Other liabilities | 10 979 | – | – | 10 979 |
| Provisions, of which | 855 | – | 129 | 984 |
| – Provisions for loan facilities | 252 | – | (38) | 214 |
| – Provisions for guarantees | 251 | – | 167 | 418 |
| – Other provisions | 352 | – | – | 352 |
| **Total liabilities** | **600 582** | **–** | **104** | **600 686** |
| | | | | |
| **EQUITY** | | | | |
| Issued capital | 8 755 | – | – | 8 755 |
| Share premium | 3 495 | – | – | 3 495 |
| Reserve funds from revaluation | 1 874 | – | (30) | 1 844 |
| Retained earnings and reserve funds | 49 746 | – | (96) | 49 650 |
| Profit for the period | 7 626 | – | – | 7 626 |
| **Total shareholder's equity** | **71 496** | – | (126) | **71 370** |
| | | | | |
| **Total liabilities and shareholder's equity** | **672 078** | **–** | **(22)** | **672 056** |

Changes in financial assets made as of 1 January 2018:

| Classification of financial assets pursuant to IAS 39: | | Classification of financial assets pursuant to IFRS 9: | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial assets held for trading | | | Financial assets mandatorily at fair value | | |
| MCZK | Carrying amount as of 31 Dec 2017 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 |
| Financial assets held for trading | 8 115 | 8 115 | – | 8 115 | – | – | – |
| Securities available for sale | 47 522 | – | – | – | 254 | – | 254 |
| Securities held to maturity | 175 | – | – | – | – | – | – |
| Receivables from banks | 210 188 | – | – | – | – | – | – |
| Receivables from clients | 386 672 | – | – | – | – | – | – |
| Total under IFRS 9 as of 1 Jan 2018 | | | | **8 115** | | | **254** |

| Classification of financial assets pursuant to IAS 39: | | Classification of financial assets pursuant to IFRS 9: | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial assets at fair value through other comprehensive income | | | Financial assets at amortised cost | | |
| MCZK | Carrying amount as of 31 Dec 2017 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 |
| Financial assets held for trading | 8 115 | – | – | – | – | – | – |
| Securities available for sale | 47 522 | 47 268 | – | 47 268 | – | – | – |
| Securities held to maturity | 175 | – | – | – | 175 | – | 175 |
| Receivables from banks | 210 188 | – | – | – | 210 188 | (4) | 210 184 |
| Receivables from clients | 386 672 | – | – | – | 386 672 | (20) | 386 827 |
| Total under IFRS 9 as of 1 Jan 2018 | | | | **47 268** | | | **597 011** |

# 5. Net interest income and similar income

| MCZK | 2018 | 2017 Restated* | 2017 |
|---|---|---|---|
| **Interest income** | | | |
| Balances with central banks | 3 446 | 410 | 410 |
| Receivables from banks | 648 | 474 | 112 |
| Receivables from clients | 10 137 | 9 807 | 9 795 |
| Financial assets at fair value through other comprehensive income | 648 | n/a | n/a |
| *Available-for-sale securities (originally under IAS 39)* | n/a | 1 019 | 1 019 |
| Securities at amortised costs – receivables from clients | 9 | n/a | n/a |
| *Securities held to maturity (originally under IAS 39)* | n/a | 9 | 9 |
| Financial assets at fair value through profit or loss held for trading | 18 | 5 | 5 |
| Financial assets at fair value through profit or loss not held for trading mandatorily at fair value | 5 | n/a | n/a |
| Net interest income from hedging derivatives | 511 | 977 | 977 |
| Other assets | 13 | – | – |
| **Interest income** | **15 435** | **12 701** | **12 327** |
| | | | |
| **Interest expense** | | | |
| Deposits from central bank | (1) | – | – |
| Deposits from banks | (252) | (354) | 8 |
| Deposits from clients | (356) | (186) | (174) |
| Debt securities issued | (575) | (940) | (940) |
| Financial liabilities held for trading | (20) | (3) | (3) |
| **Interest expense** | **(1 204)** | **(1 483)** | **(1 109)** |
| **Net interest income** | **14 231** | **11 218** | **11 218** |

* In the statement of comprehensive income for 2017 and the notes to the financial statements (consolidated) for the year ended 31 December 2017, in the Net interest income table, negative interest income was presented in income with a negative balance and negative interest expenses were presented in interest expenses with the opposite sign.

In the statement of comprehensive income for 2018 and the notes to the financial statements (consolidated) for the year ended 31 December 2018, in the Net interest income table, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Negative interest expenses within interest income are as follows:
- Deposits at central banks – as of 31 December MCZK 2018 163 (as of 31 December 2017 MCZK 0)
- Receivables from banks – as of 31 December 2018 MCZK 436 (as of 31 December 2017 MCZK 341)
- Receivables from clients – as of 31 December 2018 MCZK 8 (as of 31 December 2017 MCZK 8)

Negative interest income within interest expenses is as follows:
- Payables to the central bank – as of 31 December 2018 MCZK (1) (as of 31 December 2017 MCZK 0)
- Payables to banks – as of 31 December 2018 MCZK (12) (as of 31 December 2017 MCZK (21))
- Payables to clients – as of 31 December 2018 MCZK (1) (as of 31 December 2017 MCZK (4))

The 2017 restated column contains the values of interest income and interest expenses presented as they would have been presented had the presentation for 2018 been used for 2017.

The different presentation has no impact on net interest income.

# 6. Net fee and commission income

| MCZK | 2018 | 2017 |
|---|---|---|
| **Fee and commission income from** | | |
| Securities transactions | 8 | 1 |
| Management, administration, deposit and custody services | 711 | 738 |
| Loans | 1 243 | 1 231 |
| Payment services | 1 013 | 855 |
| Account administration | 593 | 529 |
| Payment cards | 1 017 | 944 |
| Other | 516 | 362 |
| **Fee and commission income** | **5 101** | **4 660** |
| | | |
| **Fee and commission expenses from** | | |
| Securities transactions | (13) | (25) |
| Management, administration, deposit and custody services | (101) | (99) |
| Loans | (171) | (220) |
| Payment services | (53) | (37) |
| Payment cards | (780) | (719) |
| Other | (91) | (95) |
| **Fee and commission expenses** | **(1 209)** | **(1 195)** |
| **Net fee and commission income** | **3 892** | **3 465** |

## 7. Dividend income

| MCZK | 2018 | 2017 |
|---|---|---|
| **Dividend income** | | |
| Financial assets at fair value through profit or loss not held for trading mandatorily at fair value | 2 | n/a |
| Financial assets at fair value through other comprehensive income | 2 | n/a |
| *Shares classified as available-for-sale securities (originally under IAS 39)* | n/a | 4 |
| **Total dividend income** | **4** | **4** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Net realised and unrealised gain/(loss) from securities held for trading | 36 | (42) |
| Net realised and unrealised gain/(loss) from derivatives held for trading | 1 647 | (3 402) |
| Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX | 78 | 6 126 |
| **Net trading income/loss** | **1 761** | **2 682** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Hedging instruments | 698 | 435 |
| Hedged instruments | (696) | (466) |
| **Net income/loss from hedging against risk of changes in fair value** | **2** | **(31)** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Receivables from clients | 99 | 204 |
| Financial assets at fair value through other comprehensive income | 142 | n/a |
| *Available-for-sale securities (originally under IAS 39)* | n/a | 308 |
| Debt securities issued | (2) | (4) |
| **Net income/loss from the sale of financial assets and liabilities** | **239** | **508** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Shares | 73 | n/a |
| **Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading** | **73** | **n/a** |

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

| MCZK | 2018 |
|---|---|
| **Financial assets at amortised cost** | **(619)** |
| **– receivables from banks** | **(2)** |
| Stage 1 | (2) |
| Stage 2 | – |
| Stage 3 | – |
| **– receivables from clients** | **(617)** |
| Stage 1 | 16 |
| Stage 2 | (88) |
| Stage 3 | (545) |
| **Financial assets at fair value through other comprehensive income** | **9** |
| Stage 1 | 9 |
| Stage 2 | – |
| Stage 3 | – |
| **Total** | **(610)** |

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

In the year ended 31 December 2017, impairment losses created for off-balance sheet items were reported under this item; in the year ended 31 December 2018 impairment losses created for off-balance sheet items in the amount of MCZK 486 are included in the item ‘Recognition and release of provisions’.

## 13. Administrative expenses

| MCZK | 2018 | 2017 |
|---|---|---|
| Personnel expenses | | |
| Wages and salaries paid to employees | (2 443) | (2 342) |
| Social costs | (891) | (863) |
| Other | (178) | (209) |
| | **(3 512)** | **(3 414)** |
| Other administrative expenses | | |
| Rent and building maintenance | (615) | (612) |
| Information technologies | (1 259) | (1 455) |
| Promotion and marketing | (270) | (301) |
| Consumables used | (65) | (53) |
| Audit, legal and advisory services | (211) | (191) |
| Administrative and logistic services | (329) | (485) |
| Deposits and transactions insurance | (734) | (744) |
| Other services | (257) | (258) |
| Other | (235) | (239) |
| | **(3 975)** | **(4 338)** |
| **Total administrative expenses** | **(7 487)** | **(7 752)** |

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 | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | 182 | 180 |
| Post-employment benefits | 8 | – |
| Other long-term employee benefits | 29 | 30 |
| Termination benefits | – | – |
| Share-based payments | – | – |
| **Total** | **219** | **211** |

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

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

| | 2018 | 2017 |
|---|---|---|
| Employees | 3 251 | 3 289 |
| Members of the Board of Directors | 7 | 7 |
| Members of the Supervisory Board | 3 | 3 |
| Other executives directly reporting to the Board of Directors | 30 | 33 |

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

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

| 2018<br>MCZK | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
|---|---|---|---|
| Minimum future payments | 309 | 1 146 | – |
| | | | |
| **2017<br>MCZK** | **Due within<br>1 year** | **Due in<br>1–5 years** | **Due in the<br>following years** |
| Minimum future payments | 307 | 1 142 | – |

## 14. Other operating income and expenses

| MCZK | 2018 | 2017 |
|---|---|---|
| Income from rent | 731 | 736 |
| Other income related to leases | 49 | 84 |
| Other income | 619 | 529 |
| **Total other operating income** | **1 399** | **1 349** |
| | | |
| Taxes | (12) | (6) |
| Fines and penalties | (202) | (22) |
| Other expenses related to leases | – | (113) |
| Other | (453) | (433) |
| **Total other operating expenses** | **(667)** | **(574)** |
| **Total other operating income and expenses** | **732** | **775** |

The following table summarises operating lease receivables:

| 2018<br>MCZK | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
|---|---|---|---|
| Future minimum payments | 295 | 256 | 86 |

| 2017<br>MCZK | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
|---|---|---|---|
| Future minimum payments | 414 | 829 | 206 |

# 15. Cash in hand and cash balances

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Cash in hand | 4 601 | 3 964 |
| Other balances with central banks | 241 | 44 |
| **Total** | **4 842** | **4 008** |

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 2018** | | | | |
| Debt securities | 1 246 | – | 990 | 2 236 |
| Derivatives | 30 | 6 067 | 1 341 | 7 438 |
| **Total** | **1 276** | **6 067** | **2 331** | **9 674** |
| | | | | |
| **31 Dec 2017** | | | | |
| Debt securities | 1 228 | 58 | – | 1 286 |
| Derivatives | 36 | 6 793 | – | 6 829 |
| **Total** | **1 264** | **6 851** | **–** | **8 115** |

### *(ii) Securities by Type of Issuer*

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Debt securities | | |
| Public administration | 1 246 | 1 283 |
| Other | 990 | 3 |
| **Total** | **2 236** | **1 286** |

## (b) Other than held for trading mandatorily at fair value

The securities under this item were reported as part of Available-for-sale securities under IAS 39. This item has no equivalent under IAS 39 and information as of 31 December 2017 is therefore not provided.

*(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 2018** | | | | |
| Shares | – | – | 346 | 346 |
| **Total** | **–** | **–** | **346** | **346** |

*(ii) Securities by Type of Issuer*

| MCZK | 31 Dec 2018 |
|---|---|
| Shares | |
| Other financial institutions | 346 |
| **Total** | **346** |

# 17. Financial assets at fair value through other comprehensive income

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

Comparative information as of 31 December 2017 represents an overview of "Available-for-sale securities" under IAS 39:

| MCZK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 Dec 2018** | | | | |
| Debt securities | 24 889 | 4 229 | 64 | 29 182 |
| Shares | – | – | 6 | 6 |
| **Total** | **24 889** | **4 229** | **70** | **29 188** |

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

Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVtOCI option.

| 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** |

## (b) Securities by Type of Issuer

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Debt securities | | |
| Government institutions | 21 244 | 31 647 |
| Credit institutions | 909 | 7 501 |
| Other | 7 029 | 8 114 |
| | | |
| Shares | | |
| Other | 6 | 260 |
| **Total** | **29 188** | **47 522** |

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

### (c) Participation Interests

| MCZK Name | Registered office | Date of acquisition | Acquisition price | Net book value 2018 | Net book value 2017 | Share of the Group at 31 Dec 2018 | at 31 Dec 2017 |
|---|---|---|---|---|---|---|---|
| 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

This category is relevant pursuant to IAS 39 until 31 December 2017. From 1 January 2018, these securities are classified pursuant to IFRS 9 as Financial assets at amortised cost – receivables from clients.

### (a) By type of security

| MCZK | 31 Dec 2017 |
|---|---|
| Debt securities | 175 |
| **Total** | **175** |

### (b) Securities by activities of issuers

| MCZK | 31 Dec 2017 |
|---|---|
| Debt securities | |
| Governments and central banks | 175 |
| Other | |
| **Total** | **175** |

## 19. Financial assets at amortised cost – receivables from banks

Comparative information as of 31 December 2017 represents an overview of Receivables from banks pursuant to IAS 39.

### (a) Analysis of Receivables from Banks, by Type

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current accounts | 30 | 1 328 |
| Term deposits | 3 385 | 648 |
| Loans | 1 046 | 4 946 |
| Reverse repurchase commitments (see Note 37) | 189 921 | 199 020 |
| Obligatory minimum reserves with central banks | 5 683 | 4 246 |
| **Total** | **200 065** | **210 188** |

All financial assets at amortised cost – receivables from banks as of 31 December 2018 are classified by credit quality at stage 1 with the total allowance of MCZK 6.

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Czech Republic | 195 730 | 203 457 |
| Slovakia | 47 | 431 |
| Other EU countries | 4 088 | 1 842 |
| Other | 200 | 4 458 |
| **Total receivables from banks** | **200 065** | **210 188** |

# 20. Financial assets at amortised cost – receivables from clients

Comparative information as of 31 December 2017 represents an overview of Receivables from clients pursuant to IAS 39.

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

| MCZK | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 Dec 2018** | | | | |
| Current accounts (overdrafts) | 35 620 | 4 062 | 418 | 40 100 |
| Reverse repurchase commitments (see Note 37) | – | – | – | – |
| Mortgage loans | 175 968 | 6 512 | 1 431 | 183 911 |
| Credit cards and consumer loans | 8 173 | 657 | 122 | 8 952 |
| Leases | 20 845 | 666 | 346 | 21 857 |
| Factoring | 6 285 | 11 | 24 | 6 320 |
| Debt securities | 177 | – | – | 177 |
| Other loans | 144 443 | 5 729 | 547 | 150 719 |
| **Total** | **391 511** | **17 637** | **2 888** | **412 036** |

| MCZK | Non-default | Default | Total |
|---|---|---|---|
| **31 Dec 2017** | | | |
| Current accounts (overdrafts) | 36 698 | 475 | 37 173 |
| Reverse repurchase commitments (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** |

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 amount | Impairment losses | Net amount |
|---|---|---|---|
| **31 Dec 2018** | | | |
| Stage 1 | 392 648 | (1 137) | 391 511 |
| Stage 2 | 18 255 | (618) | 17 637 |
| Stage 3 | 11 282 | (8 394) | 2 888 |
| **Total** | **422 185** | **(10 149)** | **412 036** |

| 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** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Receivables without default – stage 1 and 2 | | |
| Internal rating 1 | 10 529 | 5 690 |
| Internal rating 2 | 17 954 | 13 080 |
| Internal rating 3 | 52 822 | 39 394 |
| Internal rating 4 | 150 187 | 106 493 |
| Internal rating 5 | 68 171 | 110 700 |
| Internal rating 6 | 66 669 | 67 601 |
| Other internal rating | 20 241 | 19 236 |
| Receivables without internal rating | 24 330 | 21 506 |
| **Total** | **410 903** | **383 700** |
| Receivables with default – stage 3 | 11 282 | 13 581 |
| **Total** | **422 185** | **397 281** |

On 31 December 2017, the Group used the following treatment pursuant to IAS 39 for the categorisation and assessment of whether the carrying amount of receivables has not decreased.
For the treatment applied by the Group in the categorisation and assessment of whether the carrying amount of receivables has not decreased since 1 January 2018 pursuant to IFRS 9, refer to Note 4. b) (iv) *Effect of the Changes in Accounting Standards on these Financial Statements*.

The following table summarises gross non-default loan receivables based on the number of days past due. The amounts as of 31 December 2018 contain receivables classified at stage 1 and 2.

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Non-default receivables, gross | | |
| Due receivables | 394 557 | 377 515 |
| 1 – 30 days past due | 15 630 | 5 600 |
| 31 – 90 days past due | 695 | 551 |
| More than 91 days past due | 21 | 12 |
| **Total** | **410 903** | **383 678** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Financial institutions | 8 253 | 6 033 |
| Non-financial institutions | 280 141 | 265 459 |
| Government sector | 3 859 | 2 712 |
| Individuals and others | 119 783 | 112 648 |
| **Total** | **412 036** | **386 852** |

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

| MCZK | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 Dec 2018** | | | | |
| Bank and similar guarantee | 4 496 | 43 | 10 | 4 549 |
| Mortgage | 101 676 | 3 964 | 1 679 | 107 319 |
| Corporate guarantee | 3 825 | 275 | 42 | 4 142 |
| Movable assets | 43 479 | – | 1 895 | 45 374 |
| Other security | 7 083 | 211 | 153 | 7 447 |
| Unsecured | 232 089 | 13 762 | 7 503 | 253 354 |
| **Total** | **392 648** | **18 255** | **11 282** | **422 185** |

| 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** |

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 36,452 (as of 31 December 2017: MCZK 46,869). 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 2018 | 31 Dec 2017 |
|---|---|---|
| Czech Republic | 260 923 | 246 970 |
| Slovakia | 128 701 | 120 609 |
| Other EU countries | 17 500 | 13 868 |
| Other | 4 912 | 5 225 |
| **Total** | **412 036** | **386 672** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Real estate services | 68 846 | 64 000 |
| Financial services | 8 132 | 5 943 |
| Wholesale | 31 248 | 32 792 |
| Households (individuals) | 116 252 | 109 336 |
| Retail (entrepreneurs) | 10 307 | 8 456 |
| Leasing and rental | 3 797 | 6 343 |
| Automotive industry | 8 014 | 8 807 |
| Power industry | 25 897 | 28 499 |
| Other | 139 543 | 122 496 |
| **Total receivables from clients** | **412 036** | **386 672** |

#### (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 2018** | | | | | | | |
| Non-financial institutions | 7 486 | 2 055 | 9 541 | (124) | (1 548) | (1 672) | 7 869 |
| Other financial institutions | – | – | – | – | – | – | – |
| Individuals and others | 114 | 62 | 176 | (1) | (20) | (21) | 155 |
| **Total** | **7 600** | **2 117** | **9 717** | **(125)** | **(1 568)** | **(1 693)** | **8 024** |

All forborne receivables without default are classified at stage 2, all forborne receivables with default are classified at stage 3.

| 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** |

Net forbearance represented 1.95% of the total receivables from clients as of 31 December 2018 (2017: 1.87%).

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 2018** | | | |
| Non-default receivables | | | |
| Before due | 6 772 | (98) | 6 674 |
| Past due | 828 | (27) | 801 |
| **Total non-default forbearance** | **7 600** | **(125)** | **7 475** |
| | | | |
| Default receivables | | | |
| Up to 90 days past due | 1 095 | (648) | 447 |
| 91 to180 days past due | 22 | (8) | 14 |
| 181 days to 1 year past due | 399 | (335) | 64 |
| Over 1 year past due | 601 | (577) | 24 |
| **Total default forbearance** | **2 117** | **(1 568)** | **549** |
| **Total** | **9 717** | **(1 693)** | **8 024** |

| 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 | 943 | (495) | 448 |
| 91 to180 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** |

The table below shows movements in gross forbearance:

| MCZK | |
|---|---|
| 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** |
| | |
| Balance at 1 January 2018 | 8 588 |
| Transfer to forbearance | 5 462 |
| Additions | 351 |
| Write-offs | (33) |
| Settled | (782) |
| Transfer from forbearance | (3 942) |
| Other | 73 |
| **Total forbearance as of 31 December 2018** | **9 717** |

The table below shows movements in the impairment of forbearance:

| MCZK | |
|---|---|
| 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 decreases | 88 |
| **Total impairment forbearance as of 31 December 2017** | **(1 354)** |
| | |
| Impact of IFRS 9 | – |
| Balance at 1 January 2018 | (1 354) |
| Transfer to forbearance | (431) |
| Charge during the current year | (435) |
| Release during the current year | 144 |
| Receivables written off – use | 33 |
| Transfer from forbearance | 386 |
| Other decreases | (36) |
| **Total impairment forbearance as of 31 December 2018** | **(1 693)** |

### (h) Impairment of Receivables from Clients

| MCZK | | | | |
|---|---|---|---|---|
| Balance as of 1 Jan 2017 | | | | (12 278) |
| Charge during the current year | | | | (3 547) |
| Release during the current year | | | | 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)** |
| | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Impact of IFRS 9 | | | | (20) |
| Balance as of 1 Jan 2018 | (1 164) | (521) | (8 944) | (10 629) |
| *Transfer of the gross amount of receivables from Stage 1* | *(882)* | *593* | *289* | – |
| *Transfer of the gross amount of receivables from Stage 2* | *1 006* | *(1 198)* | *192* | – |
| *Transfer of the gross amount of receivables from Stage 3* | *439* | *103* | *(542)* | – |
| Charge during the current year | (668) | (478) | (3 078) | (4 224) |
| Release during the current year | 684 | 390 | 2 533 | 3 607 |
| Net effect on profit or loss | 16 | (88) | (545) | (617) |
| Receivables written off – use | 16 | 0 | 1 118 | 1 134 |
| FX differences | (5) | (9) | (23) | (37) |
| **Total impairment of receivables from clients as of 31 Dec 2018** | **(1 137)** | **(618)** | **(8 394)** | **(10 149)** |

### i) Receivables from Finance Leases

| | Minimum lease payment | | Present value of the minimum lease instalment | |
|---|---|---|---|---|
| **MCZK** | **31 Dec 2018** | **31 Dec 2017** | **31 Dec 2018** | **31 Dec 2017** |
| Receivables from finance leases: | | | | |
| Within 1 year | 8 555 | 8 524 | 7 072 | 7 783 |
| From one year to five years | 15 583 | 15 128 | 12 488 | 13 840 |
| More than five years | 3 006 | 3 406 | 2 297 | 3 237 |
| | 27 144 | 27 058 | 21 857 | 24 860 |
| Minus: unrealised income | (1 833) | (2 198) | – | – |
| Present value of the receivable from the minimum lease instalment | 25 311 | 24 860 | 21 857 | 24 860 |

## 21. Equity investments

| MCZK | Assets | Operating income | Profit / (loss) | Equity | Net book value |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| RCI Financial Services, s.r.o. (50%) | 3 820 | 259 | 131 | 568 | 332 |
| **Total** | | | | | **332** |
| | | | | | |
| **31 December 2017** | | | | | |
| RCI Financial Services, s.r.o. (50%) | 3 587 | 217 | 115 | 714 | 398 |
| **Total** | | | | | **398** |

### Changes in Investments in Associates

| MCZK | |
|---|---:|
| **Balance at 1 January 2017** | **401** |
| Change in profit or loss | 57 |
| Dividend | (60) |
| Change in equity | – |
| **Total at 1 January 2017** | **398** |
| | |
| **Balance at 1 January 2018** | **398** |
| Change in profit or loss | 66 |
| Dividend | (132) |
| Change in equity | |
| **Total at 1 January 2018** | **332** |

## 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 2018 | | | | |
| Fair value hedging | – | 837 | – | 837 |
| Cash flow hedging | – | 4 799 | – | 4 799 |
| **Total** | **–** | **5 636** | **–** | **5 636** |
| | | | | |
| 31 Dec 2017 | | | | |
| Fair value hedging | – | 248 | – | 248 |
| Cash flow hedging | – | 4 193 | – | 4 193 |
| **Total** | **–** | **4 441** | **–** | **4 441** |

## 23. Property and equipment

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---:|---:|
| **Property and equipment for operations** | | |
| Buildings and land | 720 | 831 |
| Fixtures and fittings | 29 | 35 |
| IT equipment | 72 | 97 |
| Assets provided under operating leases | 2 985 | 3 099 |
| Other | 297 | 141 |
| | | |
| **Property and equipment held as an investment** | | |
| Buildings and land | 646 | 680 |
| **Total** | **4 749** | **4 883** |

### (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 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) |
| 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) |
| | | | | | | |
| **Cost at 1 Jan 2018** | **1 807** | **191** | **685** | **3 970** | **369** | **7 022** |
| Accumulated depreciation and impairment at 1 Jan 2018 | (976) | (156) | (588) | (871) | (228) | (2 819) |
| **Net Book Value at 1 Jan 2018** | **831** | **35** | **97** | **3099** | **141** | **4 203** |
| Additions | 53 | 1 | 28 | 1 117 | 198 | 1 397 |
| Disposals | – | – | – | (772) | (9) | (781) |
| Depreciation charges | (167) | (8) | (53) | (562) | (84) | (874) |
| Other and FX rate gains or losses | 3 | 1 | 0 | 103 | 51 | 158 |
| **Net Book Value at 31 Dec 2018** | **720** | **29** | **72** | **2 985** | **297** | **4 103** |
| Cost at 31 Dec 2018 | 2 562 | 176 | 666 | 4 093 | 540 | 8 037 |
| Accumulated depreciation and impairment at 31 Dec 2018 | (1 842) | (147) | (594) | (1 108) | (243) | (3 934) |

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

| MCZK | Buildings and land | Total |
|---|---|---|
| **Cost at 1 Jan 2017** | 982 | 982 |
| Accumulated depreciation and impairment at 1 Jan 2017 | (270) | (270) |
| **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) |
| | | |
| **Cost at 1 Jan 2018** | **984** | **984** |
| Accumulated depreciation and impairment at 1 Jan 2018 | (304) | (304) |
| **Net Book Value at 1 Jan 2018** | **680** | **680** |
| Additions | – | – |
| Disposals | – | – |
| Depreciation charges | (34) | (34) |
| Transfers to assets held for sale | – | – |
| Other and FX rate gains or losses | – | – |
| **Net Book Value at 31 Dec 2018** | **646** | **646** |
| Cost at 31 Dec 2018 | 984 | 984 |
| Accumulated depreciation and impairment at 31 Dec 2018 | (338) | (338) |

The fair value of assets held as investments is MCZK 825 (31 December 2017: MCZK 791).

# 24. Intangible assets

### Movements in Intangible Assets

| MCZK | Software | Other | Total |
|---|---|---|---|
| **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) |
| | | | |
| **Cost at 1 Jan 2018** | **3 115** | **–** | **3 115** |
| Accumulated amortisation and impairment at 1 Jan 2018 | (1 175) | – | (1 175) |
| **Net Book Value at 1 Jan 2018** | | | |
| Additions | 515 | – | 515 |
| Disposals | – | – | – |
| Amortisation charges | (302) | – | (302) |
| Other | 26 | – | 26 |
| **Net Book Value at 31 Dec 2018** | **2 179** | **–** | **2 179** |
| Cost at 31 Dec 2018 | 3 514 | – | 3 514 |
| Accumulated amortisation and impairment at 31 Dec 2018 | (1 335) | – | (1 335) |

The increase in the value of software in 2017 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 2018 | 31 Dec 2017 |
|---|---|---|
| Deferred expenses and accrued income | 476 | 439 |
| Prepayments made in relation to cash additions to ATMs and cash registers | – | 1 004 |
| Trade receivables | 213 | 199 |
| Receivables from securities | 9 | 10 |
| Other taxes | – | 106 |
| Clearing and settlement accounts | 852 | 748 |
| Other | 147 | 513 |
| **Total** | **1 697** | **3 019** |
| Impairment of other assets | (18) | (16) |
| **Net other assets** | **1 679** | **3 003** |

# 26. Financial liabilities at amortised cost – deposits from banks

### Analysis of Deposits from Banks by Type

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deposits from central banks | 17 945 | 17 978 |
| Current accounts | 3 991 | 9 146 |
| Loans | 10 062 | 22 942 |
| Term deposits | 110 150 | 123 830 |
| Repurchase commitments (see Note 37) | 30 003 | 378 |
| **Total** | **172 151** | **174 274** |

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. Financial liabilities at amortised cost – deposits from clients

**Analysis of Deposits from Clients by Type**

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current accounts | 350 294 | 336 392 |
| Term deposits | 20 841 | 21 023 |
| Repurchase commitments (see Note 37) | – | – |
| Other | 3 610 | 3 058 |
| **Total** | **374 745** | **360 473** |

## 28. Financial liabilities at amortised cost – issued debt securities

**Analysis of Issued Debt Securities**

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Mortgage bonds | 18 677 | 35 385 |
| Structured bonds | 3 918 | 3 834 |
| Zero coupon bonds | – | – |
| Other issued debt securities | 245 | 781 |
| **Total** | **22 840** | **40 000** |

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 6,451 (at 31 December 2017: MCZK 7,331). The positive fair value of these derivatives of MCZK 34 is reported under "Financial assets held for trading" (at 31 December 2017: MCZK 7); the negative fair value of these derivatives of MCZK 234 is recognised under "Financial liabilities held for trading" (at 31 December 2017: MCZK 370).

## 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 2018** | | | | |
| Liabilities from short sales | 2 606 | – | – | 2 606 |
| Derivatives | – | 4 804 | 1 304 | 6 108 |
| **Total** | **2 606** | **4 804** | **1 304** | **8 714** |
| | | | | |
| **31 Dec 2017** | | | | |
| Liabilities from short sales | 1 533 | – | – | 1 533 |
| Derivatives | – | 6 666 | – | 6 666 |
| **Total** | **1 533** | **6 666** | **–** | **8 199** |

# 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 2018** | | | | |
| Fair value hedging | – | 525 | – | 525 |
| Cash flow hedging | – | 5 132 | – | 5 132 |
| **Total** | **–** | **5 657** | **–** | **5 657** |
| | | | | |
| **31 Dec 2017** | | | | |
| Fair value hedging | – | 550 | – | 550 |
| Cash flow hedging | – | 4 326 | – | 4 326 |
| **Total** | **–** | **4 876** | **–** | **4 876** |

# 31. Other liabilities

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deferred income and accrued expenses | 1 629 | 970 |
| Trade payables | 998 | 1 275 |
| Payables to employees | 689 | 741 |
| Unsettled security transactions | 11 | 65 |
| Clearing and settlement accounts | 5 128 | 7 642 |
| Other | 278 | 286 |
| **Total other liabilities** | **8 733** | **10 979** |

# 32. Provisions

Provisions include the following items:

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Provisions for off-balance sheet credit items | 1 118 | 503 |
| – Stage 1 | 146 | n/a |
| – Stage 2 | 43 | n/a |
| – Stage 3 | 929 | n/a |
| Legal disputes | 70 | 73 |
| Provision for restructuring | 12 | 100 |
| Other | 120 | 179 |
| **Total provisions** | **1 320** | **855** |

### (a) Provisions for Off-Balance Sheet Credit Items

| MCZK | | | | |
|---|---|---|---|---|
| Balance at 1 Jan 2017 | | | | 553 |
| Charge during the year | | | | 311 |
| Usage during the year | | | | – |
| Release during the year | | | | (366) |
| Other – FX rate gains or losses | | | | 5 |
| **Total provisions for off-balance sheet credit items at 31 Dec 2017** | | | | **503** |
| | | | | |
| **MCZK** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Impact of IFRS 9 | | | | 129 |
| Balance at 1 Jan 2018 | 205 | 109 | 318 | 632 |
| Charge during the year | 162 | 38 | 622 | 822 |
| Usage during the year | – | – | – | – |
| Release during the year | (221) | (102) | (13) | (336) |
| Other – FX rate gains or losses | – | (2) | 2 | – |
| **Total provisions for off-balance sheet credit items at 31 Dec 2018** | **146** | **43** | **929** | **1 118** |

### (b) Other Provisions

| MCZK | Legal disputes | Restructuring provision | Other | Total |
|---|---|---|---|---|
| Balance at 1 Jan 2017 | 81 | 23 | 312 | 416 |
| Charge during the year | 5 | 169 | 10 | 184 |
| Usage during the year | (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** |
| | | | | |
| Balance at 1 Jan 2018 | 73 | 100 | 179 | 352 |
| Charge during the year | 21 | – | 60 | 81 |
| Usage during the year | (18) | (84) | (111) | (213) |
| Release of redundant provisions and other | (6) | (4) | (8) | (18) |
| **Total other provisions at 31 Dec 2018** | **70** | **12** | **120** | **202** |

## 33. Income tax

### (a) Tax in Profit or Loss

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current tax payable | (2 008) | (1 718) |
| Prior year tax | 57 | 39 |
| Deferred tax | (146) | 16 |
| **Total income tax** | **(2 097)** | **(1 663)** |

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 | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Profit/loss for the year before tax | 11 144 | 9 289 |
| Tax calculated using the tax rate of 19% | (2 117) | (1 765) |
| Impact of prior years on the current tax payable | 58 | 39 |
| Non-taxable income | 20 | 87 |
| Tax non-deductible expenses | (92) | (106) |
| Impact of prior years on the deferred tax | (4) | – |
| Impact of a higher Slovak tax rate on the current tax payable and deferred tax | (34) | (37) |
| Unrecognised temporary differences in deferred tax | – | 28 |
| Recognition of previously unrecognised deferred tax | 96 | 97 |
| Impact of a change in the Slovak tax rate | – | – |
| Other | (24) | (4) |
| **Total income tax** | **(2 097)** | **(1 661)** |

The effective tax rate of the Group is 18.81% (2017: 17.9%*).*

**(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 2018 based on the current and anticipated future level of taxable profits.

***(i) Deferred Tax Asset***

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Tax non-deductible provisions | 101 | 137 |
| Impairment of loans and off-balance sheet items | 895 | 823 |
| Differences arising from the net book values of tangible assets | 73 | 49 |
| Reserve from revaluation of hedging instruments | 1 | 1 |
| Tax loss | – | 42 |
| Other | 125 | 166 |
| Offsetting against deferred tax liability | (363) | (511) |
| **Net deferred tax asset** | **832** | **707** |

***(ii) Deferred Tax Liability***

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Impairment of loans and off-balance sheet items | 26 | 46 |
| Differences arising from the net book values of tangible assets | 99 | 125 |
| Differences arising from the net book values of intangible assets | 52 | – |
| Reserve from revaluation of hedging instruments | 49 | 128 |
| Reserve from revaluation of financial assets at fair value through other comprehensive income | 147 | n/a |
| *Reserve from the revaluation of available-for-sale securities (originally under IAS 39)* | n/a | 242 |
| Tax loss | – | – |
| Other | 692 | 576 |
| Offsetting against deferred tax asset | (363) | (511) |
| **Net deferred tax liability** | **702** | **606** |

The Group additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions recognised by UniCredit Leasing Slovakia, a.s. of MCZK 18 and unutilised tax losses of UniCredit Leasing Slovakia, a.s. of MCZK 1.

## 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 and 2018.

### (a) Shareholder Structure

| Entity | Registered office | Nominal value of shares in MCZK | Share premium in MCZK | Ownership percentage |
|---|---|---|---|---|
| **At 31 Dec 2018** | | | | |
| UniCredit S.p.A | Italy | 8 755 | 3 495 | 100.00 |
| **Total** | | **8 755** | **3 495** | **100.00** |
| | | | | |
| **At 31 Dec 2017** | | | | |
| UniCredit S.p.A | Italy | 8 755 | 3 495 | 100.00 |
| **Total** | | **8 755** | **3 495** | **100.00** |

### (b) Capital Breakdown

| | 31 Dec 2018 Number of shares | 31 Dec 2018 MCZK | 31 Dec 2017 Number of shares | 31 Dec 2017 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 2018 and 31 December 2017, 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 2018 | 31 Dec 2017 |
|---|---|---|
| Reserve funds | 5 240 | 5 217 |
| Special-purpose reserve fund | 12 423 | 11 611 |
| Retained earnings | 35 955 | 33 017 |
| Exchange rate differences arising on consolidation | (88) | (99) |
| **Total** | **53 530** | **49 746** |

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

As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank. In 2018, this fund was increased by MEUR 32 (profit of the Slovak branch for 2017).

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

### (a) Reverse Repurchase Transactions

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Receivables from banks | 189 922 | 199 020 |
| Fair value of securities received | 186 686 | 195 204 |
| Receivables from clients | – | 378 |
| Fair value of securities received | – | 420 |

Securities received as collateral as part of reverse repurchase transactions of MCZK 0 are further provided as collateral under repurchase transactions (as of 31 December 2017: a total of MCZK 420).

### (b) Repurchase Transactions

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deposits from banks | 30 003 | 378 |
| Fair value of securities provided | 33 443 | 420 |
| Deposits from clients | – | – |
| Fair value of securities provided | – | – |

## 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 2018, 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 2018, the aggregate provisions amounted to MCZK 1,118 (as of 31 December 2017: MCZK 530), see Note 32 (a).

| MCZK | Gross amount | Impairment losses | Net amount |
|---|---|---|---|
| **31 Dec 2018** | | | |
| Letters of credit and financial guarantees | **41 136** | **(881)** | **40 255** |
| – Stage 1 | 39 013 | (93) | 38 920 |
| – Stage 2 | 1 183 | (19) | 1 164 |
| – Stage 3 | 940 | (769) | 171 |
| Other contingent liabilities (undrawn credit facilities) | **119 957** | **(237)** | **119 720** |
| – Stage 1 | 116 099 | (53) | 116 046 |
| – Stage 2 | 3 301 | (24) | 3 277 |
| – Stage 3 | 557 | (160) | 397 |
| **Total** | **161 093** | **(1 118)** | **159 975** |

| MCZK | 31 Dec 2017 Total |
|---|---|
| Letters of credit and financial guarantees | 39 636 |
| Other contingent liabilities (undrawn credit facilities) | 113 165 |
| **Total** | **152 801** |

***Values Taken into Administration and Management***

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Bonds | 652 094 | 537 325 |
| Shares | 218 676 | 192 514 |
| Depository notes | 46 071 | 17 305 |
| **Total values taken into administration and management** | **916 841** | **747 144** |

## (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 385.9 (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 108.7 (MEUR 4.2) 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 214.9 (MUSD 9.6) 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 2018** | | | |
| **Trading instruments – interbank market (OTC)** | | | |
| Options | 87 741 | 796 | 781 |
| Interest rate swap contracts | 391 766 | 3 689 | 3 039 |
| Forward rate agreements (FRA) | – | – | – |
| Cross currency swap contracts | 230 178 | 2 281 | 1 917 |
| Term currency transactions | 49 488 | 532 | 240 |
| Other instruments | 1 562 | 137 | 131 |
| **Total** | **760 735** | **7 408** | **6 108** |
| | | | |
| **Trading instruments – stock exchange** | | | |
| Futures | 1 646 | 30 | – |
| **Total trading instruments** | **762 381** | **7 438** | **–** |
| | | | |
| **Hedging instruments** | | | |
| Interest rate swap contracts | 585 163 | 5 492 | 4 997 |
| Cross currency swap contracts | 164 358 | 144 | 660 |
| **Total hedging instruments** | **749 521** | **5 636** | **5 657** |
| | | | |
| **31 Dec 2017** | | | |
| **Trading instruments – interbank market (OTC)** | | | |
| Options | v | 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** |

*(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 2018** | | | | |
| **Trading instruments** | | | | |
| Interest rate instruments | 107 122 | 233 947 | 86 522 | 427 591 |
| Equity instruments | 5 694 | 7 520 | – | 13 214 |
| Currency instruments | 245 962 | 73 503 | 549 | 320 014 |
| Other | 1 549 | 13 | – | 1 562 |
| **Total** | **360 327** | **314 983** | **87 071** | **762 381** |
| | | | | |
| **Hedging instruments** | | | | |
| Interest rate instruments | 163 500 | 256 394 | 165 269 | 585 163 |
| Currency instruments | 140 486 | 20 771 | 3 101 | 164 358 |
| **Total** | **303 986** | **277 165** | **168 370** | **749 521** |
| | | | | |
| **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** |

# 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, leases | Corporate and investment banking | Other | Total |
|---|---|---|---|---|
| **At 31 Dec 2018** | | | | |
| Net interest and dividend income | 3 503 | 8 112 | 2 620 | **14 235** |
| Other net income | 1 794 | 4 801 | 170 | **6 765** |
| | | | | |
| Depreciation/impairment losses of property and equipment and intangible assets | (446) | (419) | (345) | **(1 210)** |
| Impairment of assets and provisions | (110) | (511) | 11 | **(610)** |
| Segment expenses | (3 659) | (4 397) | 20 | **(8 036)** |
| Profit before tax | 1 082 | 7 586 | 2 476 | **11 144** |
| Income tax | – | – | (2 097) | (2 097) |
| Result of segment | **1 082** | **7 586** | **379** | **9 047** |
| | | | | |
| Segment assets | 132 191 | 527 920 | 11 504 | **671 615** |
| Segment liabilities | 171 611 | 407 473 | 16 792 | **595 876** |

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

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

| MCZK | Retail and private banking, leases | Corporate and investment banking | 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** |

### (b) Information on Geographical Areas

| MCZK | Czech Republic | Slovakia | Total |
|---|---|---|---|
| **At 31 Dec 2018** | | | |
| Net interest and dividend income | 11 363 | 2 872 | **14 235** |
| Other net income | 4 870 | 1 895 | **6 765** |
| | | | |
| Depreciation/impairment losses of property and equipment and intangible assets | (810) | (400) | **(1 210)** |
| Impairment of assets and provisions | (96) | (514) | **(610)** |
| Segment expenses | (5 677) | (2 359) | **(8 036)** |
| Profit before tax | 9 650 | 1 494 | **11 144** |
| Income tax | (1 865) | (232) | (2 097) |
| Result of segment | **7 785** | **1 262** | **9 047** |
| | | | |
| Segment assets | 539 254 | 132 361 | **671 615** |
| Segment liabilities | 484 546 | 111 330 | **595 876** |
| | | | |
| **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 | 109 236 | **600 582** |

# 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 regular basis, in accordance with the applicable decree of the Czech National Bank; in particular, it divides its receivables into receivables in default and receivables without default.
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 (i.e. stage 3 pursuant to IFRS 9) 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, in line with IFRS 9, the division of receivables without default into stages. For receivables that have experienced no significant decrease in creditworthiness since origination (i.e. stage 1), the Bank determines impairment loss on receivables as the expected loss until maturity of the receivable, but no more than the next 12 months (1-year expected loss). For receivables that have experienced a significant decrease in credit quality since origination but they are still receivables without default (i.e. stage 2), the Bank determines impairment loss on receivables as the expected loss until the final maturity of the receivable (lifetime expected loss).

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 2018 | Average for 2018 | At 31 Dec 2017 | Average for 2017 |
|---|---|---|---|---|
| Aggregate VaR | 210.6 | 248.9 | 147.4 | 132.1 |
| VaR of currency instruments | 4.8 | 4.2 | 4.3 | 2.7 |
| VaR of equity instruments | – | – | – | – |

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 2018 is characterised by sensitivity to a decrease in rates – this is reflected 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 2018 | 10 870 | (5 485) | (2 414) |
| Average for the period | 7 248 | (4 806) | (1 384) |
| Maximum value | 14 909 | (1 580) | 1 007 |
| Minimum value | 1 244 | (6 929) | (2 635) |
| | | | |
| Value at 31 Dec 2017 | 1 717 | (2 092) | (914) |
| Average for the year | 1 389 | (1 839) | (824) |
| Maximum value | 2 181 | (882) | (26) |
| Minimum value | 340 | (2 525) | (1 407) |

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 financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the 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 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 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 2018** | | | | | | |
| Cash in hand and cash balances | 2 382 | 2 162 | 111 | 26 | 161 | 4 842 |
| Financial assets at fair value through profit or loss, | 8 197 | 1 477 | 346 | – | – | 10 020 |
| *of which:* | | | | | | |
| – held for trading | 8 197 | 1 477 | – | – | – | 9 674 |
| – other than held for trading mandatorily at fair value | – | – | 346 | – | – | 346 |
| Financial assets at fair value through other comprehensive income | 11 555 | 17 498 | 135 | – | – | 29 188 |
| Financial assets at amortised cost | | | | | | |
| *of which:* | 399 598 | 208 281 | 2 059 | 16 | 2 147 | 612 101 |
| – Receivables from banks | 196 117 | 3 489 | 315 | 5 | 139 | 200 065 |
| – Receivables from clients | 203 481 | 204 792 | 1 744 | 11 | 2 008 | 412 036 |
| Positive fair value of hedging derivatives | 5 636 | – | – | – | – | 5 636 |
| Equity investments | 332 | – | – | – | – | 332 |
| Property and equipment | 3 082 | 1 667 | – | – | – | 4 749 |
| Intangible assets | 1 833 | 346 | – | – | – | 2 179 |
| Tax receivables | 161 | 728 | – | – | – | 889 |
| Non-current assets held for sale | – | – | – | – | – | – |
| Other assets | 877 | 710 | 84 | 2 | 6 | 1 679 |
| Total assets | 433 653 | 232 869 | 2 735 | 44 | 2 314 | 671 615 |
| | | | | | | |
| Financial liabilities at amortised cost | | | | | | |
| *of which:* | 259 319 | 294 597 | 12 221 | 589 | 3 010 | 569 736 |
| – Deposits from banks | 19 076 | 153 044 | 29 | – | 2 | 172 151 |
| – Deposits from clients | 228 864 | 130 092 | 12 192 | 589 | 3 008 | 374 745 |
| – Debt securities issued | 11 379 | 11 461 | – | – | – | 22 840 |
| Financial liabilities held for trading | 8 714 | – | – | – | – | 8 714 |
| Negative fair value of hedging derivatives | 5 657 | – | – | – | – | 5 657 |
| Changes in fair value of the portfolio of hedged instruments | 500 | 108 | – | – | – | 608 |
| Tax liabilities | 1 070 | 38 | – | – | – | 1 108 |
| Other liabilities | 4 579 | 3 597 | 370 | 5 | 182 | 8 733 |
| Provisions | 531 | 688 | 81 | – | 20 | 1 320 |
| Equity | 60 593 | 15 338 | (124) | – | (68) | 75 739 |
| Total liabilities and equity | 340 963 | 314 366 | 12 548 | 594 | 3 144 | 671 615 |
| Gap | 92 690 | (81 497) | (9 813) | (550) | (830) | – |

| 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 |
| *of which:* | | | | | | |
| –held for trading | 4 722 | 3 062 | 295 | – | 36 | 8 115 |
| –other than 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 |
| Equity investments | 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) | – |

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 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. 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 Group's credit rating, IT system breakdowns, and reputation risk to the Group.

The stress scenarios' results are presented to the ALCO.

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

| 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 2018** | | | | | | | |
| Cash in hand and cash balances | 4 842 | 4 842 | 4 842 | – | – | – | – |
| Financial assets at fair value through profit or loss, | 10 020 | 10 343 | 1 416 | 1 493 | 5 045 | 2 389 | – |
| *of which:* | | | | | | | |
| – held for trading | 9 674 | 9 997 | 1 416 | 1 493 | 5 045 | 2 043 | – |
| – other than held for trading mandatorily at fair value | 346 | 346 | – | – | – | 346 | – |
| Financial assets at fair value through other comprehensive income | 29 188 | 33 046 | 134 | 2 496 | 24 888 | 5 528 | – |
| Financial assets at amortised cost | 612 101 | 638 264 | 252 926 | 58 719 | 179 547 | 141 515 | 5 557 |
| *of which:* | | | | | | | |
| – Receivables from banks | 200 065 | 200 132 | 199 488 | 462 | – | – | 182 |
| – Receivables from clients | 412 036 | 438 132 | 53 438 | 58 257 | 179 547 | 141 515 | 5 375 |
| Positive fair value of hedging derivatives | 5 636 | 5 636 | 75 | 212 | 2 822 | 2 527 | – |
| Equity investments | 332 | 332 | – | – | – | – | 332 |
| Property and equipment | 4 749 | 4 749 | – | – | – | – | 4 749 |
| Intangible assets | 2 179 | 2 179 | – | – | – | – | 2 179 |
| Tax receivables | 889 | 889 | 17 | – | 872 | – | – |
| Non-current assets held for sale | – | – | – | – | – | – | – |
| Other assets | 1 679 | 1 679 | 1 373 | 306 | – | – | – |
| | | | | | | | |
| Financial liabilities at amortised cost | 569 736 | 572 561 | 456 688 | 67 531 | 39 491 | 8 851 | – |
| *of which:* | | | | | | | |
| – Deposits from banks | 172 151 | 172 159 | 87 081 | 59 806 | 22 894 | 2 378 | – |
| – Deposits from clients | 374 745 | 375 557 | 368 992 | 5 195 | 1 011 | 359 | – |
| – Debt securities issued | 22 840 | 24 845 | 615 | 2 530 | 15 586 | 6 114 | – |
| Financial liabilities held for trading | 8 714 | 8 714 | 2 979 | 966 | 3 773 | 996 | – |
| Negative fair value of hedging derivatives | 5 657 | 5 657 | 128 | 477 | 2 427 | 2 625 | – |
| Changes in fair value of the portfolio of hedged instruments | 608 | 608 | 608 | – | – | – | – |
| Tax liabilities | 1 108 | 1 108 | – | 1 108 | – | – | – |
| Other liabilities | 8 733 | 8 733 | 6 813 | 1 920 | – | – | – |
| Provisions | 1 320 | 1 320 | – | – | – | – | 1 320 |
| Equity | 75 739 | 75 739 | – | – | – | – | 75 739 |
| | | | | | | | |
| Undrawn loan facilities | 119 957 | 119 957 | 6 134 | 30 235 | 22 359 | 54 856 | 6 373 |
| Bank guarantees | 41 136 | 41 136 | 4 950 | 10 392 | 20 778 | 5 016 | – |

| 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 | 4 008 | 4 008 | 4 008 | – | – | – | – |
| Financial assets at fair value through profit or loss, | 8 115 | 8 418 | 1 085 | 693 | 4 487 | 2 153 | – |
| *of which:* | | | | | | | |
| – held for trading | 8 115 | 8 418 | 1 085 | 693 | 4 487 | 2 153 | – |
| – other than 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 | – |
| Equity investments | 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 |

**(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 2018 Operational Risk Management Strategy, the Group 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 pursuant to Basel III. 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 2018, the Group analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances the overall awareness of operational risk within the Group 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 Group 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 2018

The economic development continued last year in both countries where we operate. However, while in the Czech Republic the dynamics slowed down considerably compared to the previous year, in Slovakia it sped up. The common traits of both economies included strong investment activity and solid growth in private consumption. Both economies also faced lack of workforce with a record low in the unemployment rate. Slovakia was able to outpace the growth of Czech GDP thanks to net export following the opening of new capacities in the automotive industry.

The banking sector in the Czech Republic profited from high demand for loans. In the household sector, the volume of bank loans for both housing and consumption grew at a stable and comparable rate. In the sector of non-financial enterprises, there was an increase in activity in the latter half of the year for investment loans and loans for current assets. The volume of bank deposits also grew, at a rate comparable to the growth in loans for households and slower for non-financial enterprises. A significant source of growth in net interest income for banks was also the growth in interest rate following the tightening of the currency policy of the Czech National Bank. The repo rate of the Czech National Bank concluded the year after five quarter-percent increases at the level of 1.75%. The total profit of the banking sector was additionally positively affected by the good payment discipline of debtors, which led to a record low in the percentage of defaulted loans. For non-financial enterprises, more than 30% of the volume of loans were for residents and more

than 20% of the volume of resident deposits were denominated in foreign currencies. The CZK/EUR exchange rate remained almost unchanged during the year and had a neutral effect on the results of the banking sector.
Strong demand for new lending also characterised the Slovak banking sector. Although tightening regulation slightly decreased the dynamics of growth in loans to households, they nevertheless maintained double-digit dynamics of year-on-year growth. The sector of non-financial enterprises continued to demonstrate a robust appetite for investment and operating loans and it maintained stable growth dynamics. The growth dynamics of deposits once again markedly lagged behind the growth in loans, and the volume of loans steadily exceeded the volume of deposits since the middle of the year. Growth dynamics of deposits of the population sped up slightly during the year, supported by the strong labour market and decreasing risk appetite of households. In the sector of non-financial enterprises, the growth dynamics of deposits gradually decreased instead.
The profit of the Bank in 2018 remained under the pressure of low (negative) interest rates close to historical minimums. However, the effect of volume growth prevailed and after three years of uninterrupted decrease, net interest income rebounded after all. However, its growth was neutralised by the weaker results of the Trading department, higher salary costs and risk costs, despite the continuously gently decreasing level of loan defaults. The profit of the banking sector was therefore close to the level of a year ago.

During 2018, 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 UniCredit 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 2018 | 31 Dec 2017 |
|---|---|---|
| **Assets** | | |
| Receivables from banks | 2 474 | 145 |
| Financial assets held for trading | 598 | – |
| Financial assets at fair value through other comprehensive income | 774 | n/a |
| *Securities available for sale (originally under IAS 39)* | n/a | 1 814 |
| Positive fair value of hedging derivatives | 996 | – |
| **Total** | **4 842** | **1 959** |
| | | |
| **Liabilities** | | |
| Deposits from banks | 123 403 | 112 590 |
| Financial liabilities held for trading | 312 | – |
| Negative fair value of hedging derivatives | 859 | – |
| **Total** | **124 574** | **112 590** |
| | | |
| Off-balance sheet items | | |
| Issued guarantees | 963 | 273 |
| Irrevocable credit facilities | 132 | 96 |
| **Total** | **1 095** | **369** |

| MCZK | 2018 | 2017 |
|---|---|---|
| Interest and similar income | 442 | 35 |
| Interest and similar expenses | (54) | (14) |
| Income from fees and commissions | – | 4 |
| Expenses for fees and commissions | (4) | (35) |
| Net profit/loss from financial assets and liabilities held for trading | 308 | – |
| Net profit/loss from hedging of the risk of change in fair values | 1 | – |
| General administrative expenses | (9) | (10) |
| **Total** | **684** | **(20)** |

## (b) Transactions with key management members

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Assets** | | |
| Receivables from clients | 98 | 106 |
| *of which:* | | |
| Board of Directors | 8 | – |
| Other management members | 90 | 106 |
| **Total** | **98** | **106** |
| | | |
| **Liabilities** | | |
| Payables to clients | 223 | 225 |
| *of which:* | | |
| Board of Directors | 113 | 120 |
| Other management members | 109 | 105 |
| **Total** | **223** | **225** |
| | | |
| Off-balance sheet items | | |
| Irrevocable credit facilities | 4 | 13 |
| *of which:* | | |
| Board of Directors | 1 | 1 |
| Other management members | 3 | 12 |
| **Total** | **4** | **13** |

### (c) Transactions with other related parties

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Assets** | | |
| Financial assets held for trading | 1 020 | 1 626 |
| *of which:* | | |
| UniCredit Bank AG | 1 020 | 1 247 |
| | | |
| Receivables from banks | 991 | 5 360 |
| *of which:* | | |
| UniCredit Bank AG | 823 | 256 |
| UniCredit Bank Austria AG | 95 | 732 |
| Yapi ve Kredi Bankasi AS | 31 | 4 102 |
| UniCredit Bank Hungary Zrt. | 6 | 70 |
| AO UniCredit Bank | 20 | 142 |
| | | |
| Receivables from clients | 724 | 766 |
| *of which:* | | |
| UCTAM Czech Republic s.r.o. | 404 | 407 |
| UCTAM SVK, s.r.o | 320 | 265 |
| | | |
| Positive fair value of hedging derivatives | 1 915 | 1 883 |
| *of which:* | | |
| UniCredit Bank AG | 1 915 | 1 274 |
| **Total** | **4 650** | **9 635** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Liabilities | | |
| Deposits from banks | 20 626 | 27 373 |
| *of which:* | | |
| UniCredit Bank Austria AG | 19 933 | 25 869 |
| UniCredit Bank AG | 5 | 1 431 |
| UniCredit Bank Hungary Zrt. | 649 | 32 |
| | | |
| Deposits from clients | 501 | 361 |
| *of which:* | | |
| UniCredit Leasing (Austria) GmbH | – | 112 |
| UniCredit Services S.C.p.A. | 80 | 59 |
| | | |
| Financial liabilities held for trading | 2 378 | 1 801 |
| *of which:* | | |
| UniCredit Bank AG | 2 378 | 1 625 |
| | | |
| Negative fair value of hedging derivatives | 1 500 | 2 010 |
| *of which:* | | |
| UniCredit Bank AG | 1 500 | 1 211 |
| **Total** | **25 005** | **31 545** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Off-balance sheet items | | |
| Issued guarantees | 1 240 | 1 251 |
| *of which:* | | |
| UniCredit Bank AG | 311 | 546 |
| UniCredit Bank Austria AG | 623 | 488 |
| UniCredit Bank Hungary Zrt. | 19 | 51 |
| AO UniCredit Bank | 102 | 13 |
| | | |
| Irrevocable credit facilities | 287 | 164 |
| *of which:* | | |
| UniCredit Bank AG | 119 | 102 |
| **Total** | **1 527** | **1 415** |

| MCZK | 2018 | 2017 |
|---|---|---|
| Interest income and similar income | 717 | 514 |
| *of which:* | | |
| UniCredit Bank AG | 239 | 359 |
| UniCredit Bank Austria AG | 442 | 76 |
| | | |
| Interest expenses and similar charges | (191) | 53 |
| *of which:* | | |
| UniCredit Leasing (Austria) GmbH | (178) | (9) |
| UniCredit Bank AG | (4) | 16 |
| UniCredit Bank Austria AG | | 41 |
| | | |
| Fee and commission income | 96 | 120 |
| *of which:* | | |
| UniCredit Bank AG | 14 | 72 |
| UniCredit Bank Hungary Zrt. | 1 | 4 |
| UniCredit Bank Austria AG | 75 | 26 |
| | | |
| Fee and commission expenses | (16) | (9) |
| *of which:* | | |
| UniCredit Bank Austria AG | (5) | (4) |
| | | |
| Net profit/loss from financial assets and liabilities held for trading | (2 452) | 458 |
| *of which:* | | |
| UniCredit Bank AG | (2 400) | 246 |
| UniCredit Bank Austria AG | (52) | 206 |
| | | |
| Net profit/loss from hedging against risk of changes in fair value | 28 | 112 |
| *of which:* | | |
| UniCredit Bank AG | 29 | 109 |
| | | |
| General administrative expenses | (1 086) | (1 436) |
| *of which:* | | |
| UniCredit Services S.C.p.A. | (1 090) | (1 438) |
| **Total** | **(2 904)** | **(188)** |

# 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 2018 Carrying amount | 31 Dec 2018 Fair value | 31 Dec 2017 Carrying amount | 31 Dec 2017 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables from banks | 200 065 | 201 392 | 210 188 | 210 198 |
| Receivables from clients | 412 036 | 386 813 | 386 672 | 392 909 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from banks | 172 151 | 157 215 | 174 274 | 174 226 |
| Deposits from clients | 374 745 | 374 072 | 360 473 | 360 486 |
| Debt securities issued | 22 840 | 23 194 | 40 000 | 40 436 |

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

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

| MCZK | Financial assets at fair value through profit or loss: Held for trading | Financial assets at fair value through profit or loss: Other than held for trading mandatorily at fair value | Financial assets at fair value through other comprehensive income | Hedging derivatives | Total |
|---|---|---|---|---|---|
| **31 Dec 2018** | | | | | |
| Transfer from Level 1 to Level 2 | – | – | – | – | – |
| Transfers from Level 2 to Level 1 | 13 | – | – | – | 13 |

| MCZK | Financial assets at fair value through profit or loss: Held for trading | Financial assets at fair value through profit or loss: Other than held for trading | Securities available for sale | Hedging derivatives | Total |
|---|---|---|---|---|---|
| **31 Dec 2017** | | | | | |
| Transfer from Level 1 to Level 2 | – | – | – | – | – |
| Transfers from Level 2 to Level 1 | – | – | – | – | – |

For the years ended 31 December 2018 and 31 December 2017, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

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

| MCZK | Financial assets at fair value through profit or loss | | Securities available for sale | Hedging derivatives | Total |
|---|---|---|---|---|---|
| | Held for trading | Other than held for trading | | | |
| **Opening balance at 1 Jan 2017** | **–** | **–** | **229** | – | 229 |
| Addition arising from 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 | | | | | – |

| MCZK | Financial assets at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | Hedging derivatives | Total |
|---|---|---|---|---|---|
| | Held for trading | Other than held for trading mandatorily at fair value | | | |
| Impact of IFRS 9 | – | 254 | (254) | – | – |
| **Opening balance at 1 Jan 2018** | **–** | **254** | **6** | **–** | **260** |
| Revaluation gains and losses | | | | | |
| In profit or loss | – | 73 | – | – | 73 |
| In other comprehensive income | – | – | – | – | – |
| Purchases | 2 290 | – | – | – | 2 290 |
| Sales/maturity | – | – | – | – | – |
| Transfers from/to other levels | 77 | – | 65 | – | 142 |
| Other | (36) | 19 | (1) | – | (18) |
| **Closing balance at 31 Dec 2018** | **2 331** | **346** | **70** | **–** | **2 747** |
| Total revaluation gains and losses included in profit or loss for the period: | | | | | 73 |
| *Of which:* Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end | | | | | 73 |

The following table contains the transfers of financial liabilities at fair value to and from level 3.

| MCZK | Financial assets at fair value through profit or loss held for trading | Hedging derivatives | Total |
|---|---|---|---|
| **Opening balance at 1 Jan 2018** | **–** | **–** | **–** |
| Revaluation gains and losses | | | |
| In profit or loss | – | – | – |
| In other comprehensive income | – | – | – |
| Purchases | 1 291 | – | 1 291 |
| Sales/maturity | – | – | – |
| Transfers from/to other levels | 14 | – | 14 |
| Other | (1) | – | (1) |
| **Closing balance at 31 Dec 2018** | **1 304** | **–** | **1 304** |
| Total revaluation gains and losses included in 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 year ended 31 December 2017, the Group 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 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 2018** | | | | | | |
| Derivatives | 10 569 | – | 10 569 | 8 479 | – | 2 090 |
| | | | | | | |
| **31 Dec 2017** | | | | | | |
| Derivatives | 8 799 | – | 8 799 | 7 524 | – | 1 275 |

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 2018** | | | | | | |
| Derivatives | 10 480 | – | 10 480 | 8 479 | – | 2 001 |
| | | | | | | |
| **31 Dec 2017** | | | | | | |
| Derivatives | 9 998 | – | 9 998 | 7 524 | – | 2 474 |

# 44. Subsequent events

The Group's management is not aware of any post balance sheet events that would require adjustment to the Group's financial statements.

| 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): |
|---|---|---|---|
| | Ing. Jiří Kunert<br>Chairman of the Board of Directors | | |
| February 19, 2019 | Ljubiša Tešić<br>Member of the Board of Directors | Ing. Jiří Houška | Mgr. Michaela Mrštíková |

# Improve asset quality.

We are continuing to improve our asset quality by de-risking our balance sheet, fully on track for the accelerated rundown of our Non Core portfolio by 2021. A disciplined risk management approach guarantees high quality origination across the Group.

# Separate financial statements

## Statement of comprehensive income for the year ended 31 December 2018

| | Note | 2018<br>MCZK | 2017<br>MCZK |
|---|---|---|---|
| Interest income | 5 | 14 173 | 10 936 |
| Interest expense | 5 | (1 089) | (946) |
| **Net interest income** | | **13 084** | **9 990** |
| | | | |
| Fee and commission income | 6 | 4 582 | 4 214 |
| Fee and commission expenses | 6 | (1 124) | (1 119) |
| **Net fee and commission income** | | **3 458** | **3 095** |
| | | | |
| Dividend income | 7 | 703 | 2 105 |
| Net income/(loss) from financial assets and liabilities held for trading | 8 | 1 765 | 2 684 |
| Net income/(loss) from hedging against risk of changes in fair value | 9 | 2 | (31) |
| Net income/(loss) from the sale of financial assets and liabilities | 10 | 236 | 508 |
| Net income/(loss) from financial assets and liabilities at fair value through profit or loss not held for trading | 11 | 73 | – |
| **Operating income** | | **19 321** | **18 351** |
| | | | |
| Impairment losses on financial assets | 12 | (503) | (318) |
| | | | |
| Administrative expenses | 13 | (6 961) | (7 220) |
| Creation and release of provisions | | (551) | (161) |
| Depreciation and impairment of property and equipment | | (243) | (342) |
| Amortisation and impairment of intangible assets | | (258) | (56) |
| Other operating income and expenses | 14 | 61 | 28 |
| **Operating expenses** | | **(7 952)** | **(7 751)** |
| | | | |
| Profit/(loss) from the sale of non-financial assets | | – | (5) |
| **Profit before income tax** | | **10 866** | **10 277** |
| | | | |
| Income tax | 33 | (1 943) | (1 456) |
| **Profit after tax** | | **8 923** | **8 821** |
| | | | |
| **Other comprehensive income** | | | |
| **Items that can be subsequently derecognised to profit or loss** | | | |
| Reserve from revaluation of hedging instruments: | | (339) | (1 347) |
| Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income | | (339) | (1 310) |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss | | – | (37) |
| Reserve from revaluation of financial assets at fair value through other comprehensive income | | (697) | n/a |
| Change in revaluation reported in other comprehensive income | | (616) | n/a |
| Revaluation transferred to profit or loss | | (81) | n/a |
| *Reserve from revaluation of available-for-sale securities* [1] | | *n/a* | *(857)* |
| *Change in revaluation of available-for-sale securities reported in other comprehensive income* | | *n/a* | *(566)* |
| *Revaluation of available-for-sale securities transferred to profit or loss* | | *n/a* | *(291)* |
| Foreign exchange rate gains from the consolidation of a foreign branch | | 101 | (710) |
| **Other comprehensive income** | | **(935)** | **(2 914)** |
| | | | |
| **Total comprehensive income** | | **7 988** | **5 907** |

[1] In line with IAS 39

The notes on pages 111–170 form a part of these financial statements.

# Statement of financial position as of 31 December 2018

| | Note | 31 Dec 2018 MCZK | 31 Dec 2017 MCZK |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand and cash balances | 15 | 4 841 | 4 007 |
| Financial assets at fair value through profit or loss, of which | | 10 024 | 8 120 |
| – held for trading | 16 | 9 678 | 8 120 |
| – other than held for trading mandatorily at fair value | 16 | 346 | n/a |
| Financial assets at fair value through other comprehensive income | 17 | 29 188 | n/a |
| *Available-for-sale securities [(1)]* | *17* | *n/a* | *47 522* |
| *Securities held to maturity [(1)]* | *18* | *n/a* | *175* |
| Financial assets at amortised cost, of which: | | 601 624 | 584 548 |
| – receivables from banks | 19 | 200 035 | 210 122 |
| – receivables from clients | 20 | 401 589 | 374 426 |
| Positive fair value of hedging derivatives | 22 | 5 636 | 4 441 |
| Equity investments | 21 | 3 979 | 3 979 |
| Property and equipment | 23 | 828 | 987 |
| Intangible assets | 24 | 1 950 | 1 743 |
| Tax receivables, including: | | 703 | 586 |
| – current income tax | 33 | 17 | 0 |
| – deferred tax | 33 | 686 | 586 |
| Non-current assets held for sale | | 0 | 2 |
| Other assets | 25 | 1 367 | 3 223 |
| **Total assets** | | **660 140** | **659 333** |
| | | | |
| **LIABILITIES** | | | |
| Financial liabilities at amortised cost, of which: | | 561 744 | 565 243 |
| – deposits from banks | 26 | 164 072 | 164 404 |
| – deposits from clients | 27 | 374 904 | 360 839 |
| – debt securities issued | 28 | 22 768 | 40 000 |
| Financial liabilities held for trading | 29 | 8 714 | 8 199 |
| Negative fair value of hedging derivatives | 30 | 5 657 | 4 876 |
| Changes in fair value of the portfolio of hedged instruments | | 608 | 0 |
| Tax liabilities, including: | | 386 | 303 |
| – current income tax | 33 | 386 | 303 |
| – deferred tax | 33 | 0 | 0 |
| Other liabilities | 31 | 8 172 | 10 439 |
| Provisions | 32 | 1 277 | 831 |
| **Total liabilities** | | **586 558** | **589 891** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 34 | 8 755 | 8 755 |
| Share premium | 34 | 3 495 | 3 495 |
| Reserve funds from revaluation of financial instruments | | 913 | 1 878 |
| Retained earnings and reserve funds | 36 | 51 496 | 46 493 |
| Profit for the period | | 8 923 | 8 821 |
| **Total shareholder‘s equity** | | **73 582** | **69 442** |
| | | | |
| **Total liabilities and shareholder‘s equity** | | **660 140** | **659 333** |

[(1)] In line with IAS 39

The notes on pages 111–170 form a part of these financial statements.

# Statement of cash flows for the year ended 31 December 2018

| | 2018<br>MCZK | 2017<br>MCZK |
|---|---:|---:|
| **Net profit for the period** | **8 923** | **8 821** |
| | | |
| Adjustments for non-cash items | | |
| Impairment of loans and receivables and financial investments | 1 001 | 318 |
| Revaluation of securities and derivatives | 1 212 | (361) |
| Creation and release of other provisions | (146) | (53) |
| Depreciation and amortisation of property and equipment, and intangible assets | 501 | 398 |
| Profit (loss) from sale of financial assets at fair value through other comprehensive income | 113 | n/a |
| *Profit (loss) from securities available for sale* (1) | *n/a* | *(308)* |
| Profit (loss) from property and equipment and intangible assets sold | – | 5 |
| Taxes | 1 943 | 1 456 |
| Other non-monetary changes | 915 | 4 704 |
| **Operating profit before change in operating assets and liabilities** | **14 462** | **14 980** |
| | | |
| Financial assets and liabilities held for trading | (3 718) | 2 551 |
| Receivables from banks | 10 083 | (70 269) |
| Loans and receivables from clients | (27 667) | (13 109) |
| Other assets | 1 855 | 177 |
| Deposits from banks | (204) | 63 949 |
| Deposits from clients | 14 059 | (10 443) |
| Other liabilities | (1 798) | 2 094 |
| Income tax paid | (1 374) | (1 392) |
| **Net cash flows from operating activities** | **5 698** | **(11 462)** |
| | | |
| Acquisition/sale and maturity of financial assets at fair value through other comprehensive income and other financial investments | 16 276 | n/a |
| *Acquisition/sale and maturity of securities available for sale and other financial investments* (1) | *n/a* | *30 741* |
| Gains from the sale of property and equipment and intangible assets | 1 | – |
| Acquisition of property and equipment and intangible assets | (1 016) | (507) |
| Dividends received | 703 | 1 103 |
| **Net cash flows from investment activities** | **15 964** | **31 337** |
| | | |
| Dividends paid | (3 732) | – |
| Debt securities issued | (17 096) | (20 060) |
| **Net cash flows from financial activities** | **(20 828)** | **(20 060)** |
| | | |
| **Cash and other highly liquid funds at the start of the period** | **4 007** | **4 192** |
| Net cash flows from operating activities | 5 698 | (11 462) |
| Net cash flows from investment activities | 15 964 | 31 337 |
| Net cash flows from financial activities | (20 828) | (20 060) |
| **Cash and other highly liquid funds at the end of the period** | **4 841** | **4 007** |
| | | |
| Interest received | 13 442 | 11 587 |
| Interest paid | (662) | (1 033) |

(1) In line with IAS 39

The notes on pages 111–170 form a part of these financial statements.

# Statement of changes in equity for the year ended 31 December 2018

| 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 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** |
| | | | | | | | | | | |
| Impact of implementation of IFRS 9 | | | | (30) | | | | (80) | | (110) |
| | | | | | | | | | | |
| **Balance as of 1 January 2018** | **8 755** | **3 495** | **543** | **1 525** | **(220)** | **3 372** | **11 611** | **31 430** | **8 821** | |
| Transactions with owners, contributions from and distributions to owners | | | | | | | | | | |
| Allocation of the 2017 profit | | | | | | | 812 | 8 009 | (8 821) | – |
| Dividend payment | | | | | | | | (3 732) | | (3 732) |
| Other | | | | | | | | (6) | | (6) |
| **Total comprehensive income for the period** | | | | | | | | | | |
| Net profit for 2018 | | | | | | | | | 8 923 | 8 923 |
| **Other comprehensive income** | | | | | | | | | | |
| **Change in revaluation of financial assets at fair value through other comprehensive income** | | | | | | | | | | |
| Change in revaluation reported in other comprehensive income | | | | (733) | | | | | | (733) |
| Revaluation transferred to profit or loss | | | | (97) | | | | | | (97) |
| Deferred tax | | | | 133 | | | | | | 133 |
| **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 | | | (418) | | | | | | | (418) |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss | | | – | | | | | | | – |
| Deferred tax | | | 79 | | | | | | | 79 |
| Foreign exchange rate gains or losses from the consolidation of a foreign branch | | | | 101 | | | | | 101 | |
| **Other comprehensive income for the period** | | | **(339)** | **(697)** | **101** | | | | | **(935)** |
| **Balance as of 31 December 2018** | **8 755** | **3 495** | **204** | **828** | **(119)** | **3 372** | **12 423** | **35 701** | **8 923** | **73 582** |

The notes on pages 111–170 form a part of these financial statements.

# Notes to the financial statements (separate)

Year ended 31 December 2018

## 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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.***

*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 other than 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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 – the accounting policy for measuring financial assets was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements; the part of the accounting policy for measuring financial liabilities remains unchanged for both reporting periods***

Financial assets are measured initially at fair value, including (in the case of financial assets not at fair value through profit or loss) transaction costs.
Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, in which case such instrument is stated at cost, including transaction costs, less impairment losses.
All loans and receivables and held-to-maturity assets are measured at amortised cost, including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including the relevant initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.
Upon initial recognition, deposits from banks and clients and securities issued are recognised at fair value. They are subsequently reported at amortised cost.

***(iv) Day 1 Profit/Loss***

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

***(v) Fair Value Measurement Principles***

The fair value of financial assets and liabilities is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.
Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date.
The fair value of derivatives that are not exchange-traded is estimated as the amount that the Bank would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties.
The revaluation of bonds in the Bank's portfolio is carried out on a daily basis using available market rates quoted by market participants by means of Bloomberg services. A group of contributors who provide reliable and regular bond valuations is selected for each of the bonds. The credit spread of the bond is calculated from particular contributions and discount curves.
If there are sufficient current market prices of contributions available, the valuation is calculated as an average value. To prevent possible errors of particular contributions, a comparison of daily changes is made at the same time.
If there is no market price available as a source of valuation or the number of actual contributions is not sufficient, the Bank will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Bank continues to apply this method until:

- Market quotations are again available;
- The credit spread of a particular bond is adjusted based on a comparison of credit spreads of similar bonds;
- The Bank receives other information about a change of the spread applied;
- The issuer's credit rating changes (change of internal and/or external rating, evidence from the market that creditworthiness is worsening); and
- The liquidity of the specific securities has deteriorated significantly.

Subsequently, the Bank will carry out the valuation comprising new aspects of the market price, including an assessment of possible impairment losses (see Note 3g (ii)).

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

Financial assets and liabilities are recognised at fair value depending on the quality of the input used in the valuation. Individual levels are defined as follows:

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

**Fair Value Adjustments**

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

**Credit Valuation Adjustment**

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

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

**OIS Adjustment**

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

**FVA/AVA**

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

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

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

In addition to FVA, additional valuation adjustment (AVA) is also determined by the Bank with respect to market factors. AVA is defined as a difference between the fair value reported in the Bank's balance sheet including FVA and prudent valuation (PV).

PV represents a highly unlikely (but fair) value of market factors which may occur on the market upon the sale of financial assets due to stress on financial markets.

***(vi) Gains and Losses on Subsequent Measurement – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements*

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.

In the area of hedge accounting, the Bank additionally used the option to continue applying the existing requirements for hedge accounting pursuant to IAS 39.
If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in 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 – this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 either not measured at fair value or it 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 – *this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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 – *this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements*
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 – *this accounting policy was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting policy valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements*
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 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

- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018), refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018), refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements.
- 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.

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

**(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 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. For the lessee IFRS 16 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.

In this respect, the Bank performs activities focused on ensuring compliance with IFRS 16, especially in relation to the calculation and initial recognition of the right to use and lease liability, which represent the primary discontinuity compared to the accounting model required under IAS 17.

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

In this respect, the Bank has decided in line with the standard not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets.

In order to calculate the lease liability and related assets based on the right to use, the Bank discounts future lease payments using an appropriate discount rate.

The lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, because the obligation to pay this tax originates at the moment of issuing the invoice by the lessor and not as of the date of commencement of the lease contract.

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

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

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

The Bank has decided not to recalculate the comparative information for the reporting period before 1 January 2019 and for the purposes of initial recognition as of 1 January 2019 it recognised the right to use in the amount corresponding to the lease liability.

The impact of implementing IFRS 16 in terms of the application of new rules from the perspective of the lessee can be preliminarily estimated at approximately MCZK 2,088 representing the right to use an asset and approximately MCZK 2,155 representing the lease liability. The difference between the right to use and the lease liability is caused primarily by the derecognition of accrued expenses in relation to the economic lease concerning selected lease contracts and thus a decrease in the right to use the respective assets.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for the annual period beginning on or after 1 January 2019. Earlier adoption is permitted).

The purpose of IFRIC 23 interpretation is to clarify the accounting treatment for income tax that has not yet been accepted by the tax authority together with increasing transparency. According to IFRIC 23, the key issue is whether the tax authority is likely to accept the reporting entity's selected tax treatment. If the tax authority is likely to accept the uncertain tax procedure, then the tax amounts recognised in the financial statements will be in accordance with the tax return, and determining the amount of tax payable and deferred tax will not

reflect any uncertainty. Otherwise, the taxable profit (or tax loss), tax bases and unused tax losses will be determined in a way that provides a better estimate of the situation after the uncertainty has been settled, using either the single most probable amount or the expected value (the sum of probability weighted amounts). An entity must assume that the tax authority will examine the process and be fully familiar with all relevant information.
The Bank anticipates that this interpretation will not have a material impact on the financial statements at initial application, since the Bank does not have uncertain tax positions.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for the annual period beginning on or after 1 January 2019).

This amendment addresses concerns about the accounting for financial assets that include certain contractual options for early repayment. Concerns specifically related to how the entity would classify and measure the debt instrument if the borrower had been allowed to repay the instrument prematurely for an amount less than the amount of outstanding principal and interest owed. Such an early repayment amount is often referred to as a "negative compensation". Using IFRS 9, a financial asset with a so-called negative compensation would be valued at fair value through profit or loss. The amendment allows reporting entities to measure some premature financial assets with negative compensation at amortised cost.
The Bank anticipates that this amendment will not have a material impact on the financial statements.

**(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 the annual period beginning on or after 1 January 2021; to be applied prospectively. Earlier adoption is permitted).
- Amendments to IFRS 3 Business Combinations (effective for the annual period beginning on or after 1 January 2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective for the annual period beginning on or after 1 January 2020).
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission has decided to defer the approval indefinitely).
- Amendments to IAS 19: Employee Benefits (effective for the annual period beginning on or after 1 January 2019).
- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for the annual period beginning on or after 1 January 2019).
- Annual Improvements to IFRS 2015-2017 Cycle (effective for the annual period beginning on or after 1 January 2019).
- Amendment to Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in IFRS Standards which includes updates on 14 standards and interpretations (effective for the annual period beginning on or after 1 January 2020).

**(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 – this accounting estimate was valid for the reporting period from 1 January 2017 to 31 December 2017 pursuant to IAS 39. For the accounting estimate valid for the reporting period from 1 January 2018 to 31 December 2018 pursuant to IFRS 9, refer to 4. (b) (iv) Effect of the Changes in Accounting Standards on these Financial Statements***

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***

During the years ended 31 December 2018 and 2017, the Bank did not identify any changes in accounting policies that would significantly affect the Bank's financial statements aside from the implementation of accounting policies based on IFRS 9.

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

As of 1 January 2018, the Bank has implemented the new standard IFRS 15 "Revenue from Contracts with Customers", which revises the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18 "Revenue" and IFRS 9 "Financial Instruments", which replaces the current standard IAS 39 "Financial Instruments: Recognition and Measurement".

**IFRS 15**

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 the income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligations that must be accounted for separately under the accounting standard, and (iii) different measure of the revenues so as to reflect their variability.
Based on the analysis performed, the adoption of IFRS 15 has no major impacts on the activities of the Bank and material accounting estimates and assumptions.

**IFRS 9**

- introduces 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 disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserves and not to profit and loss accounts;
- introduces a new accounting model for impairment, based on (i) the expected losses approach substituting the current approach based on the incurred losses, and (ii) introduces 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 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 IFRS 9, the Bank participated in a project of the UniCredit Group with the aim of creating accounting and risk monitoring methodologies harmonised across UniCredit Group legal entities.

Mirroring the main changes required by IFRS 9, the Group wide project was 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 by performing the impact analysis and implementing all changes in line with the UniCredit Group requirements.
With reference to the "Classification and Measurement" work-stream, the Bank 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 Bank 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 Bank 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 (i.e. not exceeding 5% of the total carrying amount of the portfolio as of the previous year-end) to be evaluated case by base.
In this regard, the Bank 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 other comprehensive income ("held to collect and sell" portfolio").

A business model "other" has been assigned to the business areas comprising the trading portfolio of the Bank 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").
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 are measured at fair value through profit or loss or at fair value through other comprehensive income depending on the Bank's decision (so-called FVtOCI option). Units in investments funds are 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) (this procedure assesses whether there has been a material deterioration in credit quality since initial recognition);
- absolute triggers such as backstops required by the regulation (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 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 UniCredit 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").
The Bank has used the option not to adjust comparative information for the previous reporting period as stated in IFRS 9.
With reference to hedge accounting the Bank opted to keep applying the existing hedge accounting requirements in IAS 39.

The material accounting estimates and assumptions reflect the new approach of the standard to the classification and measurement of financial assets and the new model for impairment.

<u>Use of Estimates</u>

*Impairment*

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

<u>Financial Instruments</u>

*Classification*

The Bank classifies financial assets as instruments at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income based on:

a) the business model for managing financial assets; and simultaneously
b) characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at *amortised cost* if both the following conditions are met:

a) the asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and simultaneously
b) the contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.

*Financial assets at amortised cost* represent receivables from banks or receivables from clients and debt securities.

A financial asset is measured at *fair value through other comprehensive income* if both the following conditions are met:

a) the asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and simultaneously
b) the contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid part of the principal.

*Financial assets at fair value through other comprehensive income* include investments in debt and equity instruments (as selected by the reporting entity) and certain tradable debt securities acquired in primary issues.
A financial asset is measured at *fair value though profit or loss* if it is not measured at amortised cost or at fair value through other comprehensive income.
*Financial assets at fair value through profit or loss* include financial assets held for trading, financial assets other than held for trading at fair value and financial assets other than held for trading mandatorily at fair value.
"Financial assets held for trading" include instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include investments in debt and equity instruments, certain purchased receivables and derivative contracts that are not designated as hedging instruments.
"Financial assets other than held for trading at fair value" include financial assets that are measured at fair value through profit or loss based on an irreversible choice of the reporting entity made upon the first recognition in accounting records.
"Financial assets other than held for trading mandatorily at fair value" include equity instruments and any debt instruments whose cash flows do not present solely payments of the principal and interest.
*Financial liabilities at amortised cost* – this category includes all financial liabilities with the exception of financial liabilities measured at fair value though profit or loss.

*Financial liabilities measured at fair value though profit or loss* – a financial liability belongs in this category only if:

1) This decision provides more relevant information because:
   a) It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of liabilities or recognition of the respective profits or losses on a different basis; or
   b) The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Bank on this basis;
2) The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Bank can include the entire hybrid contract in this category, with the exception of cases where:
   a) The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
   b) It is clear at first glance upon the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
3) The transfer of the financial assets does not meet the conditions for derecognition, all expenses incurred for the financial liability must be recognised in the following periods.

*Purchased or originated credit-impaired financial assets (POCI)*
These are financial assets that are credit-impaired already at first recognition. The Bank identified no such financial assets during 2018.

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

*Recognition of Financial Assets*
Financial assets at fair value through profit or loss are recognised in the Bank's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss on the trade date.
Financial assets at fair value through other comprehensive income are recognised in the Bank's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's other comprehensive income on the trade date.
Financial assets at amortised cost are recognised in the Bank's accounting books from the moment of settlement.

*Measurement of Financial Assets*
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 financial assets at fair value through other comprehensive income are measured at fair value.
Financial assets at amortised cost 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.

*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 debt instrument assets at fair value though comprehensive income are recognised in other comprehensive income and become the equity item "Reserves from revaluation of financial assets through other comprehensive income", with the exception of a credit loss that is reported in profit or loss as "Impairment of financial assets". 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".
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, and through the amortisation process.

*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.
Assets measured at fair value through other comprehensive income and assets 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.
The Bank derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified at stage 1 for the purposes of ECL calculation.

When assessing whether the change is a material change in contractual cash flows, the Bank considers the following factors:

- Change in the currency of the loan;
- Change of debtor;
- Change causing failure to meet the SPPI test; and
- Change for business reasons (e.g. maturity extension, change in interest rate).

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such a case, the Bank recognises gains on losses from modification (modification accounting), representing the difference between:

- The present value of modified contractual cash flows discounted using the original EIR; and
- The present value of original contractual cash flows discounting using the original EIR.

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing the failure to meet the SPPI test) are considered to be changes that do not significantly affect the related cash flows.
Based on the above, the Bank performed an analysis and quantified the impact as immaterial for 2018.

*Impairment losses*

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

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

*Financial assets at amortised cost*

Financial assets at amortised cost predominantly include receivables from banks, receivables from clients and trade receivables and they are reported net, i.e. reflecting impairment losses.
Individual impairment losses adjust the net book value of financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument.
Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on past experience with incurred losses ("historical losses") while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

*Financial assets at fair value through other comprehensive income*

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

*Financial liabilities at amortised cost*
Financial liabilities at amortised cost include payables to banks, payables to clients and issued debt securities. These liabilities are measured at fair value on initial recognition. After initial recognition these liabilities are measured at amortised cost.

*Financial liabilities held for trading*
Financial liabilities held for trading include instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include short sales and derivatives that are not designated as hedging instruments.

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) affecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

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

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.

When creating a provision for off-balance sheet items, the Bank proceeds analogically as for impairment losses on financial receivables in line with IFRS 9.

Interest income and expenses
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 is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
Interest income on financial assets at amortised cost or on financial assets at fair value through other comprehensive income that are classified at stage 1 and 2 (i.e. non-impaired assets) is calculated from the gross carrying amount (i.e. before allowances). Interest income on financial assets at amortised cost or at fair value through other comprehensive income that are classified at stage 3 (i.e. impaired assets) are calculated from the net carrying amount (i.e. after allowances) using unwinding.
In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expense is presented in interest income.

### Changes made as of 1 January 2018

The following table summarises the changes in the statement of financial position with respect to the initial application of IFRS 9.

| MCZK | 31 Dec 2017 | Reclassification | Change in valuation | 1 Jan 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash in hand and cash balances | 4 007 | – | – | 4 007 |
| Financial assets at fair value through profit or loss, of which | 8 120 | 254 | – | 8 374 |
| – held for trading | 8 120 | – | – | 8 120 |
| – other than held for trading mandatorily at fair value | n/a | 254 | – | 254 |
| Financial assets at fair value through other comprehensive income | n/a | 47 268 | – | 47 268 |
| Available-for-sale securities (originally under IAS 39) | 47 522 | (47 522) | – | n/a |
| Financial assets at amortised costs, of which | 584 548 | 175 | (28) | 584 695 |
| – receivables from banks | 210 122 | – | (3) | 210 119 |
| – receivables from clients | 374 426 | 175 | (25) | 374 576 |
| Securities held to maturity (originally under IAS 39) | 175 | (175) | – | n/a |
| Positive fair value of hedging derivatives | 4 441 | – | – | 4 441 |
| Investment in associates | 3 979 | – | – | 3 979 |
| Property and equipment | 987 | – | – | 987 |
| Intangible assets | 1 743 | – | – | 1 743 |
| Tax receivables, including: | 586 | – | 3 | 589 |
| – current income tax | – | – | – | – |
| – deferred tax | 586 | – | 3 | 589 |
| Non-current assets held for sale | 2 | – | – | 2 |
| Other assets | 3 223 | – | (1) | 3 223 |
| **Total assets** | **659 333** | **–** | **(26)** | **659 307** |
| | | | | |
| **LIABILITIES** | | | | |
| Financial liabilities at amortised cost, *of which:* | 565 243 | – | – | 565 243 |
| – Deposits from banks | 164 404 | – | – | 164 404 |
| – Deposits from clients | 360 839 | – | – | 360 839 |
| – Debt securities issued | 40 000 | – | – | 40 000 |
| Financial liabilities held for trading | 8 199 | – | – | 8 199 |
| Negative fair value of hedging derivatives | 4 876 | – | – | 4 876 |
| Tax liabilities, including: | 303 | – | (22) | 281 |
| – current income tax | 303 | – | (22) | 281 |
| – deferred tax | – | – | – | – |
| Other liabilities | 10 439 | – | – | 10 439 |
| Provisions, of which | 831 | – | 106 | 937 |
| – Provisions for loan facilities | 239 | – | (61) | 178 |
| – Provisions for guarantees | 251 | – | 167 | 418 |
| – Other provisions | 341 | – | – | 341 |
| **Total liabilities** | **589 891** | **–** | **84** | **589 975** |
| | | | | |
| **EQUITY** | | | | |
| Issued capital | 8 755 | – | – | 8 755 |
| Share premium | 3 495 | – | – | 3 495 |
| Reserve funds from revaluation | 1 878 | – | (30) | 1 848 |
| Retained earnings and reserve funds | 46 493 | – | (80) | 46 413 |
| Profit for the period | 8 821 | – | – | 8 821 |
| **Total shareholder's equity** | **69 442** | **–** | **(110)** | **69 332** |
| | | | | |
| **Total liabilities and shareholder's equity** | **659 333** | **–** | **(26)** | **659 307** |

Changes in financial assets made as of 1 January 2018:

| Classification of financial assets pursuant to IAS 39: | | Classification of financial assets pursuant to IFRS 9: | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial assets held for trading | | | Financial assets mandatorily at fair value | | |
| MCZK | Carrying amount as of 31 Dec 2017 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 |
| Financial assets held for trading | 8 120 | 8 120 | – | 8 120 | – | – | – |
| Securities available for sale | 47 522 | – | – | – | 254 | – | 254 |
| Securities held to maturity | 175 | – | – | – | – | – | – |
| Receivables from banks | 210 122 | – | – | – | – | – | – |
| Receivables from clients | 374 426 | – | – | – | – | – | – |
| | **Total under IFRS 9 as of 1 Jan 2018** | | | **8 120** | | | **254** |

| Classification of financial assets pursuant to IAS 39: | | Classification of financial assets pursuant to IFRS 9: | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial assets at fair value through other comprehensive income | | | Financial assets at amortised cost | | |
| MCZK | Carrying amount as of 31 Dec 2017 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 | Reclassification as of 1 Jan 2018 | Change in valuation | Total as of 1 Jan 2018 |
| Financial assets held for trading | 8 120 | – | – | – | – | – | – |
| Securities available for sale | 47 522 | 47 268 | – | 47 268 | – | – | – |
| Securities held to maturity | 175 | – | – | – | 175 | – | 175 |
| Receivables from banks | 210 122 | – | – | – | 210 122 | (3) | 210 119 |
| Receivables from clients | 374 426 | – | – | – | 374 426 | (25) | 374 401 |
| | **Total under IFRS 9 as of 1 Jan 2018** | | | **47 268** | | | **584 695** |

# 5. Net interest income

| MCZK | 2018 | 2017 Restated* | 2017 |
|---|---|---|---|
| **Interest income** | | | |
| Balances with central banks | 3 446 | 410 | 410 |
| Receivables from banks | 648 | 474 | 112 |
| Receivables from clients | 8 888 | 8 415 | 8 404 |
| Financial assets at fair value through other comprehensive income | 648 | n/a | n/a |
| *Available-for-sale securities (originally under IAS 39)* | n/a | 1 019 | 1 019 |
| Securities at amortised costs – receivables from clients | 9 | n/a | n/a |
| *Securities held to maturity (originally under IAS 39)* | n/a | 9 | 9 |
| Financial assets at fair value through profit or loss held for trading | 18 | 5 | 5 |
| Financial assets at fair value through profit or loss not held for trading mandatorily at fair value | 5 | n/a | n/a |
| Net interest income from hedging derivatives | 511 | 977 | 977 |
| **Interest income** | **14 173** | **11 309** | **10 936** |
| | | | |
| **Interest expense** | | | |
| Deposits from central bank | (1) | - | - |
| Deposits from banks | (249) | (192) | 170 |
| Deposits from clients | (363) | (184) | (173) |
| Debt securities issued | (456) | (940) | (940) |
| Financial liabilities held for trading | (20) | (3) | (3) |
| **Interest expense** | **(1 089)** | **(1 319)** | **(946)** |
| **Net interest income** | **13 084** | **9 990** | **9 990** |

* In the statement of comprehensive income for 2017 and the notes to the financial statements (separate) for the year ended 31 December 2017, in the Net interest income table, negative interest income was presented in income with a negative balance and negative interest expenses were presented in interest expenses with the opposite sign.

In the statement of comprehensive income for 2018 and the notes to the financial statements (separate) for the year ended 31 December 2018, in the Net interest income table, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Negative interest expenses within interest income are as follows:
- Deposits at central banks – as of 31 December MCZK 2018 163 (as of 31 December 2017 MCZK 0)
- Receivables from banks – as of 31 December 2018 MCZK 436 (as of 31 December 2017 MCZK 341)
- Receivables from clients – as of 31 December 2018 MCZK 8 (as of 31 December 2017 MCZK 8)

Negative interest income within interest expenses is as follows:
- Payables to the central bank – as of 31 December 2018 MCZK (1) (as of 31 December 2017 MCZK 0)
- Payables to banks – as of 31 December 2018 MCZK (12) (as of 31 December 2017 MCZK (21))
- Payables to clients – as of 31 December 2018 MCZK (1) (as of 31 December 2017 MCZK (3))

The 2017 restated column contains the values of interest income and interest expenses presented as they would have been presented had the presentation for 2018 been used for 2017.

The different presentation has no impact on net interest income.

# 6. Net fee and commission income

| MCZK | 2018 | 2017 |
|---|---|---|
| **Fee and commission income from** | | |
| Securities transactions | 8 | 1 |
| Management, administration, deposit and custody services | 723 | 742 |
| Loans | 1 034 | 959 |
| Payment services | 1 034 | 866 |
| Account administration | 593 | 529 |
| Payment cards | 1 007 | 939 |
| Other | 183 | 178 |
| Fee and commission income | 4 582 | 4 214 |
| | | |
| **Fee and commission expenses from** | | |
| Securities transactions | (13) | (25) |
| Management, administration, deposit and custody services | (101) | (99) |
| Loans | (171) | (221) |
| Payment services | (43) | (49) |
| Payment cards | (780) | (719) |
| Other | (16) | (6) |
| **Fee and commission expenses** | **(1 124)** | **(1 119)** |
| **Net fee and commission income** | **3 458** | **3 095** |

## 7. Dividend income

| MCZK | 2018 | 2017 |
|---|---|---|
| **Dividend income** | | |
| Ownership interests | 699 | 2 102 |
| Financial assets at fair value through profit or loss not held for trading mandatorily at fair value | 2 | n/a |
| Financial assets at fair value through other comprehensive income | 2 | n/a |
| *Shares classified as available-for-sale securities (originally under IAS 39)* | n/a | 3 |
| **Total dividend income** | **703** | **2 105** |

Income from ownership interests represents dividends 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 | 2018 | 2017 |
|---|---|---|
| Net realised and unrealised gain/(loss) from securities held for trading | 35 | (42) |
| Net realised and unrealised gain/(loss) from derivatives held for trading | 1 647 | (3 400) |
| Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX | 83 | 6126 |
| **Net trading income/loss** | **1 765** | **2 684** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Hedging instruments | 698 | 435 |
| Hedged instruments | (696) | (466) |
| **Net income/loss from hedging against risk of changes in fair value** | **2** | **(31)** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Receivables from clients | 96 | 204 |
| Financial assets at fair value through other comprehensive income | 142 | n/a |
| Available-for-sale securities (originally under IAS 39) | n/a | 308 |
| Debt securities issued | (2) | (4) |
| **Net income/loss from the sale of financial assets and liabilities** | **236** | **508** |

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

| MCZK | 2018 | 2017 |
|---|---|---|
| Shares | 73 | n/a |
| **Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading** | **73** | **n/a** |

## 12. Impairment losses on financial assets

| MCZK | 2018 |
|---|---|
| **Financial assets at amortised cost** | **(512)** |
| **– receivables from banks** | **(1)** |
| Stage 1 | (1) |
| Stage 2 | – |
| Stage 3 | – |
| **– receivables from clients** | **(511)** |
| Stage 1 | 29 |
| Stage 2 | (151) |
| Stage 3 | (389) |
| **Financial assets at fair value through other comprehensive income** | **9** |
| Stage 1 | 9 |
| Stage 2 | – |
| Stage 3 | – |
| **Total** | **(503)** |

| MCZK | 2017 |
|---|---|
| Receivables from clients | (370) |
| Provision for off-balance sheet items | 52 |
| Available-for-sale securities | – |
| **Total** | **(318)** |

In the year ended 31 December 2017, impairment losses created for off-balance sheet items were reported under this item; in the year ended 31 December 2018 impairment losses created for off-balance sheet items in the amount of MCZK 499 are included in the item 'Recognition and release of provisions'.

## 13. Administrative expenses

| MCZK | 2018 | 2017 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries paid to employees | (2 219) | (2 128) |
| Social costs | (813) | (785) |
| Other | (158) | (192) |
| | **(3 190)** | **(3 105)** |
| **Other administrative expenses** | | |
| Rent and building maintenance | (569) | (565) |
| Information technologies | (1 208) | (1 403) |
| Promotion and marketing | (249) | (277) |
| Consumables used | (59) | (48) |
| Audit, legal and advisory services | (184) | (167) |
| Administrative and logistic services | (283) | (421) |
| Deposits and transactions insurance | (733) | (744) |
| Services | (257) | (258) |
| Other | (229) | (232) |
| | **(3 771)** | **(4 115)** |
| **Total administrative expenses** | **(6 961)** | **(7 220)** |

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 | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | 182 | 180 |
| Post-employment benefits | 8 | – |
| Other long-term employee benefits | 29 | 30 |
| Termination benefits | – | – |
| Share-based payments | – | – |
| **Total** | **219** | **211** |

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

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

| | 2018 | 2017 |
|---|---|---|
| Employees | 2 921 | 2 946 |
| Members of the Board of Directors | 7 | 7 |
| Members of the Supervisory Board | 3 | 3 |
| Other executives directly reporting to the Board of Directors | 30 | 31 |

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

| 2018<br>MCZK | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
|---|---|---|---|
| Minimum future payments | 337 | 1 176 | – |
| | | | |
| **2017<br>MCZK** | **Due within<br>1 year** | **Due in<br>1–5 years** | **Due in the<br>following years** |
| Minimum future payments | 335 | 1 170 | – |

# 14. Other operating income and expenses

| MCZK | 2018 | 2017 |
|---|---|---|
| Income from rent | 32 | 31 |
| Other income | 70 | 50 |
| **Total other operating income** | **102** | **81** |
| | | |
| Taxes | (12) | (6) |
| Fines and penalties | (3) | (22) |
| Other | (26) | (25) |
| **Total other operating expenses** | **(41)** | **(53)** |
| **Total other operating income and expenses** | **61** | **28** |

# 15. Cash in hand and cash balances

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Cash in hand | 4 600 | 3 963 |
| Other balances with central banks | 241 | 44 |
| **Total** | **4 841** | **4 007** |

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 2018** | | | | |
| Debt securities | 1 246 | – | 990 | 2 236 |
| Derivatives | 30 | 6 071 | 1 341 | 7 442 |
| **Total** | **1 276** | **6 071** | **2 331** | **9 678** |
| | | | | |
| **31 Dec 2017** | | | | |
| Debt securities | 1 228 | 58 | – | 1 286 |
| Derivatives | 36 | 6 798 | – | 6 834 |
| **Total** | **1 264** | **6 856** | **–** | **8 120** |

### *(ii) Securities by Type of Issuer*

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Debt securities | | |
| Government institutions | 1 246 | 1 283 |
| Other | 990 | 3 |
| **Total** | **2 236** | **1 286** |

## (b) Other than held for trading mandatorily at fair value

The securities under this item were reported as part of Available-for-sale securities under IAS 39. This item has no equivalent under IAS 39 and information as of 31 December 2017 is therefore not provided.

### *(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 2018** | | | | |
| Shares | – | – | 346 | 346 |
| **Total** | **–** | **–** | **346** | **346** |

### *(ii) Securities by Type of Issuer*

| MCZK | 31 Dec 2018 |
|---|---|
| Shares | |
| Other financial institutions | 346 |
| **Total** | **346** |

# 17. Financial assets at fair value through other comprehensive income

Comparative information as of 31 December 2017 represents an overview of "Available-for-sale securities" under IAS 39.

### (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 2018** | | | | |
| Debt securities | 24 889 | 4 229 | 64 | 29 182 |
| Shares | – | – | 6 | 6 |
| **Total** | **24 889** | **4 229** | **70** | **29 188** |

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

Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVtOCI option.

| 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** |

### (b) Securities by Type of Issuer

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Debt securities | | |
| Government institutions | 21 244 | 31 647 |
| Credit institutions | 909 | 7 501 |
| Other | 7 029 | 8 114 |
| | | |
| Shares | | |
| Other | 6 | 260 |
| **Total** | **29 188** | **47 522** |

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

### (c) Participation Interests

| MCZK Name | Registered office | Date of acquisition | Acquisition price | Net book value 2018 | Net book value 2017 | Share of the Bank at 31 Dec 2018 | Share of the Bank at 31 Dec 2017 |
|---|---|---|---|---|---|---|---|
| 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

This category is relevant pursuant to IAS 39 until 31 December 2017. From 1 January 2018, these securities are classified pursuant to IFRS 9 as Financial assets at amortised cost – receivables from clients.

### (a) By type of security

| MCZK | 31 Dec 2017 |
|---|---|
| Debt securities | 175 |
| **Total** | **175** |

### (b) Securities by activities of issuers

| MCZK | 31 Dec 2017 |
|---|---|
| Debt securities | |
| Governments and central banks | 175 |
| Other | – |
| **Total** | **175** |

## 19. Financial assets at amortised cost – receivables from banks

Comparative information as of 31 December 2017 represents an overview of Receivables from banks pursuant to IAS 39.

### (a) Analysis of Receivables from Banks, by Type

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current accounts | – | 1 263 |
| Term deposits | 3 385 | 648 |
| Loans | 1 046 | 4 945 |
| Reverse repurchase commitments (see Note 37) | 189 921 | 199 020 |
| Obligatory minimum reserves | 5 683 | 4 246 |
| **Total** | **200 035** | **210 122** |

All financial assets at amortised cost – receivables from banks as of 31 December 2018 are classified by credit quality at stage 1 with the total allowance of MCZK 4.

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Czech Republic | 195 707 | 203 393 |
| Slovakia | 41 | 429 |
| Other EU countries | 4 088 | 1 842 |
| Other | 199 | 4 458 |
| **Total receivables from banks** | **200 035** | **210 122** |

# 20. Financial assets at amortised cost – receivables from clients

Comparative information as of 31 December 2017 represents an overview of Receivables from clients pursuant to IAS 39.

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

| MCZK | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 Dec 2018** | | | | |
| Current accounts (overdrafts) | 36 898 | 4 062 | 418 | 41 378 |
| Reverse repurchase commitments (see Note 37) | – | – | – | – |
| Mortgage loans | 175 968 | 6 512 | 1 431 | 183 911 |
| Credit cards and consumer loans | 8 173 | 657 | 122 | 8 952 |
| Factoring | 3 677 | 11 | 0 | 3 688 |
| Debt securities | 177 | 0 | 0 | 177 |
| Other loans | 158 604 | 4 569 | 310 | 163 483 |
| **Total** | **383 497** | **15 811** | **2 281** | **401 589** |

| 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** |

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 amount | Impairment losses | Net amount |
|---|---|---|---|
| **31 Dec 2018** | | | |
| Stage 1 | 384 308 | (811) | 383 497 |
| Stage 2 | 16 348 | (537) | 15 811 |
| Stage 3 | 9 484 | (7 203) | 2 281 |
| **Total** | **410 140** | **(8 551)** | **401 589** |

| 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)** | **374 426** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Receivables without default – stage 1 and 2 | | |
| Internal rating 1 | 10 524 | 5 696 |
| Internal rating 2 | 17 409 | 13 013 |
| Internal rating 3 | 52 053 | 38 793 |
| Internal rating 4 | 145 037 | 136 280 |
| Internal rating 5 | 102 400 | 102 061 |
| Internal rating 6 | 55 966 | 59 013 |
| Other internal rating | 16 535 | 16 712 |
| Receivables without internal rating | 732 | 350 |
| **Total** | **400 656** | **371 918** |
| Receivables with default – stage 3 | 9 484 | 11 378 |
| **Total** | **410 140** | **383 296** |

On 31 December 2017, the Bank used the following treatment pursuant to IAS 39 for the categorisation and assessment of whether the carrying amount of receivables has not decreased.
For the treatment applied by the Bank in the categorisation and assessment of whether the carrying amount of receivables has not decreased since 1 January 2018 pursuant to IFRS 9, refer to Note 4. b) (iv) *Effect of the Changes in Accounting Standards on these Financial Statements*.

The following table summarises gross non-default loan receivables based on the number of days past due. The amounts as of 31 December 2018 contain receivables classified at stage 1 and 2.

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Non-default receivables, gross | | |
| Due receivables | 388 201 | 369 827 |
| 1 – 30 days past due | 12 240 | 2 071 |
| 31 – 90 days past due | 199 | 20 |
| More than 91 days past due | 16 | – |
| **Total** | **400 656** | **371 918** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Financial institutions | 51 334 | 43 615 |
| Non-financial institutions | 230 391 | 219 532 |
| Government sector | 3 837 | 2 704 |
| Individuals and others | 116 027 | 108 575 |
| **Total** | **401 589** | **374 426** |

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

| MCZK | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 Dec 2018** | | | | |
| Bank and similar guarantee | 4 496 | 43 | 10 | 4 549 |
| Mortgage | 97 878 | 3 964 | 1 458 | 103 300 |
| Corporate guarantee | 3 825 | 275 | 42 | 4 142 |
| Other security | 7 083 | 211 | 153 | 7 447 |
| Unsecured | 271 026 | 11 855 | 7 821 | 290 702 |
| **Total** | **384 308** | **16 348** | **9 484** | **410 140** |

| 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** |

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 36,452 (as of 31 December 2017: MCZK 46,869). 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 2018 | 31 Dec 2017 |
|---|---|---|
| Czech Republic | 253 720 | 238 369 |
| Slovakia | 125 457 | 116 964 |
| Other EU countries | 17 500 | 13 868 |
| Other | 4 912 | 5 225 |
| **Total** | **401 589** | **374 426** |

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

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Real estate services | 66 570 | 61 587 |
| Financial services | 51 251 | 43 615 |
| Wholesale | 19 674 | 19 854 |
| Households (individuals) | 112 506 | 105 490 |
| Retail (entrepreneurs) | 10 307 | 8 456 |
| Leasing and rental | 3 797 | 6 343 |
| Automotive industry | 8 014 | 8 807 |
| Power industry | 25 897 | 28 499 |
| Other | 103 573 | 91 775 |
| **Total receivables from clients** | **401 589** | **374 426** |

### (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 2018** | | | | | | | |
| Non-financial institutions | 6 934 | 1 652 | 8 586 | (121) | (1 293) | (1 414) | 7 172 |
| Individuals and others | 108 | 59 | 167 | (1) | (18) | (19) | 148 |
| **Total** | **7 042** | **1 711** | **8 753** | **(122)** | **(1 311)** | **(1 433)** | **7 320** |

All forborne receivables without default are classified at stage 2, all forborne receivables with default are classified at stage 3.

| 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** |

Net forbearance represented 1.82% of the total receivables from clients as of 31 December 2018 (2017: 1.96%).

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 2018** | | | |
| Non-default receivables | | | |
| Before due | 6 551 | (97) | 6 454 |
| Past due | 491 | (25) | 466 |
| **Total non-default forbearance** | **7 042** | **(122)** | **6 920** |
| | | | |
| Default receivables | | | |
| Up to 90 days past due | 860 | (533) | 327 |
| 91 to180 days past due | 1 | 0 | 1 |
| 181 days to 1 year past due | 374 | (322) | 52 |
| Over 1 year past due | 476 | (456) | 20 |
| **Total default forbearance** | **1 711** | **(1 311)** | **400** |
| **Total** | **8 753** | **(1 433)** | **7 320** |
| | | | |
| **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** |

The table below shows movements in gross forbearance:

| MCZK | |
|---|---|
| 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** |
| | |
| Balance at 1 January 2018 | 8 315 |
| Transfer to forbearance | 4 883 |
| Additions | 211 |
| Write-offs | – |
| Settled | (710) |
| Transfer from forbearance | (3 938) |
| Other | (8) |
| **Total forbearance as of 31 December 2018** | **8 753** |

The table below shows movements in the impairment of forbearance:

| MCZK | |
|---|---|
| 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)** |
| | |
| Impact of IFRS 9 | – |
| Balance at 1 January 2018 | (1 152) |
| Transfer to forbearance | (431) |
| Charge during the current year | (314) |
| Release during the current year | 79 |
| Receivables written off – use | – |
| Transfer from forbearance | 386 |
| Other | (1) |
| **Total impairment forbearance as of 31 December 2018** | **(1 433)** |

### (h) Impairment of Receivables from Clients

| 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)** |
| | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Impact of IFRS 9 | | | | (25) |
| Balance as of 1 Jan 2018 | (838) | (383) | (7 674) | (8 895) |
| *Transfer of the gross amount of receivables from Stage 1* | *(600)* | *407* | *193* | – |
| *Transfer of the gross amount of receivables from Stage 2* | *557* | *(612)* | *55* | – |
| *Transfer of the gross amount of receivables from Stage 3* | *23* | *79* | *(102)* | – |
| Charge during the current year | (345) | (408) | (2 629) | (3 382) |
| Release during the current year | 374 | 257 | 2 240 | 2 871 |
| Net effect on profit or loss | 29 | (151) | (389) | (511) |
| Receivables written off – use | 0 | 0 | 866 | 866 |
| FX differences | (2) | (3) | (6) | (11) |
| **Total impairment of receivables from clients as of 31 Dec 2018** | **(811)** | **(537)** | **(7 203)** | **(8 551)** |

## 21. Equity investments

| Name | Registered office | Date of acquisition | Acquisition price | Net book value 2018 | Net book value 2017 | Share of the Bank at 31 Dec 2018 | Share of the Bank at 31 Dec 2017 |
|---|---|---|---|---|---|---|---|
| UniCredit Leasing CZ, a.s. | Prague | 14 Feb 2014 | 3 211 | 3 781 | 3 781 | 100% | 100% |
| UniCredit Factoring Czech Republic and Slovakia, a.s. | Prague | 20 Jan 2015 | 198 | 198 | 198 | 100% | 100% |
| **Total** | | | | **3 409** | **3 979** | **3 979** | |

Equity investments are reported at cost in line with IAS 27, par. 10a.

## 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 2018** | | | | |
| Fair value hedging | – | 837 | – | 837 |
| Cash flow hedging | – | 4 799 | – | 4 799 |
| **Total** | **–** | **5 636** | **–** | **5 636** |
| | | | | |
| **31 Dec 2017** | | | | |
| Fair value hedging | – | 248 | – | 248 |
| Cash flow hedging | – | 4 193 | – | 4 193 |
| **Total** | **–** | **4 441** | **–** | **4 441** |

# 23. Property and equipment

### Movements in Property and Equipment

| 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 |
| Depreciation charges | (246) | (10) | (62) | (24) | (342) |
| 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) |
| | | | | | |
| **Cost at 1 Jan 2018** | **1 806** | **176** | **553** | **220** | **2 755** |
| Accumulated depreciation and impairment at 1 Jan 2018 | (976) | (150) | (467) | (175) | (1 768) |
| **Net Book Value at 1 Jan 2018** | **830** | **26** | **86** | **45** | **987** |
| Additions | 52 | 1 | 24 | 3 | 80 |
| Depreciation charges | (167) | (7) | (49) | (20) | (243) |
| Other and FX rate gains or losses | 3 | 1 | – | – | 4 |
| **Net Book Value at 31 Dec 2018** | **718** | **21** | **61** | **28** | **828** |
| **Cost at 31 Dec 2018** | **1 762** | **162** | **531** | **215** | **2 670** |
| Accumulated depreciation and impairment at 31 Dec 2018 | (1 044) | (141) | (470) | (187) | (1 842) |

# 24. Intangible assets

### Movements in Intangible Assets

| MCZK | Software | Other | Total |
|---|---|---|---|
| **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 |
| 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) |
| | | | |
| **Cost at 1 Jan 2018** | **2 570** | **–** | **2 570** |
| Accumulated amortisation and impairment at 1 Jan 2018 | (827) | – | (827) |
| **Net Book Value at 1 Jan 2018** | **1 743** | **–** | **1 743** |
| Additions | 438 | – | 438 |
| Amortisation charges | (258) | – | (258) |
| Other | 27 | – | 27 |
| **Net Book Value at 31 Dec 2018** | **1 950** | **–** | **1 950** |
| **Cost at 31 Dec 2018** | **3 071** | **–** | **3 071** |
| Accumulated amortisation and impairment at 31 Dec 2018 | (1 121) | – | (1 121) |

The increase in the value of software in 2017 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 2018 | 31 Dec 2017 |
|---|---|---|
| Deferred expenses and accrued income | 305 | 262 |
| Prepayments made in relation to cash additions to ATMs and cash registers | 0 | 1 004 |
| Trade receivables | 213 | 192 |
| Receivables from securities | 9 | 10 |
| Clearing and settlement accounts | 851 | 748 |
| Dividend prepayment | 0 | 1 002 |
| Other | 7 | 21 |
| **Total** | **1 385** | **3 239** |
| Impairment of other assets | (18) | (16) |
| **Net other assets** | **1 367** | **3 223** |

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

## 26. Financial liabilities at amortised cost – deposits from banks

### Analysis of Deposits from Banks by Type

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deposits from central banks | 17 945 | 17 978 |
| Current accounts | 3 972 | 9 140 |
| Loans | 2 000 | 13 078 |
| Term deposits | 110 152 | 123 830 |
| Repurchase commitments (see Note 37) | 30 003 | 378 |
| **Total** | **164 072** | **164 404** |

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. Financial liabilities at amortised cost – deposits from clients

### Analysis of Deposits from Clients by Type

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current accounts | 350 342 | 336 735 |
| Term deposits | 21 230 | 21 437 |
| Repurchase commitments (see Note 37) | – | – |
| Other | 3 332 | 2 667 |
| **Total** | **374 904** | **360 839** |

# 28. Financial liabilities at amortised cost – issued debt securities

### Analysis of Issued Debt Securities

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Mortgage bonds | 18 677 | 35 385 |
| Structured bonds | 3 918 | 3 834 |
| Other issued debt securities | 173 | 781 |
| **Total** | **22 768** | **40 000** |

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 6,451 (at 31 December 2017: MCZK 7,331). The positive fair value of these derivatives of MCZK 34 is reported under "Financial assets held for trading" (at 31 December 2017: MCZK 7); the negative fair value of these derivatives of MCZK 234 is recognised under "Financial liabilities held for trading" (at 31 December 2017: MCZK 370).

# 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 2018** | | | | |
| Liabilities from short sales | 2 606 | – | – | 2 606 |
| Derivatives | 0 | 4 804 | 1 304 | 6 108 |
| **Total** | **2 606** | **4 804** | **1 304** | **8 714** |
| | | | | |
| **31 Dec 2017** | | | | |
| Liabilities from short sales | 1 533 | – | – | 1 533 |
| Derivatives | – | 6 666 | – | 6 666 |
| **Total** | **1 533** | **6 666** | **–** | **8 199** |

# 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 2018** | | | | |
| Fair value hedging | – | 525 | – | 525 |
| Cash flow hedging | – | 5 132 | – | 5 132 |
| **Total** | **–** | **5 657** | **–** | **5 657** |
| | | | | |
| **31 Dec 2017** | | | | |
| Fair value hedging | – | 550 | – | 550 |
| Cash flow hedging | – | 4 326 | – | 4 326 |
| **Total** | **–** | **4 876** | **–** | **4 876** |

# 31. Other liabilities

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deferred income and accrued expenses | 1 292 | 682 |
| Trade payables | 939 | 1 222 |
| Payables to employees | 679 | 726 |
| Unsettled security transactions | 11 | 65 |
| Clearing and settlement accounts | 5 129 | 7 643 |
| Other | 122 | 101 |
| **Total other liabilities** | **8 172** | **10 439** |

# 32. Provisions

Provisions include the following items:

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Provisions for off-balance sheet credit items | **1 095** | **490** |
| – Stage 1 | 141 | n/a |
| – Stage 2 | 42 | n/a |
| – Stage 3 | 912 | n/a |
| Legal disputes | 55 | 67 |
| Provision for restructuring | 8 | 100 |
| Other | 119 | 174 |
| **Total provisions** | **1 277** | **831** |

### (a) Provisions for Off-Balance Sheet Credit Items

| MCZK | | | | |
|---|---|---|---|---|
| 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** |
| | | | | |
| **MCZK** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Impact of IFRS 9 | | | | 106 |
| Balance at 1 Jan 2018 | 193 | 100 | 303 | 596 |
| Charge during the year | 168 | 44 | 622 | 834 |
| Usage during the year | – | – | – | – |
| Release during the year | (220) | (102) | (13) | (335) |
| Other – FX rate gains or losses | 1 | – | – | 1 |
| **Total provisions for off-balance sheet credit items at 31 Dec 2018** | **141** | **42** | **912** | **1 095** |

### (b) Other Provisions

| MCZK | Legal disputes | Restructuring provision | Other | Total |
|---|---|---|---|---|
| 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** |
| | | | | |
| Balance at 1 Jan 2018 | 67 | 100 | 174 | 341 |
| Charge during the year | 8 | 0 | 57 | 65 |
| Usage during the year | (21) | (85) | (105) | (211) |
| Release of redundant provisions and other | (1) | (7) | (7) | (13) |
| **Total other provisions at 31 Dec 2018** | **55** | **8** | **119** | **182** |

# 33. Income tax

### (a) Tax in Profit or Loss

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Current tax payable | (1 903) | (1 564) |
| Prior year tax | 33 | 34 |
| Deferred tax | (73) | 74 |
| **Total income tax** | **(1 943)** | **(1 456)** |

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 2018 | 31 Dec 2017 |
|---|---|---|
| Profit/loss for the year before tax | 10 866 | 10 277 |
| Tax calculated using the tax rate of 19% | (2 065) | (1 953) |
| Impact of prior years on the current tax payable | 33 | 34 |
| Non-taxable income | 153 | 460 |
| Tax non-deductible expenses | (70) | (49) |
| Impact of prior years on the deferred tax | (4) | 2 |
| Impact of a higher Slovak tax rate on the current tax payable and deferred tax | (22) | (31) |
| Unrecognised temporary differences in deferred tax | – | 27 |
| Recognition of previously unrecognised temporary differences in deferred tax | 30 | 56 |
| Impact of a change in the Slovak tax rate | – | – |
| Other | 2 | (2) |
| **Total income tax** | **(1 943)** | **(1 456)** |

The effective tax rate of the Bank is 17.9% (2017: 14.2%).

### (b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1,449 (2017: MCZK 1,069), made an additional payment of MCZK 357 (at 31 December 2017: the Bank made an additional payment of MCZK 324) and reports an income tax liability of MCZK 386 to the tax authority in the Czech Republic (at 31 December 2017: a liability of MCZK 202) and a receivable of MCZK 17 from the tax authority in the Slovak Republic (at 31 December 2017: a liability of MCZK 101).

### (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 2018 based on the current and anticipated future level of taxable profits.

*(i) Net Deferred Tax Asset*

| MCZK | 31 Dec 2018 Deferred tax asset | 31 Dec 2018 Deferred tax liability | 31 Dec 2017 Deferred tax asset | 31 Dec 2017 Deferred tax liability |
|---|---|---|---|---|
| Tax non-deductible provisions | 161 | | 123 | – |
| Impairment of loans and off-balance sheet items | 680 | | 633 | – |
| Differences arising from the net book values of tangible assets | 58 | | 44 | – |
| Differences arising from the net book values of intangible assets | | (52) | – | – |
| Reserve from revaluation of hedging instruments | | (49) | – | (128) |
| Reserve from revaluation of financial assets at fair value through other comprehensive income | | (147) | n/a | n/a |
| *Reserve from revaluation of available-for-sale securities (originally under IAS 39)* | n/a | n/a | – | (242) |
| Other | 35 | – | 156 | – |
| Deferred tax liability/asset | 934 | (248) | 956 | (370) |
| **Net deferred tax asset** | **686** | | **586** | |

# 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 2017 and 2018.

## (a) Shareholder Structure

| Entity | Registered office | Nominal value of shares in MCZK | Share premium in MCZK | Ownership percentage |
|---|---|---|---|---|
| **At 31 Dec 2018** | | | | |
| UniCredit S.p.A | Italy | 8 755 | 3 495 | 100.00 |
| **Total** | | **8 755** | **3 495** | **100.00** |
| | | | | |
| **At 31 Dec 2017** | | | | |
| UniCredit S.p.A | Italy | 8 755 | 3 495 | 100.00 |
| **Total** | | **8 755** | **3 495** | **100.00** |

## (b) Capital Breakdown

| | 31 Dec 2018 Number of shares | 31 Dec 2018 MCZK | 31 Dec 2017 Number of shares | 31 Dec 2017 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 2018 and 31 December 2017, 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 2018 | 31 Dec 2017 |
|---|---|---|
| Reserve funds | 3 372 | 3 372 |
| Special-purpose reserve fund | 12 423 | 11 611 |
| Retained earnings | 35 701 | 31 510 |
| **Total** | **51 496** | **46 493** |

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. In 2018, this fund was increased by MEUR 32 (profit of the Slovak branch for 2017).

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

### (a) Reverse Repurchase Transactions

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Receivables from banks | 189 922 | 199 020 |
| Fair value of securities received | 186 868 | 195 204 |
| | | |
| Receivables from clients | – | 378 |
| Fair value of securities received | – | 420 |

Securities received as collateral as part of reverse repurchase transactions of MCZK 0 are further provided as collateral under repurchase transactions (as of 31 December 2017: a total of MCZK 12,786).

### (b) Repurchase Transactions

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Deposits from banks | 30 003 | 378 |
| Fair value of securities provided | 33 443 | 420 |
| | | |
| Deposits from clients | – | – |
| Fair value of securities provided | – | – |

## 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 2018, 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 2018, the aggregate provisions amounted to MCZK 1,095 (as of 31 December 2017: MCZK 490), see Note 32 (a).

| MCZK | Gross amount | Impairment losses | Net amount |
|---|---|---|---|
| **31 Dec 2018** | | | |
| Letters of credit and financial guarantees | **41 210** | **(881)** | **40 329** |
| – Stage 1 | 39 087 | (93) | 38 994 |
| – Stage 2 | 1 183 | (19) | 1 164 |
| – Stage 3 | 940 | (769) | 171 |
| Other contingent liabilities (undrawn credit facilities) | **114 131** | **(214)** | **113 917** |
| – Stage 1 | 110 372 | (48) | 110 324 |
| – Stage 2 | 3 244 | (23) | 3 221 |
| – Stage 3 | 515 | (143) | 372 |
| **Total** | **155 341** | **(1 095)** | **154 246** |

| MCZK | 31 Dec 2017 Total |
|---|---|
| Letters of credit and financial guarantees | 39 814 |
| Other contingent liabilities (undrawn credit facilities) | 115 928 |
| **Total** | **155 742** |

***Values Taken into Administration and Management***

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Bonds | 652 094 | 537 325 |
| Shares | 218 676 | 192 514 |
| Depository notes | 46 071 | 17 305 |
| **Total values taken into administration and management** | **916 841** | **747 144** |

### (b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 385.9 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from Oesterreichische Kontrollbank

AG Bank of MCZK 108.7 (MEUR 4.2) 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 214.9 (MUSD 9.6) 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 2018** | | | |
| **Trading instruments – interbank market (OTC)** | | | |
| Options | 87 741 | 769 | 781 |
| Interest rate swap contracts | 391 801 | 3 692 | 3 039 |
| Forward rate agreements (FRA) | 0 | 0 | 0 |
| Cross currency swap contracts | 230 178 | 2 281 | 1 917 |
| Term currency transactions | 49 515 | 532 | 240 |
| Other instruments | 1 562 | 138 | 131 |
| **Total** | **760 797** | **7 412** | **6 108** |
| | | | |
| **Trading instruments – stock exchange** | | | |
| Futures | 1 646 | 30 | – |
| **Total trading instruments** | **762 443** | **7 442** | **6 108** |
| | | | |
| **Hedging instruments** | | | |
| Interest rate swap contracts | 585 163 | 5 492 | 4 997 |
| Cross currency swap contracts | 164 358 | 144 | 660 |
| **Total hedging instruments** | **749 521** | **5 636** | **5 657** |
| | | | |
| **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** |

### *(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 2018** | | | | |
| **Trading instruments** | | | | |
| Interest rate instruments | 107 122 | 233 981 | 86 522 | 427 625 |
| Equity instruments | 5 694 | 7 520 | 0 | 13 214 |
| Currency instruments | 245 990 | 73 503 | 549 | 320 042 |
| Other | 1 549 | 13 | 0 | 1 562 |
| **Total** | **360 355** | **315 017** | **87 071** | **762 443** |
| | | | | |
| **Hedging instruments** | | | | |
| Interest rate instruments | 163 500 | 256 394 | 165 269 | 585 163 |
| Currency instruments | 140 486 | 20 771 | 3 101 | 164 358 |
| **Total** | **303 986** | **277 165** | **168 370** | **749 521** |
| | | | | |
| **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** |

# 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, leases | Corporate and investment banking | Other | Total |
|---|---|---|---|---|
| **At 31 Dec 2018** | | | | |
| Net interest and dividend income | 3 837 | 8 084 | 1 866 | **13 787** |
| Other net income | 1 452 | 3 994 | 149 | **5 595** |
| | | | | |
| Depreciation/impairment losses of property and equipment and intangible assets | (217) | (117) | (167) | **(501)** |
| Impairment of assets and provisions | (100) | (413) | 10 | **(503)** |
| Segment expenses | (3 659) | (3 873) | 20 | **(7 512)** |
| Profit before tax | 1 313 | 7 675 | 1 878 | **10 866** |
| Income tax | | | (1 943) | (1 943) |
| Result of segment | **1 313** | **7 675** | **(65)** | **8 923** |
| | | | | |
| Segment assets | 124 023 | 523 001 | 13 116 | **660 140** |
| Segment liabilities | 171 559 | 399 552 | 15 447 | **586 558** |

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

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

| MCZK | Retail and private banking, leases | 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** |

### (b) Information on Geographical Areas

| MCZK | Czech Republic | Slovakia | Total |
|---|---|---|---|
| **At 31 Dec 2018** | | | |
| Net interest and dividend income | 11 181 | 2 606 | **13 787** |
| Other net income | 4 071 | 1 524 | **5 595** |
| | | | |
| Depreciation/impairment losses of property and equipment and intangible assets | (347) | (154) | **(501)** |
| Impairment of assets and provisions | 20 | (523) | **(503)** |
| Segment expenses | (5 321) | (2 191) | **(7 512)** |
| Profit before tax | 9 604 | 1 262 | **10 866** |
| Income tax | (1 723) | (220) | (1 943) |
| Result of segment | **7 881** | **1 042** | 8 923 |
| | | | |
| Segment assets | 532 456 | 127 684 | **660 140** |
| Segment liabilities | 478 548 | 108 010 | **586 558** |
| | | | |
| **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** |

## 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 regular basis, in accordance with the applicable decree of the Czech National Bank; in particular, it divides its receivables into receivables in default and receivables without default.

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 (i.e. stage 3 pursuant to IFRS 9) 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, in line with IFRS 9, the division of receivables without default into stages. For receivables that have experienced no significant decrease in creditworthiness since origination (i.e. stage 1), the Bank determines impairment loss on receivables as the expected loss until maturity of the receivable, but no more than the next 12 months (1-year expected loss). For receivables that have experienced a significant decrease in credit quality since origination but they are still receivables without default (i.e. stage 2), the Bank determines impairment loss on receivables as the expected loss until the final maturity of the receivable (lifetime expected loss).

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 2018 | Average for 2018 | At 31 Dec 2017 | Average for 2017 |
|---|---|---|---|---|
| Aggregate VaR | 207.4 | 245.3 | 146.6 | 132.9 |
| VaR of currency instruments | 4.7 | 4.2 | 4.5 | 2.8 |
| 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 2018 is characterised by sensitivity to a decrease in rates – this is reflected 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 | +200bp | MM stress test +250bp |
|---|---|---|---|
| Value at 31 Dec 2018 | 10 583 | (5 276) | (2 308) |
| Average for the period | 7 067 | (4 664) | (1 324) |
| Maximum value | 14 537 | (1 516) | 1 054 |
| Minimum value | 1 173 | (6 735) | (2 530) |
| | | | |
| 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) |

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 amortised cost and financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the 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 2018** | | | | | | |
| Cash in hand and cash balances | 2 381 | 2 162 | 111 | 26 | 161 | 4 841 |
| Financial assets at fair value through profit or loss, | 8 201 | 1 477 | 346 | – | – | 10 024 |
| *of which:* | | | | | | |
| – held for trading | 8 201 | 1 477 | – | – | – | 9 678 |
| – other than held for trading mandatorily at fair value | – | – | 346 | – | – | 346 |
| Financial assets at fair value through other comprehensive income | 11 555 | 17 498 | 135 | – | – | 29 188 |
| Financial assets at amortised cost | 392 898 | 204 504 | 2 059 | 16 | 2 147 | 601 624 |
| *of which:* | | | | | | |
| – Receivables from banks | 196 093 | 3 483 | 315 | 5 | 139 | 200 035 |
| – Receivables from clients | 196 805 | 201 021 | 1 744 | 11 | 2 008 | 401 589 |
| Positive fair value of hedging derivatives | 5 636 | – | – | – | – | 5 636 |
| Equity investments | 3 979 | – | – | – | – | 3 979 |
| Property and equipment | 284 | 544 | – | – | – | 828 |
| Intangible assets | 1 688 | 262 | – | – | – | 1 950 |
| Tax receivables | 109 | 594 | – | – | – | 703 |
| Non-current assets held for sale | – | – | – | – | – | – |
| Other assets | 651 | 624 | 84 | 2 | 6 | 1 367 |
| Total assets | 427 382 | 227 665 | 2 735 | 44 | 2 314 | 660 140 |
| | | | | | | |
| Financial liabilities at amortised cost | 255 884 | 290 040 | 12 221 | 589 | 3 010 | 561 744 |
| *of which:* | | | | | | |
| – Deposits from banks | 15 818 | 148 223 | 29 | – | 2 | 164 072 |
| – Deposits from clients | 228 759 | 130 356 | 12 192 | 589 | 3 008 | 374 904 |
| – Debt securities issued | 11 307 | 11 461 | – | – | – | 22 768 |
| Financial liabilities held for trading | 8 714 | – | – | – | – | 8 714 |
| Negative fair value of hedging derivatives | 5 657 | – | – | – | – | 5 657 |
| Changes in fair value of the portfolio of hedged instruments | 500 | 108 | – | – | – | 608 |
| Tax liabilities | 386 | – | – | – | – | 386 |
| Other liabilities | 4 145 | 3 470 | 370 | 5 | 182 | 8 172 |
| Provisions | 503 | 673 | 81 | – | 20 | 1 277 |
| Equity | 59 230 | 14 544 | (124) | – | (68) | 73 582 |
| Total liabilities and equity | 335 019 | 308 835 | 12 548 | 594 | 3 144 | 660 140 |
| Gap | 92 363 | (81 170) | (9 813) | (550) | (830) | – |

| 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, | 4 727 | 3 062 | 295 | – | 36 | 8 120 |
| *of which:* | | | | | | |
| – held for trading | 4 727 | 3 062 | 295 | – | 36 | 8 120 |
| – other than 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) | – |

### 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. 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 2018** | | | | | | | |
| Cash in hand and cash balances | 4 841 | 4 841 | 4 841 | – | – | – | – |
| Financial assets at fair value through profit or loss, | 10 024 | 10 343 | 1 416 | 1 493 | 5 045 | 2 389 | – |
| *of which:* | | | | | | | |
| – held for trading | 9 678 | 9 997 | 1 416 | 1 493 | 5 045 | 2 043 | – |
| – other than held for trading mandatorily at fair value | 346 | 346 | – | – | – | 346 | – |
| Financial assets at fair value through other comprehensive income | 29 188 | 33 046 | 134 | 2 496 | 24 888 | 5 528 | – |
| Financial assets at amortised cost | 601 624 | 625 493 | 245 884 | 56 963 | 157 791 | 157 973 | 6 882 |
| *of which:* | | | | | | | |
| – Receivables from banks | 200 035 | 200 102 | 199 458 | 462 | – | – | 182 |
| – Receivables from clients | 401 589 | 425 391 | 46 426 | 56 501 | 157 791 | 157 973 | 6 700 |
| Positive fair value of hedging derivatives | 5 636 | 5 636 | 75 | 212 | 2 822 | 2 527 | – |
| Equity investments | 3 979 | 3 979 | – | – | – | – | 3 979 |
| Property and equipment | 828 | 828 | – | – | – | – | 828 |
| Intangible assets | 1 950 | 1 950 | – | – | – | – | 1 950 |
| Tax receivables | 703 | 703 | 17 | – | 686 | – | – |
| Non-current assets held for sale | – | – | – | – | – | – | – |
| Other assets | 1 367 | 1 367 | 1 061 | 306 | – | – | – |
| | | | | | | | |
| Financial liabilities at amortised cost | 561 744 | 563 936 | 454 971 | 66 220 | 34 899 | 7 846 | – |
| *of which:* | | | | | | | |
| – Deposits from banks | 164 072 | 164 079 | 85 471 | 58 473 | 18 574 | 1 561 | – |
| – Deposits from clients | 374 904 | 375 012 | 368 885 | 5 217 | 739 | 171 | – |
| – Debt securities issued | 22 768 | 24 845 | 615 | 2 530 | 15 586 | 6 114 | – |
| Financial liabilities held for trading | 8 714 | 8 714 | 2 979 | 966 | 3 773 | 996 | – |
| Negative fair value of hedging derivatives | 5 657 | 5 657 | 128 | 477 | 2 427 | 2 625 | – |
| Changes in fair value of the portfolio of hedged instruments | 608 | 608 | 608 | – | – | – | – |
| Tax liabilities | 386 | 386 | – | 386 | – | – | – |
| Other liabilities | 8 172 | 8 172 | 6 252 | 1 920 | – | – | – |
| Provisions | 1 277 | 1 277 | – | – | – | – | 1 277 |
| Equity | 73 582 | 73 582 | – | – | – | – | 73 582 |
| | | | | | | | |
| Undrawn loan facilities | 114 131 | 114 131 | 6 159 | 30 245 | 22 359 | 55 368 | – |
| Bank guarantees | 41 210 | 41 210 | 4 952 | 10 392 | 20 850 | 5 016 | – |

| 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, | 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 | – |
| – other than 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 | 115 928 | 115 928 | 8 477 | 31 228 | 20 876 | 55 347 | – |
| Bank guarantees | 39 814 | 39 814 | 4 788 | 9 001 | 16 880 | 1 650 | 7 495 |

### (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 2018 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 2018, 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 2018**

The economic development continued last year in both countries where we operate. However, while in the Czech Republic the dynamics slowed down considerably compared to the previous year, in Slovakia it sped up. The common traits of both economies included strong investment activity and solid growth in private consumption. Both economies also faced lack of workforce with a record low in the unemployment rate. Slovakia was able to outpace the growth of Czech GDP thanks to net export following the opening of new capacities in the automotive industry.
The banking sector in the Czech Republic profited from high demand for loans. In the household sector, the volume of bank loans for both housing and consumption grew at a stable and comparable rate. In the sector of non-financial enterprises, there was an increase in activity in the latter half of the year for investment loans and loans for current assets. The volume of bank deposits also grew, at a rate comparable to the growth in loans for households and slower for non-financial enterprises. A significant source of growth in net interest income for banks was also the growth in interest rate following the tightening of the currency policy of the Czech National Bank. The repo rate of the Czech National Bank concluded the year after five quarter-percent increases at the level of 1.75%. The total profit of the banking sector was additionally positively affected by the good payment discipline of debtors, which led to a record low in the percentage of defaulted loans. For non-financial enterprises,

more than 30% of the volume of loans were for residents and more than 20% of the volume of resident deposits were denominated in foreign currencies. The CZK/EUR exchange rate remained almost unchanged during the year and had a neutral effect on the results of the banking sector.
Strong demand for new lending also characterised the Slovak banking sector. Although tightening regulation slightly decreased the dynamics of growth in loans to households, they nevertheless maintained double-digit dynamics of year-on-year growth. The sector of non-financial enterprises continued to demonstrate a robust appetite for investment and operating loans and it maintained stable growth dynamics. The growth dynamics of deposits once again markedly lagged behind the growth in loans, and the volume of loans steadily exceeded the volume of deposits since the middle of the year. Growth dynamics of deposits of the population sped up slightly during the year, supported by the strong labour market and decreasing risk appetite of households. In the sector of non-financial enterprises, the growth dynamics of deposits gradually decreased instead.
The profit of the Bank in 2018 remained under the pressure of low (negative) interest rates close to historical minimums. However, the effect of volume growth prevailed and after three years of uninterrupted decrease, net interest income rebounded after all. However, its growth was neutralised by the weaker results of the Trading department, higher salary costs and risk costs, despite the continuously gently decreasing level of loan defaults. The profit of the banking sector was therefore close to the level of a year ago.

During 2018, 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, as well as in order to determine the loss from the decrease in receivables pursuant to IFRS 9.

(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 2018 | 31 Dec 2017 |
|---|---|---|
| Assets | | |
| Receivables from banks | 2 474 | 145 |
| Financial assets held for trading | 598 | – |
| Financial assets at fair value through other comprehensive income | 774 | n/a |
| *Securities available for sale (originally under IAS 39)* | n/a | 1 814 |
| Positive fair value of hedging derivatives | 996 | – |
| **Total** | **4 842** | **1 959** |
| | | |
| Liabilities | | |
| Deposits from banks | 123 403 | 112 590 |
| Financial liabilities held for trading | 312 | – |
| Negative fair value of hedging derivatives | 859 | – |
| **Total** | **124 574** | **112 590** |
| | | |
| Off-balance sheet items | | |
| Issued guarantees | 963 | 273 |
| Irrevocable credit facilities | 132 | 96 |
| **Total** | **1 095** | **369** |

| MCZK | 2018 | 2017 |
|---|---|---|
| Interest and similar income | 442 | 35 |
| Interest and similar expenses | (54) | (14) |
| Income from fees and commissions | – | 4 |
| Expenses for fees and commissions | (4) | (35) |
| Net profit/loss from financial assets and liabilities held for trading | 308 | – |
| Net profit/loss from hedging of the risk of change in fair values | 1 | – |
| General administrative expenses | (8) | (8) |
| **Total** | **685** | **(18)** |

### (b) Transactions with subsidiaries

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Assets** | | |
| Receivables from clients | 43 200 | 37 672 |
| *of which:* | | |
| UniCredit Leasing CZ, a.s. | 28 750 | 22 744 |
| UniCredit Leasing Slovakia, a.s. | 11 107 | 9 175 |
| UniCredit Fleet Management, s.r.o. (CZ) | – | 1 784 |
| UniCredit Factoring Czech Republic and Slovakia, a.s. | 2 319 | 1 780 |
| HVB Leasing Czech Republic s.r.o. | 637 | 1 175 |
| **Total** | **43 200** | **37 672** |
| | | |
| Liabilities | | |
| Payables to clients | 437 | 758 |
| *of which:* | | |
| UniCredit Leasing Slovakia, a.s. | 400 | 447 |
| UniCredit pojišťovací makléřská spol. s r.o. | 19 | 251 |
| **Total** | **437** | **758** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Off-balance sheet items | 74 | 178 |
| Issued guarantees | | |
| *of which:* | | |
| UniCredit Factoring Czech Republic and Slovakia, a.s. | 74 | 178 |
| | | |
| Irrevocable credit facilities | 541 | 2 763 |
| *of which:* | | |
| UniCredit Leasing CZ, a.s. | 151 | 1 289 |
| UniCredit Fleet Management, s.r.o. (CZ) | – | 467 |
| UniCredit Factoring Czech Republic and Slovakia, a.s. | 35 | 347 |
| UniCredit Leasing Slovakia, a.s. | 174 | 341 |
| **Total** | **615** | **2 941** |

| MCZK | 2018 | 2017 |
|---|---|---|
| Interest income and similar income | 318 | 216 |
| *of which:* | | |
| UniCredit Leasing CZ, a.s. | 221 | 131 |
| UniCredit Leasing Slovakia, a.s. | 53 | 59 |
| | | |
| Interest expense and similar expense | (10) | (9) |
| *of which:* | | |
| UniCredit Leasing CZ, a.s. | – | (9) |
| UniCredit Leasing Slovakia, a.s. | (10) | – |
| | | |
| Fee and commission income | 39 | 37 |
| *of which:* | | |
| UniCredit Leasing CZ, a.s. | 18 | 15 |
| UniCredit Leasing Slovakia, a.s. | 18 | 20 |
| | | |
| General administrative expenses | (25) | (25) |
| *of which:* | | |
| UniCredit Fleet Management, s.r.o. (CZ) | (21) | (22) |
| UniCredit Fleet Management, s.r.o. (SK) | (9) | (8) |
| **Total** | **322** | **219** |

### (c) Transactions with key management members

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Assets | | |
| Receivables from clients | 98 | 106 |
| *of which:* | | |
| Board of Directors | 8 | – |
| Other management members | 90 | 106 |
| **Total** | **98** | **106** |
| | | |
| Liabilities | | |
| Payables to clients | 223 | 225 |
| *of which:* | | |
| Board of Directors | 113 | 120 |
| Other management members | 109 | 105 |
| **Total** | **223** | **225** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Off-balance sheet items | | |
| Irrevocable credit facilities | 4 | 13 |
| *of which:* | | |
| Board of Directors | 1 | 1 |
| Other management members | 3 | 12 |
| **Total** | **4** | **13** |

## (d) Transactions with other related parties

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Assets | | |
| Financial assets held for trading | 1 020 | 1 631 |
| *of which:* | | |
| UniCredit Bank AG | 1 020 | 1 247 |
| | | |
| Receivables from banks | 977 | 5 337 |
| *of which:* | | |
| UniCredit Bank AG | 823 | 259 |
| UniCredit Bank Austria AG | 81 | 710 |
| Yapi ve Kredi Bankasi AS | 31 | 4 102 |
| UniCredit Bank Hungary Zrt. | 6 | 70 |
| AO UniCredit Bank | 20 | 142 |
| | | |
| Receivables from clients | 724 | 766 |
| *of which:* | | |
| UCTAM Czech Republic s.r.o. | 404 | 407 |
| UCTAM SVK, s.r.o | 320 | 265 |
| | | |
| Positive fair value of hedging derivatives | 1 915 | 1 883 |
| *of which:* | | |
| UniCredit Bank AG | 1 915 | 1 274 |
| **Total** | **4 636** | **9 617** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Liabilities | | |
| Deposits from banks | 17 603 | 23 648 |
| *of which:* | | |
| UniCredit Bank Austria AG | 16 910 | 22 144 |
| UniCredit Bank AG | 649 | 1 431 |
| UniCredit Bank Hungary Zrt. | 5 | 32 |
| | | |
| Deposits from clients | 399 | 250 |
| *of which:* | | |
| UniCredit Services S.C.p.A. | 80 | 59 |
| | | |
| Financial liabilities held for trading | 2 373 | 1 801 |
| *of which:* | | |
| UniCredit Bank AG | 2 373 | 1 625 |
| | | |
| Negative fair value of hedging derivatives | 1 450 | 2 010 |
| *of which:* | | |
| UniCredit Bank AG | 1 450 | 1 211 |
| **Total** | **21 825** | **27 709** |

| MCZK | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Off-balance sheet items | | |
| Issued guarantees | 1 240 | 1 251 |
| *of which:* | | |
| UniCredit Bank AG | 623 | 546 |
| UniCredit Bank Austria AG | 311 | 488 |
| UniCredit Bank Hungary Zrt. | 19 | 51 |
| AO UniCredit Bank | 102 | 13 |
| | | |
| Irrevocable credit facilities | 287 | 164 |
| *of which:* | | |
| UniCredit Bank AG | 119 | 102 |
| **Total** | **1 527** | **1 415** |

| MCZK | 2018 | 2017 |
|---|---|---|
| Interest income and similar income | 715 | 514 |
| *of which:* | | |
| UniCredit Bank AG | 442 | 359 |
| UniCredit Bank Austria AG | 239 | 76 |
| | | |
| Interest expenses and similar charges | (86) | (183) |
| *of which:* | | |
| UniCredit Bank AG | (4) | (16) |
| UniCredit Bank Austria AG | (80) | (164) |
| | | |
| Fee and commission income | 96 | 120 |
| *of which:* | | |
| UniCredit Bank AG | 75 | 72 |
| UniCredit Bank Hungary Zrt. | 1 | 4 |
| UniCredit Bank Austria AG | 14 | 26 |
| | | |
| Fee and commission expenses | (15) | (9) |
| *of which:* | | |
| UniCredit Bank Austria AG | (5) | (4) |
| | | |
| Net profit/loss from financial assets and liabilities held for trading | (2 452) | 444 |
| *of which:* | | |
| UniCredit Bank AG | (2 400) | 246 |
| UniCredit Bank Austria AG | (52) | 206 |
| | | |
| Net profit from hedging against risk of changes in fair value | 28 | 112 |
| *of which:* | | |
| UniCredit Bank AG | 29 | 109 |
| | | |
| General administrative expenses | (1 005) | (1 441) |
| *of which:* | | |
| UniCredit Services S.C.p.A. | (1 015) | (1 438) |
| **Total** | **(2 719)** | **(77)** |

# 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 2018 Carrying amount | 31 Dec 2018 Fair value | 31 Dec 2017 Carrying amount | 31 Dec 2017 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables from banks | 200 035 | 200 038 | 210 122 | 210 133 |
| Receivables from clients | 401 589 | 391 387 | 374 426 | 381 880 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from banks | 164 072 | 163 089 | 164 404 | 164 404 |
| Deposits from clients | 374 904 | 375 261 | 360 839 | 360 839 |
| Debt securities issued | 22 768 | 23 121 | 40 000 | 40 436 |

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

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

| MCZK | Financial assets at fair value through profit or loss: Held for trading | Financial assets at fair value through profit or loss: Other than held for trading mandatorily at fair value | Financial assets at fair value through other comprehensive income | Hedging derivatives | Total |
|---|---|---|---|---|---|
| **31 Dec 2018** | | | | | |
| Transfer from Level 1 to Level 2 | – | – | – | – | – |
| Transfers from Level 2 to Level 1 | 13 | – | – | – | 13 |

| MCZK | Financial assets at fair value through profit or loss: Held for trading | Financial assets at fair value through profit or loss: Other than held for trading | Securities available for sale | Hedging derivatives | Total |
|---|---|---|---|---|---|
| **31 Dec 2017** | | | | | |
| Transfer from Level 1 to Level 2 | – | – | – | – | – |
| Transfers from Level 2 to Level 1 | – | – | – | – | – |

For the years ended 31 December 2018 and 31 December 2017, 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 | Other than held for trading | | | |
| **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 | | | | | – |

| MCZK | Financial assets at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | Hedging derivatives | Total |
|---|---|---|---|---|---|
| | Held for trading | Other than held for trading mandatorily at fair value | | | |
| Impact of IFRS 9 | – | 254 | (254) | – | – |
| **Opening balance at 1 Jan 2018** | **–** | **254** | **6** | **–** | **260** |
| Revaluation gains and losses | | | | | |
| In profit or loss | – | 73 | – | – | 73 |
| In other comprehensive income | – | – | – | – | – |
| Purchases | 2 290 | – | – | – | 2 290 |
| Sales/maturity | – | – | – | – | – |
| Transfers from/to other levels | 77 | – | 65 | – | 142 |
| Other | (36) | 19 | (1) | – | (18) |
| **Closing balance at 31 Dec 2018** | **2 331** | **346** | **70** | **–** | **2 747** |
| Total revaluation gains and losses included in profit or loss for the period: | | | | | 73 |
| *Of which:* Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end | | | | | 73 |

The following table contains the transfers of financial liabilities at fair value to and from level 3.

| MCZK | Financial assets at fair value through profit or loss held for trading | Hedging derivatives | Total |
|---|---|---|---|
| **Opening balance at 1 Jan 2018** | **–** | **–** | **–** |
| Revaluation gains and losses | | | |
| In profit or loss | – | – | – |
| In other comprehensive income | – | – | – |
| Purchases | 1 291 | – | 1 291 |
| Sales/maturity | – | – | – |
| Transfers from/to other levels | 14 | – | 14 |
| Other | (1) | – | (1) |
| **Closing balance at 31 Dec 2018** | **1 304** | **–** | **1 340** |
| 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 year ended 31 December 2017, 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 Financial instruments | Obtained cash collateral | Net amount |
|---|---|---|---|---|---|---|
| **31 Dec 2018** | | | | | | |
| Derivatives | 10 569 | – | 10 569 | 8 479 | – | 2 090 |
| | | | | | | |
| **31 Dec 2017** | | | | | | |
| Derivatives | 8 804 | – | 8 804 | 7 524 | – | 1 280 |

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

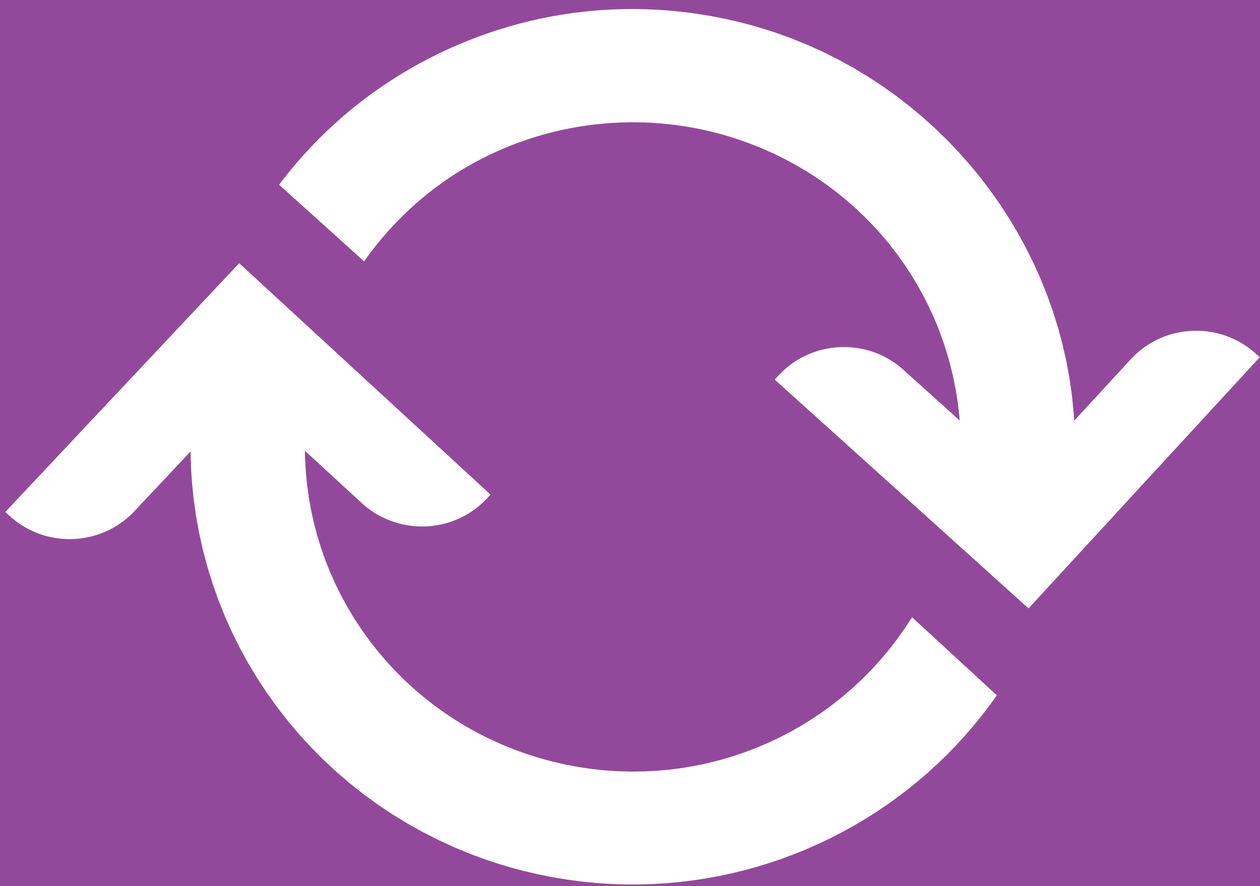
| MCZK | Gross reported financial liabilities | Gross reported financial assets | Net reported financial liabilities | Relating amounts that are not offset Financial instruments | Provided cash collateral | Net amount |
|---|---|---|---|---|---|---|
| **31 Dec 2018** | | | | | | |
| Derivatives | 10 480 | – | 10 480 | 8 479 | – | 2 001 |
| | | | | | | |
| **31 Dec 2017** | | | | | | |
| Derivatives | 9 998 | – | 9 998 | 7 524 | – | 2 474 |

# 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): |
|---|---|---|---|
| February 19, 2019 | Ing. Jiří Kunert<br>Chairman of the Board of Directors<br><br>Ljubiša Tešić<br>Member of the Board of Directors | Ing. Jiří Houška | Mgr. Michaela Mrštíková |

# Transform operating model.



We are leveraging on digitalisation to transform our operating model. We are ahead of schedule, with an improved cost reduction. The optimisation of the cost base will remain important to ensure our Group's efficiency and effectiveness.

Deloitte.

Deloitte Audit s.r.o.
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# INDEPENDENT AUDITOR'S REPORT

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

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

**Report on the Audit of the Consolidated and Separate Financial Statements**

Opinion

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

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018, 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 2018, 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.

This is an English language translation of the original Czech language document.

| Key audit matter | Related audit procedures |
|---|---|
| **Impairment of receivables from clients** | |
| *(Please refer to Note 20 and 40 (b) to the Consolidated and Separate Financial Statements for the details)*<br><br>At 31 December 2018, gross receivables from clients (hereinafter "receivables") were CZK 422 185 million and CZK 410 140 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 10 149 million and CZK 8 551 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.<br><br>The assessment of loan loss provisions for loans to clients requires Bank management to exercise a significant level of judgment, especially with regards to identifying impaired receivables and quantifying loan impairment. To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters from internal and external sources. | We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant loan portfolios.<br><br>We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes. |
| In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank.<br><br>The assessment of classification to impairment stages includes the combination of relative and absolute factors:<br>• Relative comparison between the probability of default at the initial recognition of the receivable and at each reporting date,<br>• Absolute factors such as limits set by related regulations (ie 30 days past due),<br>• Other factors with internal relevance for the Bank (eg new classifications as forbearance receivables).<br><br>Where no repayment difficulties have been identified for a particular receivable, the Bank creates a provision using the statistical model for a homogeneous group of loans (Stage 1 and Stage 2). The expected loan loss provision is calculated using available historical data and anticipated future development determined using macroeconomic indicators.<br><br>The statistical model used is based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management.<br><br>When determining the provision level for impaired loans (Stage 3):<br><br>1) With respect to receivables with exposure of over EUR 1.0 million, Bank management considers the following factors: | For receivables regarding which the Bank has not identified any difficulties likely to prevent the full repayment of receivables (Stage 1 and Stage 2), the testing focused on controls related to timely identification of potential difficulties with receivable repayment and correct classification of receivables to corresponding impairment stages.<br><br>Our credit risk experts assessed the amounts of provisions for Stage 1 and Stage 2 and reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default.<br><br>For provisions for loan losses at Stage 3, the testing included controls related to creation and period review of watch-lists, regular client creditworthiness review processes, approval of experts' collateral valuation and management review and approval of the impairment evaluation results.<br><br>On a sample of exposures, we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows.<br><br>For loan receivables with exposure of over EUR 1.0 million we also verified correctness of discounted cash flows calculations applied in deriving the recoverable amount of the loan. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias. |

| Key audit matter | Related audit procedures |
|---|---|
| a) The Bank's estimated rate of success of recovering debt;<br>b) Amount and timing of expected future cash flows;<br>c) Collateral value.<br>2) With respect to receivables with exposure of less than EUR 1.0 million the provision is calculated using models based on expected recovery.<br><br>The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 1 755 million and CZK 1 348 million for the Group and for the Company respectively. The loan loss provision for impaired loans at Stage 3 represents CZK 7 203 million and CZK 8 394 for the Group and for the Company respectively, out of the total recognised amount of CZK 10 149 million and CZK 8 551 million for the Group and for the Company respectively as at 31 December 2018. | |
| **Interest Income and Fee and Commission Income Recognition** | |
| *(Please refer to Note 5 and Note 6 to the Consolidated and Separate Financial Statements for the details)*<br><br>For the year ended 31 December 2018 the interest income represents CZK 15 435 million and CZK 14 173 million for the Group and for the Company respectively, and fee and commission income represents CZK 5 101 million and CZK 4 582 million for the Group and for the Company respectively, the main source being loans to customers and payment cards. These transactions are the main contributors to the operating income of the Bank affecting the Bank's profitability.<br><br>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:<br><br>• Fees that are directly attributable to the financial instrument are recognised over the expected life of such an instrument and are presented as interest income.<br>• Fees for services provided are recognised when service is provided and are presented as fee and commission income.<br>• Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income.<br><br>Revenue recognition specifics, high volume of individually small transactions dependent on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter. | We have tested the design and operating effectiveness of the key internal controls and focused on:<br><br>• Inputs on interest/fee related to customer loans and deposits, including authorisation of the changes in the interest rates and fees and authorisation of non-standard interest rates/fees;<br>• Recording of fee and interest income and management oversight; and<br>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.<br><br>We also performed the following procedures with regard to interest and fee income recognition:<br><br>1) We evaluated the accounting treatment applied by the Bank to determine whether the methodology complies with the requirement of the relevant accounting standard.<br><br>We have focused our testing on verification of the correct classification of:<br>• Fees that are identified as directly attributable to the financial instrument;<br>• Fees that are not identified as directly attributable to the financial instrument.<br><br>2) We evaluated the correctness of mathematical formula used for recognising the relevant income over the expected loan life.<br><br>We have analysed correctness of the recorded amount of interest income and fee and commission income using substantive analytical tests. These tests included determination of expected volumes of income based on the observed historical development over past years and the actual development of the market, which was compared to the related amount recorded by the Bank. |

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

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

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

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Company to express an opinion on the Consolidated and Separate Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2018 which is included in this annual report on pages 201 to 208. 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 2018 contains material factual misstatements.

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

**Report on Other Legal and Regulatory Requirements**

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 5 April 2018 and our total uninterrupted engagement including previous renewals has lasted for 5 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 February 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Non-financial information report

As stated in Section 23 on page 200 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 15 April 2019

Audit firm:

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

Deloitte

Statutory auditor:

Diana Rádl Rogerová
registration no. 2045

D. Rádl Rogerová

# Maximise commercial bank value.

We continue to maximise commercial bank value by successfully focusing on our clients, delivering a positive experience through our multichannel strategy and best-in-class products and services. The fully plugged in CIB leverages on the Group's strong commercial banking relationships to support the real economy.

# 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.

UniCredit Bank fulfils all of its obligations in a due and timely manner. No changes have occurred in the past that could be of material significance in evaluating the issuer's solvency.

In carrying out its activities in the Czech market, UniCredit Bank is governed by Czech legal regulations, in particular the Banking Act, the Civil Code, the Act on Business Corporations and regulations governing operations in the banking and capital markets.
In the Slovak market, where UniCredit Bank has operated since 1 December 2013 through its organisational unit, the Bank is also governed by applicable Slovak legal regulations.

## 2. Persons responsible for the audit of the financial statements

| | |
|---|---|
| Person in charge: | Diana Rádl Rogerová |
| License No.: | 2045 |
| Domicile/Place of business: | Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady |
| Auditor: | Deloitte Audit s. r. o. |
| License No.: | 079 |
| Registered office: | Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady |

## 3. Information about UniCredit Bank as an issuer of registered securities

### 3.1 History and development of the issuer

UniCredit Bank Czech Republic and Slovakia, a.s., launched its activities in the Czech market on 5 November 2007. Its name was changed after it merged with the Slovak UniCredit Bank Slovakia, a.s., as at 1 December 2013. UniCredit Bank Czech Republic, a.s., itself was established through the merger of HVB Bank Czech Republic, a.s., and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, PC 113 80, Company ID No.: 000 01 368, recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, File No. 1350, were assumed by the successor company, HVB Bank Czech Republic, a.s., as a result of the merger.

HVB Bank Czech Republic, a.s., was established by the merger of HypoVereinsbank CZ, a.s., and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s., were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the Companies Register maintained by the Municipal Court in Prague, Section B, File 3608.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Companies Register maintained by the Municipal Court in Prague in Section B, File No. 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorisation to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatisation of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16% share in the issued capital of Živnostenská banka, a.s., from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.
As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A., which is the ultimate parent company of the entire Group (hereinafter the "Group") holding 100% of the Bank's shares.

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

UniCredit Bank Czech Republic and Slovakia, a.s., operates in all regional cities in both countries and currently has 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 a customer's account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, par. 1a) and 1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2c) of the Securities Act, trading in investment instruments on a trader's own account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, main investment service pursuant to Section 8, par. 2d) of the Securities Act, management of individual portfolios at its own discretion within the terms of a contractual covenant with a client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a) – 1b) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1c) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3c) of the Securities Act, provision of credits or loans to a customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, par. 1a)–1d) and 1g) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies,
– supplementary investment service pursuant to Section 8, par. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, par. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3f) of the Securities Act, consulting services related to investment in investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, and
– supplementary investment service pursuant to Section 8, par. 3g) of the Securities Act, executing of foreign currency operations related to the provision of investment services,

k) issuing mortgage bonds;
l) financial brokerage;
m) depository services;
n) foreign currency exchange services (purchase of foreign currencies);
o) providing banking information;
p) trading foreign currencies and gold on its own account or on behalf of clients;
q) renting safe-deposit boxes; and
r) other activities directly related to the activities specified above.

### 4.2 Key activities Corporate & Investment Banking

- Corporate and investment banking;
- 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**

A major portion of investments in transaction banking consists of solutions of new regulatory and legislation requirements. UniCredit, for example, has successfully implemented the transition to a wholly new standards in the SWIFT infrastructure – for the foreign payment system and trade financing, as well as the new European Payment Services Directive, PSD2. Its concept of open banking for third parties also means a massive change in the banking systems, making significant demands on their security. We are glad to have managed to comply with these demanding requirements as the first bank in UniCredit Group. Other successful innovations of our bank in 2018 also include extending the payment options in e-commerce and simplifying payments for parking.

As regards securities management services, we extended our product portfolio for our clients by more than 90,000 funds via more than 700 agents in 26 countries. It is a product enabling direct access to fund transaction, acquisition of fund-related information, order STP process - all via one provider. Within our successful European Commodity Clearing platform, we held further accession talks for other major European commodity markets in 2018 in order to enhance the complexity and quality of the services provided and satisfy the demand of our existing and prospective clients.

In accordance with its strategic plan, UniCredit Factoring introduced a new product to the market in 2018 – reverse factoring. It is an innovative solution connecting the customer with suppliers by means of software, allowing all parties to this supplier-customer chain to optimise their operating capital and debt ratio through the purchase of receivables by a factoring company.
In 2018, a new agreement with the SZRB was signed, focusing on the need for financing of small and medium-sized enterprises in Slovakia up to EUR 172 million, with EUR 80 million allocated for start-ups.

As regards the operational setup of the Division, 2018 saw further focus on the strengthening of our internal effectiveness, as well as on the streamlining and automation of processes. We made changes mostly in the field of loan approvals, credit checks, credit monitoring, preparation of contractual documentation and digitisation. In the field of sales support, which is key to business relationship management, we introduced new CRM tools and data analyses. Our ongoing objective and priority are improving the quality and availability of services for our clients and thereby enhancing the positive customer experience on both markets, in all segments - that is our DNA.

**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**

As regards mortgage loans for individuals, we focused on further improvement of our product offer and we offer a unique "all for the price of one" concept, where all fixations are offered at the same price. Further acceleration and streamlining of the credit process were our priority as well.

Owing to the implementation of a new internal application for trading in securities, the work of bankers has become considerably simpler and more 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.

**Accounts**

As regards accounts for individuals, we focused on the development of our U-šetřete loyalty programme, which is linked to an account payment card. The programme was boosted by involving new partners as well as increasing the number of registered users.

**Investments and deposits**

We made our offer simpler and focused on actively managed, highly diversified and flexible investment solutions. This applies to both one-off and regular investments.

**Insurance**

In 2018, we established strategic cooperation with Alliianz and Generali, which entailed a complex modification of our product offer of life and non-life insurance and of insurance of the ability to pay.

**Payment cards**

In 2018, there was no major product innovation in cards.

## Small enterprises and entrepreneurs

In 2018, we focused on further streamlining internal processes for extending loans to entrepreneurs. We also considerably simplified our offer of accounts and introduced our U konto Business product (with the ancillary U konto for Entrepreneurs product in Slovakia). Our U konto product offer was thus extended by products for entrepreneurs.

## Online sale

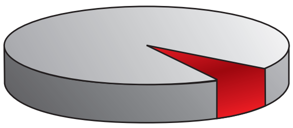
The Retail and Private Banking Division completed the process of optimising the branch network, which kicked off in 2017, and merged two branches in two big towns – Olomouc and Trnava. Following this optimisation, the branch network has a total of 130 branches. Our primary priority remains the maximum satisfaction of our clients; therefore, we reconstructed and modernised 12 branches in total last year.

## 4.3 Competitive position of the issuer

All charts below provide non-consolidated data.

### (i) Profit after tax

| Profit after tax (MCZK) | 2018 |
|---|---|
| Banking sector CZ | 82,281 estimate |
| UCB CZ & SK | 8,923 |



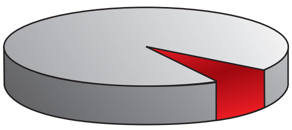
Other banks
**UCB CZ & SK**

Non-consolidated data

| | |
|---|---|
| Other banks | 89.16 % |
| **UCB CZ & SK** | **10.84 %** |

### (ii) Total net assets

| Total assets (MCZK) | as at 31 Dec 2018 |
|---|---|
| Banking sector CZ | 7,267,964 estimate |
| UCB CZ & SK | 660,140 |



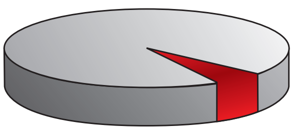
Other banks
**UCB CZ & SK**

Non-consolidated data

| | |
|---|---|
| Other banks | 90.92 % |
| **UCB CZ & SK** | **9.08 %** |

### (iii) Gross receivables from clients in CZ*

| Receivables from clients (MCZK) | as at 31 Dec 2018 |
|---|---|
| Banking sector CZ | 3,015,813 |
| UCB CZ & SK | 257,541 |



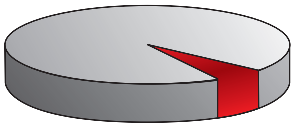
Other banks
**UCB CZ & SK**

Non-consolidated data, residents

| | |
|---|---|
| Other banks | 91.46 % |
| **UCB CZ & SK** | **8.54 %** |

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

| Receivables from clients (MCZK) | | as at 31 Dec 2018 |
|---|---|---|
| Banking sector SK | MEUR 57,319** | 1,474,520 |
| UCB CZ & SK | | 116,060 |



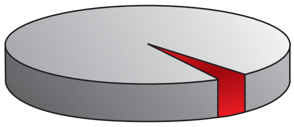
Other banks
**UCB CZ & SK**

Non-consolidated data, residents

| | |
|---|---|
| Other banks | 92.13 % |
| **UCB CZ & SK** | **7.87 %** |

### (v) Liabilities to clients in CZ*

| Liabilities to clients CZ (MCZK) | as at 31 Dec 2018 |
|---|---|
| Banking sector CZ | 4,228,222 |
| UCB CZ & SK | 266,733 |



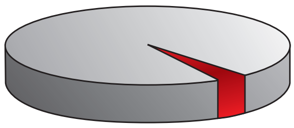
Other banks
**UCB CZ & SK**

Non-consolidated data, residents

| | |
|---|---|
| Other banks | 93.69 % |
| **UCB CZ & SK** | **6.31 %** |

### (vi) Liabilities to clients in SK***

| Liabilities to clients CZ (MCZK) | | as at 31 Dec 2018 |
|---|---|---|
| Banking sector SK | MEUR 56,816** | 1,461,585 |
| UCB CZ & SK | | 77,241 |



Other banks
**UCB CZ & SK**

Non-consolidated data, residents

| | |
|---|---|
| Other banks | 94.72 % |
| **UCB CZ & SK** | **5.28 %** |

* 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 25,725/EUR as at 29 December 2018.
*** 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) approving a transfer or discontinuation of an operation of a plant or any such part thereof which would result in a substantial change in the bank's scope of business or activities,
j) approving agreements on silent partnerships, amendments thereto and termination thereof,
k) appointing auditors of the Bank based on recommendation of the Audit Committee,
l) deciding on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation, and
m) deciding on other issues that the Act on Business Corporations, other legal regulations or the Articles of Association define as falling under competence of the General Meeting.

### 7.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of UniCredit Bank, and as at 31 December 2018 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 information as to where the financial statements are available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the bank's website the financial statements are available in accordance with Sec 436, par. 1, second sentence of the Act on Business Corporations,
e) to decide on the establishment and cancellation of the bank's branches,
f) to appoint and dismiss the Bank's managers,
g) to exercise the rights of an employer,
h) to issue, if it deems fit, rules of procedure for the Board of Directors, which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to prior approval by the Supervisory Board,
i) to grant and withdraw authorisations to act on behalf of the Bank and the powers of attorney to the Bank's representatives,
j) in accordance with generally binding legal regulations, 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 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. SLAVOMÍR BEŇA**
Member of the Board of Directors and Director of the Corporate and Investment Banking Division responsible for managing and supervising the Bank's business activities in the relevant business segment.
Work address: Želetavská 1521/1, Prague 4
Domicile: Mliekárenská 3, 82109 Bratislava, Slovak Republic
Born: 22 April 1976

**Mgr. TOMÁŠ DRÁBEK**
Member of the Board of Directors and Director of the Retail and Private Banking Division
Work address: Želetavská 1521/1, Prague 4
Domicile: Bílkova 863/17, Staré Město, 110 00 Prague 1
Born: 14 January 1978

**LJUBIŠA TEŠIĆ**
Member of the Board of Directors and Chief Financial Officer
Work address: Želetavská 1521/1, Prague 4
Domicile: U dětského hřiště 743/13, Jinonice, 158 00 Prague 5
Born: 6 August 1976

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

Changes in the Board of Directors in 2018
Giovanni Guidi resigned as at 31 January 2018 and Mgr. Tomáš Drábek was appointed as at 1 February 2018. Membership of Ing. David Grund ceased as at 1 February 2018 and Ing. Slavomír Beňa was appointed as at the same date.

Planned changes in the Board of Directors in 2019
The current mandate of Mr. Jiří Kunert will end on 1st April 2019. Mr. Jakub Dusílek has been designated the new Chairman of the Management Board and will take over the new role as of April 2nd 2019.

### 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 the long-term interests of the Bank's shareholders, investors and other stakeholders and the public interests.
The Remuneration Committee has under its direct supervision the remuneration of managers responsible for risk management, internal audit and compliance functions.

The Supervisory Board further established the Appointment Committee, which consists of three members of the Supervisory Board (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 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 clients fully complies with the Bank's business model and its risk management strategy. If the existing risks are not properly reflected in prices in accordance with the existing business model, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

**The Supervisory Board:**

a) reviews the specific directions of the Bank's activities and business policy and supervises its implementation,
b) is authorised to verify any steps taken in the Bank's affairs,
c) reviews regular, extraordinary and consolidated financial statements, and, as the case may be, the interim financial statements, as well as the proposal for the distribution of profits or settlement of loss and presents its opinion to the General Meeting,
d) is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities,
e) monitors whether accounting records are properly maintained in accordance with reality and whether the Bank's business activities comply with legal regulations and the Articles of Association,
f) convenes the General Meeting if the Bank's interests so require and proposes necessary measures to be taken by the General Meeting,
g) appoints one of its members to represent the Bank in proceedings held before courts and other authorities against a member of the Board of Directors,
h) issues, if it is deemed appropriate, rules of procedure for the Supervisory Board, which may not contradict the Articles of Association,
i) approves the rules of procedure (if any) for the Board of Directors,
j) elects and dismisses members of the Board of Directors. New members of the Board of Directors are elected from among candidates who may be nominated by any member of the Supervisory Board. Removal of members of the Board of Directors from their office is also decided by the Supervisory Board upon motion of any member of the Supervisory Board,
k) nominates candidates for Chairman and Vice-Chairman of the Board of Directors,
l) stipulates general terms and conditions for the Bank's activities and terms and conditions for maintaining its credit risk exposure in accordance with decrees of the Czech National Bank and legal norms published in the Collection of Laws of the Czech Republic,
m) approves the establishment and dissolution of the Bank's subsidiaries and 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, Republic of Austria
Born: 6 September 1955

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

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

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

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

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

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

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

Changes in the Supervisory Board in 2018
There were no changes in the Bank's Supervisory Board in 2018.

### 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, internal control, auditing and risk management, external auditing, and monitoring compliance with laws, the Bank's regulations and the Code of Conduct.

The Audit Committee consists of three members appointed and dismissed by the General Meeting for a term of three years from among the Supervisory Board members or third persons. The Chairman and 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 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 meetings and chairs meetings.

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

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

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

Changes in the Audit Committee in 2018
There were no changes in the Audit Committee in 2018.

### 7.5 Conflicts of interest at the level of management and supervisory bodies:

The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest. The main activities carried out by the members of managing and control bodies of the issuer outside the issuer are not significant for the issuer.

### 7.6 Information on company management and administration codes

The Bank adopted no company management and administration code.

## 8. Legal and arbitration proceedings

As at 31 December 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: | 6 429 Thous. EUR |
| Loan origination date: | 28. 7. 2014 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Council of Europe Development Bank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 11 429 Thous. EUR |
| Loan origination date: | 16. 11. 2015 |
| 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: | 436 Thous. USD |
| Loan origination date: | 5. 6. 2014 |
| Collateral: | No collateral |
| | |
| **Creditor:** | **The European Bank for Reconstruction and Development** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 5 000 Thous. EUR |
| Loan origination date: | 30. 10. 2017 |
| Collateral: | No collateral |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 4 583 Thous. EUR |
| Loan origination date: | 30. 6. 2017 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 19 215 Thous. EUR |
| Loan origination date: | 31. 08. 2015 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 506 Thous. EUR |
| Loan origination date: | 31. 08. 2015 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 28 Thous. EUR |
| Loan origination date: | 31. 08. 2015 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 1 068 Thous. EUR |
| Loan origination date: | 31. 08. 2015 |
| Collateral: | Pledge of Recievables |

| | |
|---|---|
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 2 423 Thous. EUR |
| Loan origination date: | 30. 12. 2015 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 21 802 Thous. EUR |
| Loan origination date: | 30. 12. 2015 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 64 Thous. EUR |
| Loan origination date: | 31. 03. 2016 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 574 Thous. EUR |
| Loan origination date: | 31. 03. 2016 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 2 070 Thous. EUR |
| Loan origination date: | 04. 04. 2017 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 109 Thous. EUR |
| Loan origination date: | 04. 04. 2017 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 68 Thous. EUR |
| Loan origination date: | 31. 10. 2018 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 1 290 Thous. EUR |
| Loan origination date: | 31. 10. 2018 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 2 Thous. EUR |
| Loan origination date: | 31. 10. 2018 |
| Collateral: | Bill of Exchange |

| | |
|---|---|
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 34 Thous. EUR |
| Loan origination date: | 31. 10. 2018 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 344 Thous. EUR |
| Loan origination date: | 10. 04. 2017 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 6 532 Thous. EUR |
| Loan origination date: | 10. 04. 2017 |
| Collateral: | Pledge of Recievables |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 9 Thous. EUR |
| Loan origination date: | 10. 04. 2017 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Oesterreichische Kontrollbank** |
| Debtor: | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Loan Amount: | 172 Thous. EUR |
| Loan origination date: | 10. 04. 2017 |
| Collateral: | Bill of Exchange |
| | |
| **Creditor:** | **Česká spořitelna a.s.** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 486 750,0 Thous. CZK |
| Loan origination date: | 2.11.2018 |
| Collateral: | Letter of Comfort |
| | |
| **Creditor:** | **Raiffeisenbank a.s.** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 250 000,0 Thous. CZK |
| Loan origination date: | 15.8.2018 |
| Collateral: | Letter of Comfort |
| | |
| **Creditor:** | **Raiffeisenbank a.s.** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 250 000,0 Thous. CZK |
| Loan origination date: | 16.8.2018 |
| Collateral: | Letter of Comfort |
| | |
| **Creditor:** | **Raiffeisenbank a.s.** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 250 000,0 Thous. CZK |
| Loan origination date: | 20.8.2018 |
| Collateral: | Letter of Comfort |

| | |
|---|---|
| **Creditor:** | **Raiffeisenbank a.s.** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 200 000,0 Thous. CZK |
| Loan origination date: | 21.8.2018 |
| Collateral: | Letter of Comfort |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 41 227,5 Thous. CZK |
| Loan origination date: | 22.01.2014 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 211 622,0 Thous. CZK |
| Loan origination date: | 10.09.2014 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 2 400,0 Thous. EUR |
| Loan origination date: | 10.09.2014 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 82 980,0 Thous. CZK |
| Loan origination date: | 15.12.2014 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 83 040,0 Thous. CZK |
| Loan origination date: | 26.02.2015 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 3 000,0 Thous. EUR |
| Loan origination date: | 26.02.2015 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing CZ, a.s. |
| Loan Amount: | 47 500,0 Thous. EUR |
| Loan origination date: | 10.09.2018 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 5 000,0 Thous. EUR |
| Loan origination date: | 26.02.2015 |
| Collateral: | Collateralised by bonds |

| | |
|---|---|
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 1 875,0 Thous. EUR |
| Loan origination date: | 29.04.2015 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 4 500,0 Thous. EUR |
| Loan origination date: | 29.06.2015 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 23 750,0 Thous. EUR |
| Loan origination date: | 26.09.2018 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 25 000,0 Thous. EUR |
| Loan origination date: | 20.11.2018 |
| Collateral: | Collateralised by bonds |
| | |
| **Creditor:** | **Evropská investiční banka, Luxemburg** |
| Debtor: | UniCredit Leasing Slovakia, a.s. |
| Loan Amount: | 7 143,9 Thous. EUR |
| Loan origination date: | 30.09.2011 |
| Collateral: | Collateralised by bonds |
| | |
| **Total loans as at 31 December 2018** | **7 111 254 Thous. CZK** |

## 11. Material contracts

UniCredit Bank has not concluded any such contracts which could give rise to an obligation or a claim of any member of the Group that would be material to the Bank's ability to settle its liabilities to securities holders based on the issued securities.

## 12. Third party information and experts' opinions and declarations of any interests

The annual report does not include any representations or report of an entity acting as an expert. Additionally, it does not include any information from a third party, unless expressly stated otherwise.

## 13. Total amount of outstanding bond issues

Total amount of outstanding bond issues, including EUR and USD bonds converted using the CNB exchange rate valid as at 31 December 2018: CZK 22,768,398,688.

### 13.1 Information on the number of shares issued by the issuer and which are under the ownership of the issuer's managers, including persons close to these persons

The number of shares issued by the issuer under the ownership of managers or persons close to these persons is zero. There are no options or comparable investment instruments, the values of which relate to shares or similar securities representing an ownership interest in the issuer.

# 14. Principles of remunerating the issuer's managers

### Remuneration policy

The remuneration policy for managers is established in accordance with "UniCredit Group's Remuneration Policy" and with Decree No. 163/2014 Coll. and consists of the basic salaries policy, the "Group Incentive System", and the benefits system. The key pillars of the remuneration policy are: clear and transparent governance, compliance with regulatory requirements & ethical rules, continuous monitoring of market trends & practices, sustainable pay for sustainable performance and motivation & retention of all employees with particular focus on promising staff members and those who are critical for fulfilling the company mission.

### Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Remuneration Committee") approves the remuneration for 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. The Remuneration Committee consisted of Simone Marcucci, Heinz Meidlinger and Miloš Bádal in 2018. Starting May 2014, in line with the new civil code, members of the Board of Directors perform work according to the Agreement on the Discharge of Office of Members of the Board of Directors and receive remuneration that is set as a fixed amount paid monthly, an annual variable bonus, and they are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for executing their offices; remuneration to the Bank's foreign executive managers (members of the Board of Directors) is provided by the parent company. These remuneration costs are accounted for by the parent company and included in the remuneration summary.

### Contractual salaries of the Bank's executive managers

The contractual salaries are defined on the basis of the value of a job position within the classification system of top managing positions in UniCredit Group ("Global Job Model"), the key abilities of the executive manager and a market comparison with other entities on the financial and banking markets in the Czech Republic, within UniCredit Group, and in Central and Eastern Europe.

Changes in the contractual salaries of the Bank's members of the Board of Directors, Head of Compliance, and Head of Internal Audit are approved by the Remuneration Committee each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group.

### Variable annual bonuses of the Bank's executive managers

The target variable bonus of the Bank's members of the Board of Directors is approved by the Remuneration Committee on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Human Resources Department of UniCredit Group. The target variable bonus of each executive manager is determined individually and comprises 50–100% of his or her annual contractual salary. A portion of the remuneration is in the form of shares and non-monetary instruments.

UniCredit Group's "2018 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee of UniCredit Bank Czech Republic, a.s., as a binding regulation for the variable bonuses of executive managers.

The variable bonus amount thereof and method of payment are established in accordance with the System using the following components:

1. **"Bonus pool";**
2. **"Entry Conditions";**
3. **"Group and Local Risk Adjustments";**
4. **"Performance Screen";**
5. **"Bonus cap";**
6. **"Compliance Assessment", "Continuous Employment Condition", "Claw Back" and "Personal hedging".**

**Ad 1.**

The bonus pool is based on Country risk-adjusted results. The bonus pool is defined in the budget phase for each Country as a percentage of the respective funding KPI, considering: historical data analysis, expected profitability, business strategy and market context/external benchmarking.

**Ad 2.**

Specific indicators are set as "Entry Conditions", measuring annual profitability, solidity and liquidity results. The "Entry Conditions" are the mechanism that verifies the possible application of the malus condition (Zero Factor) based on the level of achievement of the indicators. In order to align to regulatory requirements, in case the "Entry Conditions" are not met, a Zero Factor will apply to the Executives/Identified Staff population.
In case the Entry Conditions are met, the Zero Factor is not activated, and further adjustments are performed pursuant to the Performance & Risk Factor Adjustments.

**Ad 3.**

Group and Local Risk Adjustments ensure that the bonus pools are aligned with 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 2018, 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) | |

Zero Factor is applied in the years of the deferred bonus. Zero Factor confirms or entirely cancels payment of deferred portions of the bonus. The Remuneration Committee approves the level of fulfilment of the Zero Factor conditions each year and the release or cancellation of deferred bonus payment based on a proposal from UniCredit Group's Board of Directors.

**Ad 4.**
The "Performance Screen" is a table of the executive managers' performance objectives set each year by the Remuneration Committee. The performance objectives are closely related to the Bank's strategic plan. The Remuneration Committee approves the level of their fulfilment based on the proposal of the executive managers' direct superiors for each calendar year and each executive manager separately.

The "Performance Screen" should contain at least 4 performance goals (it is recommended to use no more than 6), of which at least half are sustainable. The executive managers may have 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 2018 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 a 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 the yearly fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. For the company Control Functions, a more conservative approach applies, providing for the bonus cap set at 80% of the yearly fixed compensation.

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

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

In order to strengthen the compliance culture within the Group, a bonus entitlement "gateway" is introduced where an employee's rate of completing mandatory compliance-related trainings is 90% or less as at 30 September 2018. The list of trainings covered by this provision is determined by Compliance based on local and Group requirements and employees are informed of the same. The "gateway" envisages automatic deletion of the annual bonus payment (payment beforehand as well as future payment) to which an employee would otherwise have been entitled in the relevant assessment year and it automatically has no impact on deferred payments of previous years.

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

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

Executive managers are required to undertake not to use personal hedging strategies on remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Involvement in any form of hedging transaction shall be considered a breach of Compliance policies and therefore any right to receive variable remuneration pursuant to the System shall expire.

**Bonus Plan**

Payment of the bonus for the given period (2018) is spread out over a multiple-year period:

Executive Vice-Presidents and Senior Positions

- The first part (2019) 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 (2020) is payable in cash and comprises 10% of the bonus established for the given period.
- The third 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 fourth 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 fifth part (2023) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The sixth part (2024) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2020-2024, 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 (2019) 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 (2020) is payable in cash and comprises 10% of the bonus established for the given period.
- The third 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.
- One half of the fourth part (2022) is payable in cash and the other 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 2020-2022, 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 (2019) is payable in cash and comprises 40% of the bonus established for the given period.
- The second part (2020) 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 (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 third year, which confirms, reduces or entirely cancels the entitlement to payment of the third portion of the bonus.
- The fourth part (2022) 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 the discharge of office of members of the Board of Directors with the Bank: contribution to supplementary pension insurance, contribution to capital life insurance.
- By virtue of their managerial position, executive managers are provided a company car for business as well as private purposes.
- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers receive benefits connected with their long-term stay abroad.

The aforementioned benefits are provided in the form of non-monetary fulfilment, and their aggregate amount is included in the remuneration summary..

### Supervisory Board

The Supervisory Board consists of nine persons, of which three are employed by the issuer and receive a salary for activities performed for the issuer on the basis of an employment contract in accordance with the Labour Code. Members of the Supervisory Board, if they are at the same time employed by any company of UniCredit Group (including the issuer), are not entitled to remuneration for executing their offices.

Fixed contractual remuneration may only be agreed on with those members of the Supervisory Board who do not at the same time hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire period of office of the Supervisory Board member, and is approved based on the Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code, 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 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 2018, 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 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 |
| **63,161,740** | **8,085,000** | **15,228,382** | **0** | **7,781,005** | **94,256,127** |
| | | | | | |
| **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 |
| **3,518,689** | **0** | **0** | **0** | **0** | **3,518,689** |

| Amounts in CZK | | | | | |
|---|---|---|---|---|---|
| **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 |
| **814,736** | **0** | **0** | **0** | **0** | **814,736** |
| | | | | | |
| **Other executive managers** | | | | | |
| Short-term employee benefits | Employee benefits after termination of employment | Other long-term employee benefits | Benefits upon early termination of employment | Share-based payments | Total |
| **110,825,988** | **0** | **3,835,170** | **0** | **1,916,666** | **116,577,824** |

Note: The mentioned data contain amounts actually paid during 2018, as compared to the financial statements, which contain information on costs concerning 2018.

## 16. Diversity Policy

Diversity and the equal representation of men and women are key priorities of UniCredit Bank Czech Republic and Slovakia, a.s. UniCredit Group kicked off a Group-wide action plan in the field of diversity in 2017. This plan focuses on developing and promoting diversity at all levels via particular initiatives concerning:

- recruitment and talent acquisition
- professional development
- remuneration
- work-life balance
- provision of information and education

The main activities related to this area were in line with the key objectives defined in the previous years:

1. **"Encouraging awareness and commitment"**
2. **"Improving work-life balance – flexible working hours (Home Working)"**
3. **"Summary of HR / Development processes in the light of principles of diversity"**
4. **"Focusing on managers/management potential before and during maternity/parental leave – stay in touch"**

**Ad 1.**
In order to raise awareness among the top management, the Board of Directors was presented with a regular reporting framework concerning gender diversity.
In 2018, the Bank made sure that managers continue their "He&She at Work" management workshops, which started in 2017. These workshops focus on various management styles and potential contributions of each gender to the company's results, raise awareness and promote gender diversity and equal opportunities culture across the company.

**Ad 2.**
In order to improve the work-life balance of its employees, the Bank introduced a number of initiatives focused on the health and well-being of employees in 2018, including flexible working hours, home-office and related managerial trainings aimed at improving remote management styles and promoting home-office among managers. Moreover, the Bank provides employees with an opportunity to participate in sporting events, as well as in a running club and yoga at the workplace.

**Ad 3.**
The following processes were organised in 2018, all with a particular focus on promoting gender diversity and an equal opportunities culture:

- **Succession planning process** – the process of selecting successors from among employees to occupy key positions in the Bank, during which succession was discussed in an open forum of managers at the same level in order to identify employees with key skills and competences for the respective position.
- **Be Manager programme** – a local programme for future managers with particular emphasis on a gender-balanced number of nominees in the programme.
- **Retail Banking Academy** – a local programme for future managers of retail branches.
- **Trainee programme** – a special programme for recent university graduates/students with high potential.

**Ad 4.**
Provision for technical connection with employees on maternity/parental leave who intend to return right after a short maternity/parental leave and want to grow.

## 17. Information on remuneration to auditors recognised in the reporting period

| (CZK thousand) | Bank | Consolidated companies | Total consol. group |
|---|---|---|---|
| Audit | 24,002 | 7,731 | 31,733 |
| Tax advisory | – | – | – |
| Other advisory services | – | – | – |
| **Total** | **24,002** | **7,731** | **31,733** |

## 18. Major future investments other than financial investments (planned for 2019)

Other investments, excl. financial investments, for 2019 are planned in the amount of CZK 2.74 billion, of which CZK 2.1 billion is the purchase of assets for rent for UniCredit Leasing. Another major item is an investment in IT (hardware and software) amounting to CZK 398 million, which is intended for the Bank's information systems development, with emphasis on digitisation and streamlining of processes, as well as for complying with the requirements of a regulatory and operating nature. It is only part of total IT investment because IT services on the part of the Bank are primarily supplied on an outsourcing basis and recognised in operating costs. Investments in the fixed capital, including rented buildings, in the amount of CZK 245 million are focused mostly on the development and renovation of the distribution network.

## 19. Guarantees provided by the insurer

| (CZK thousand) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Granted guarantees and collaterals | 38,445,233 | 38,690,054 |
| Guarantees granted under L/Cs | 1,883,057 | 1,124,273 |
| **Total** | **40,328,290** | **39,814,327** |

## 20. 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).

## 21. Licences and trademarks

UniCredit Bank uses dozens of trademarks for identification and protection of its products on banking markets in the Czech Republic and Slovakia. The Bank, as owner, has the trademarks registered with the Industrial Property Office of the Czech Republic and the Industrial Property Office of the Slovak Republic.

## 22. Information on regulated markets and rating of the issuer or its debt securities

The issuer has been assigned no rating. The rating agency Moody's Investor Service, Inc. (hereinafter referred to as "Moody's") granted an Aa3 rating to selected debt securities issued by the Issuer (referred to in the summary 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 debt securities referred to in the summary below.
If such a possibility occurs in the future, the Issuer shall act in line with Article 8d of the Regulation on Credit Rating Agencies.

**Summary of issued and outstanding debt securities of the Issuer admitted to trading on a regulated market**

A list of outstanding debt securities of the Issuer admitted to trading on the Prague Stock Exchange is presented in the following table. The data are valid as at 31 December 2018.

| Name of the issue | ISIN | Date of the issue | Due date | Date when trading begins | Rating (Moody's) |
|---|---|---|---|---|---|
| HZL HVB 5.00/25 | CZ0002000680 | 23 Nov 2005 | 15 Nov 2025 | 23 Nov 2005 | – |
| UCB HZL 10Y FLOAT/37 | CZ0002001910 | 21 Dec 2007 | 21 Dec 2037 | 21 Dec 2007 | Aa3 |
| UCB HZL 2.00/2020 | CZ0002003080 | 3 June 2013 | 3 June 2020 | 19 Aug 2013 | Aa3 |
| UCB HZL 3.04/2028 | CZ0002003114 | 7 June 2013 | 7 June 2028 | 19 Aug 2013 | Aa3 |
| UCB HZL 6M VAR/2020 | CZ0002003148 | 18 July 2013 | 18 July 2020 | 26 Aug 2013 | – |
| UCB HZL EUR 2,00/18 | CZ0002003262 | 21 Oct 2013 | 22 Oct 2018 | 29 Oct 2013 | – |

A list of outstanding debt securities of the Issuer admitted to trading on the Luxembourg Stock Exchange is presented in the following table. The data are valid as at 31 December 2018.

| Name of the issue | ISIN | Date of the issue | Due date | Date when trading begins | Rating (Moody's) |
|---|---|---|---|---|---|
| UCB HZL 3M FLOAT/23 | XS1206759406 | 20 March 2015 | 15 Sept 2023 | 20 March 2015 | 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 Feb 2017 | 3 Feb 2022 | 3 Feb 2017 | Aa3 |
| UCB HZL II 0.75/22 | XS1643471250 | 11 July 2017 | 11 July 2022 | 11 July 2017 | Aa3 |
| UCB HZL 1.00/24 | XS1892859577 | 16 Oct 2018 | 16 Oct 2024 | 16 Oct 2018 | Aa3 |

A list of outstanding debt securities of the Issuer admitted to trading on the Bratislava Stock Exchange is presented in the following table. The data are valid as at 31 December 2018.

| Name of the issue | ISIN | Date of the issue | Due date | Date when trading begins | Rating (Moody's) |
|---|---|---|---|---|---|
| UCB HZL 1.55/2021 | SK4120010208 | 28 Aug 2014 | 30 Aug 2021 | 22 Dec 2014 | – |
| UCB HZL 1.20/2022 (UCBHZL14H) | SK4120010752 | 25 May 2015 | 25 May 2022 | 20 Jan 2016 | Aa3 |
| UCB HZL EUR 1,40/2024 | SK4120011131 | 15 Oct 2015 | 15 Oct 2024 | 20 Jan 2016 | – |
| UCB HZL EUR 1,80/2025 | SK4120011123 | 15 Oct 2015 | 15 Oct 2025 | 20 Jan 2016 | – |
| UCB HZL EUR 0,65/2021 | SK4120011305 | 10 Dec 2015 | 10 Dec 2021 | 20 Jan 2016 | Aa3 |

## 23. Non-Financial Information

UniCredit Bank Czech Republic and Slovakia, a.s. uses the exemption under Section 32g(7) of the Act on Accounting and the non-financial information is published by parent company UniCredit SpA. UniCredit SpA published non-financial information for 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. 2018 to 31. 12. 2018** (hereinafter referred to as the "Period") prepared a report on relations.

**1. Structure of Relations between UniCredit Bank and the Controlling Entity and Entities Controlled by the same Controlling Entity**

Over this period, UniCredit Bank was directly controlled by **UniCredit, S.p.A.** having its registered office at Piazza Gae Aulenti 3 – Tower A – 20154 Milan, Italy.

UniCredit Bank itself controlled during the period the companies **UniCredit Leasing CZ, a.s.,** Reg. No. 15886492, Želetavská 1525/1, 140 10 Prague 4**, UniCredit Factoring Czech Republic and Slovakia, a.s.** Reg. No.: 15272028, Želetavská 1525/1, Michle, 140 00 Prague 4. **UniCredit Leasing CZ, a.s.** during the period, was the sole shareholder of the following companies:
**UniCredit Leasing Slovakia, a.s., Reg. No.: 35730978, Šancová 1/A, 814 99 Bratislava, UniCredit Fleet Management, s.r.o., Reg. No.:62582836, Želetavská 1525/1, Michle, 140 00 Prague 4, UniCredit pojišťovací makléřská spol. s r.o., Reg. No.:** 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4, **HVB Leasing Czech Republic s.r.o.**, Reg. No.: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, Reg. No.:25751841, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing OVUS s.r.o.**, Reg. No.: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing, s.r.o.**, Reg. No.: 25708376, Prague 4 – Michle, Želetavská 1525/1, 14010.

**UniCredit Leasing Slovakia, a.s.** is the sole shareholder of the following companies: **UniCredit Leasing Insurance Services, s.r.o.,** Reg. No.: 47926481, Šancová 1/A, Bratislava 814 99, **UniCredit Broker, s. r. o.**, Reg. No.: 35800348, Šancová 1/A, Bratislava 814 11 a **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35820381, Šancová 1/A, Bratislava 814 99.
The structure of the UniCredit Group is described in detail in Annex No. 1 of this Report.

**2. UniCredit Bank's Role within UniCredit Group:**

The Czech and the Slovak Republics are among the leading countries within the CEE division. The merged entity UniCredit Bank is at the same time the largest bank within the CEE region in terms of consolidated profits (data from 2018).

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 |
| 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 Services S.C.p.A. (**until 30.6. 2018 **Business Integrated Solutions S.C.p.A.)**, Via Livio Cambi 1, 201 51 Milan, Italy

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Non-residential Lease Agreement No. 018/PP-2010/3560 | Lease of non-residential premises in Šancova Street Bratislava | 31. 12. 2010 |
| Agency Contract | Sharing of the provision of services of Bank suppliers | 1. 1. 2012 |
| Sublease contract | Sublease of premises in the building no. 1525, Želetavská 1, Prague 4 | 29. 6. 2012 |
| 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 | 1. 12. 2017 (terminated as of 30. 6. 2018) |
| 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 | 1. 12. 2017 (terminated as of 30. 6. 2018) |
| Termination Agreement of the "AGREEMENT FOR BACK OFFICE SERVICES (Contract n. 2017-20198)" and on the Re-Transfer of Rights and Obligations Resulting from Labour-Law Relations | Termination of outsourcing contract, transfer of relevant activities back to the bank and related transfer of rights and obligations from labor relations. | 27. 6. 2018 |
| Non-residential Lease Agreement dated 20. 5. 2014 | Lease of non-residential premises in Zvolen (from 1. 4. 2014) | 20. 5. 2014 |
| Non-residential Premises Lease Agreement | Lease of commercial space at Svätoplukova St. in Bratislava | 1. 8. 2016 |
| Confidentiality Agreement | Confidentiality Agreement | 1. 11. 2017 |
| Data Processing Agreement | Data processing and security agreement, protection and confidentiality of confidential information – CZ | 26. 6. 2018 |
| Data Processing Agreement | Data processing and security agreement, protection and confidentiality of confidential information – SK | 26. 6. 2018 |
| Project agreements | Delivery of individual projects primarily in the field of SW development (eg. GDPR, MIFID, AnaCredit, SWIFT, …) | Contracts valid in 2018 |
| Purchase contract for furniture sales | Purchase of used furniture | 19. 12. 2018 |
| Settlement agreement | Agreement on settlement of a disputed claim | 11. 12. 2018 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Contract on 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, Prague 4 – Michle, Želetavská 1525/1, 14000

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Contract for Loan and Other Banking Services Provided in the Form of Multi-Purpose Line | Banking services | 25. 6. 2010 |
| General Contract for Trading in Financial Market | Trading in financial market | 21. 1. 2015 |
| Contract for Exchange of Parking Places | Mutual exchange of parking spaces in building Filadelfie, Želetavská 1525/1, Prague 4 | 4. 6. 2015 |
| Contract for the Provision of Services and Contract of Mandate | Provision of banking services | 4. 1. 2016 |
| Agreement on Mutual brokerage business cases | Mutual brokerage of business cases | 4. 1. 2016 |
| Contract for Right to Position for Logo | Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4 | 21. 1. 2016 |
| Risk participation contract (participation contract) | Participation in the risk of receivable non-payment | 29. 3. 2017 |
| Agreement dated 30th of October 2018 on Zero Balancing | Zero Balancing | 30. 10. 2018 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Sublease contract | Sublease of premises for business purposes in building no. 2090, náměstí Republiky 3a, Prague 1 | 22. 3. 2016 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Non-residential Lease Agreement No. 301/3563/2011 | Lease of non-residential premises in Nitra in Štefánikova Street | 27. 6. 2011 |
| Non-residential Lease Agreement No. 302/3563/2011 | Lease of non-residential premises in Košice in Rooseveltova Street | 27. 6. 2011 |
| Non-residential Lease Agreement No. 214/3563/2012 | Lease of non-residential premises in Žilina in Národna Street | 15. 6. 2012 |
| Contract for the Provision of Services and Contract of Mandate | UCL SK outsourced certain its activities into the Bank | 6. 8. 2014 |
| Contract for Processing of Personal Data | Processing of personal data of UCL SK by the Bank with respect to outsourcing | 6. 8. 2014 |
| Non-residential Lease Agreement dated 31. 10. 2014 | Lease of non-residential premises in Šancova 1/A BA (from 1. 11. 2014) | 31. 10. 2014 |
| Agreement on Lease of Commercial Space | Lease of Commercial Space Svätoplukova St. v Bratislava | 1. 8. 2016 |
| Non-residential Lease Agreement | Lease of non-residential premises in Štefánikova St. in Trnava | 15. 1. 2017 |
| Non-residential Lease Agreement | Lease of non-residential premises in Železničná St. in Lučenec | 15. 1. 2017 |
| Non-residential Sublease Agreement | Sublease of non-residential premises in Hlavná St. In Dunajská Streda | 15. 1. 2017 |
| Non-residential Sublease Agreement | Sublease of non-residential premises in Majzonovo nám. in Nové Zámky | 15. 1. 2017 |
| Non-residential Sublease Agreement | Sublease of non-residential premises in Nám. s. Anny in Trenčín | 15. 1. 2017 |
| Non-residential Sublease Agreement | Sublease of non-residential premises in Garbiarska St. in Liptovský Mikuláš | 15. 1. 2017 |
| Non-residential Lease Agreement | Lease of non-residential premises in Prešov in Hlavna Street (from 1. 11. 2017) | 25. 10. 2017 |

4.11. Between UniCredit Bank and **HVB Leasing Czech Republic s.r.o**, Reg. no: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Framework Contract on Financial Market Trading | Financial Market Trading | 7. 2. 2014 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Subcustody Agreement | Storage, management and settlement of securities | 9. 1.1999 |
| Subcustody Agreement | Management and custody of securities (a branch in Slovakia) | 23. 1. 2003 |
| ISDA Master Agreement | A general contract for trading in derivatives in the financial market | 23. 5. 2007 |
| Subcustody Agreement | Management and custody of foreign securities | 21. 12. 2007 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Subcustody Agreement | Management and custody of foreign securities | 10. 11. 2014 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Cooperation Agreement | Mediation of clients | 1. 1. 2011 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| General Contract for Hire of Vehicles | Specification of general conditions for making individual Lease agreement and Agreement to Amend SLA | 4. 3. 2013 |
| Contract for Hire of Transport Facility | Contracts for hire of vehicles – 266 cars | Contracts valid in 2017 |

4.16. 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 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Service Agreement | Temporary advisory actions and support in banking services related to CEE 2020 Trade Finance Back and Project | 26. 1. 2015 |
| Risk participation agreement | Participation in the loan to a client in Romania | 25. 4. 2017 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Cooperation agreement | Offer and mediation of services of Schoellerbank through UniCredit Bank | 23. 11. 2012 |

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

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Intermediation Contract+ Contract for Processing of Personal Data | The content is cooperation concerning the mediation of the issue of charge cards Diners Club. | 21. 10. 2009 |

4. 20. 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. 21. Between UniCredit Bank a **UniCredit Bank AG, London Branch**, London, 120 London wall, United Kingdom

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Fee Split Agreement | Consulting services related to M & A / ECM consulting services for specific clients to specific acquisition related to the Czech Republic | 11. 8. 2016 |

4. 22. Between UniCredit Bank a **UniCredit Bulbank AD** Sofia, 7 Sveta Nedelya Sq, Bulgaria

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Subcustody Agreement | Storage, management and settlement of securities | 25. 11. 2015 |

4. 23. Between UCB CS and **UniCredit Consumer Financing EAD** 14 Gyueshevo str. 1303 Sofia, Bulgaria

| Contract name | Subject-matter of contract | Contract concluded on |
|---|---|---|
| Confidential Information Protection Contract | Confidential Information Protection | 24. 10. 2018 |

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

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

The limit of 10% of UniCredit Bank equity, according to the financial statements at the end of 2017, was 69.442 mil. CZK, exceeded in 2018 the funding provided by UniCredit Bank to UniCredit Leasing CZ, a.s. and UniCredit Leasing Slovakia, a.s. (and to their subsidiaries).

In the course of 2018, the controlling entity and/or its controlled entities deposited amounts on its accounts kept at UniCredit Bank exceeding 10% of UniCredit Bank equity. The deposits were provided on conditions which are standard in the interbank market for the relevant currency and maturity.

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

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

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

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

A brand known internationally and reputational benefit resulting from the integration of the UniCredit Group into SIFI (Systemically Important Financial Institution).

Sharing of IT infrastructure, development, maintenance within the UniCredit Group and resulting economies of scale in the following areas:

Sharing of know-how of a major European bank and one of the most active and most significant banks in Central and Eastern Europe in the commercial area, i.e. in the development of products, introduction of business innovations and management of sales network.
Possible involvement in growth initiatives of the UniCredit Group, e.g., Transform 2019, providing UniCredit Bank with support and know-how in the area of development of a strong position of a universal bank in the Czech and Slovak markets.

Human Resources Development associated with sharing the UniCredit Group's experience in European markets, possible for employees to gain practical experience in other banks or Holding's management structures, career opportunities within the UniCredit Group.
Possible to apply, in local conditions, the Sponsoring and Marketing of the UniCredit Group on the European level.

Participation of UniCredit Bank in a sophisticated system of services for international clients through International desk / International clients Units in relevant countries, and mutual cooperation of these Units in handling and dealing with the needs of international clients.
We can include the following in possible disadvantages of integration of UniCredit Bank into the structure of the UniCredit Group:
A comprehensive organisational structure of a transnational banking group.

Possible mutual influence from other countries, mainly in the area of reputation and perception of the UniCredit brand (Cross-border sentiment).

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

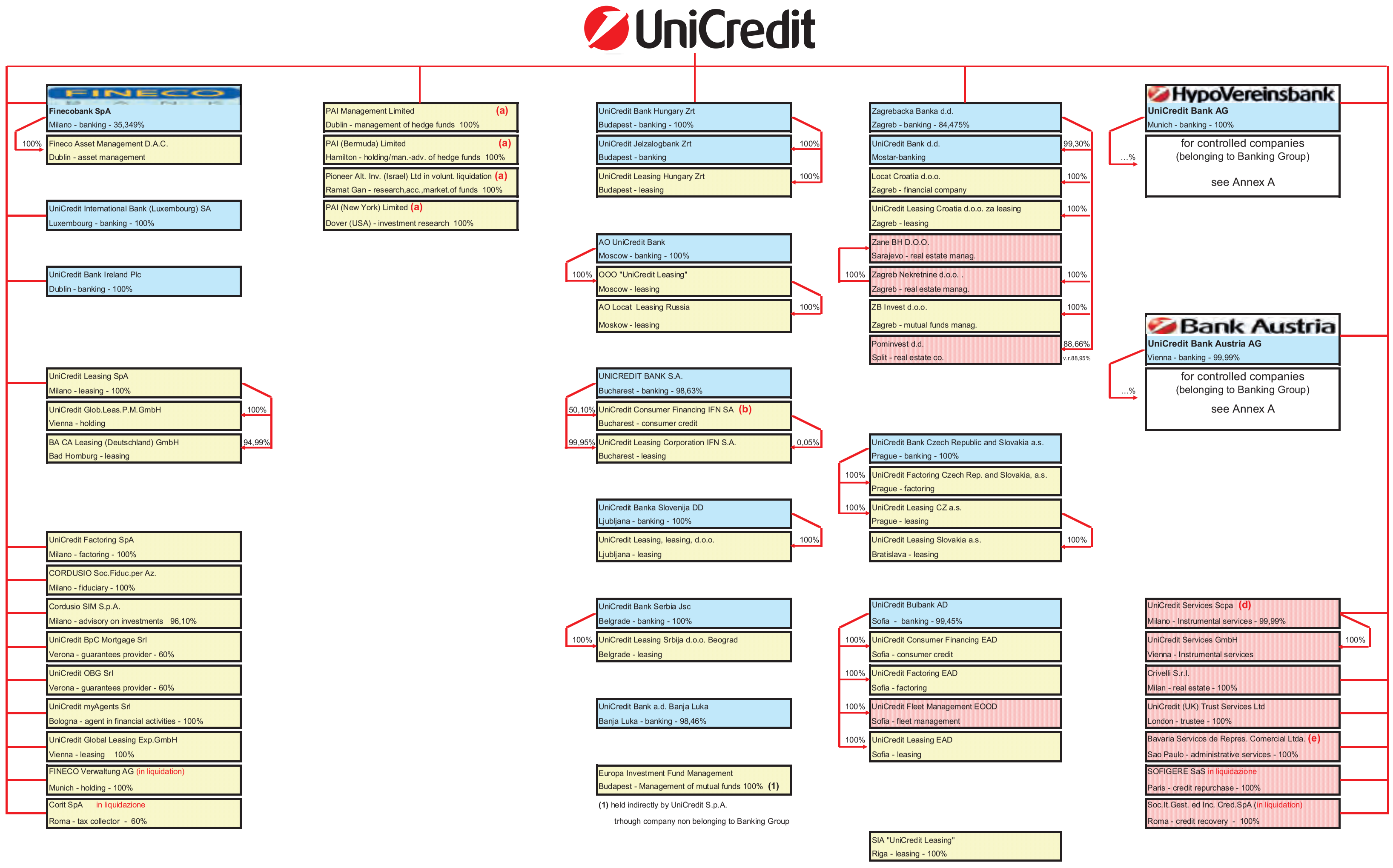
In Prague, on 26 March 2019

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



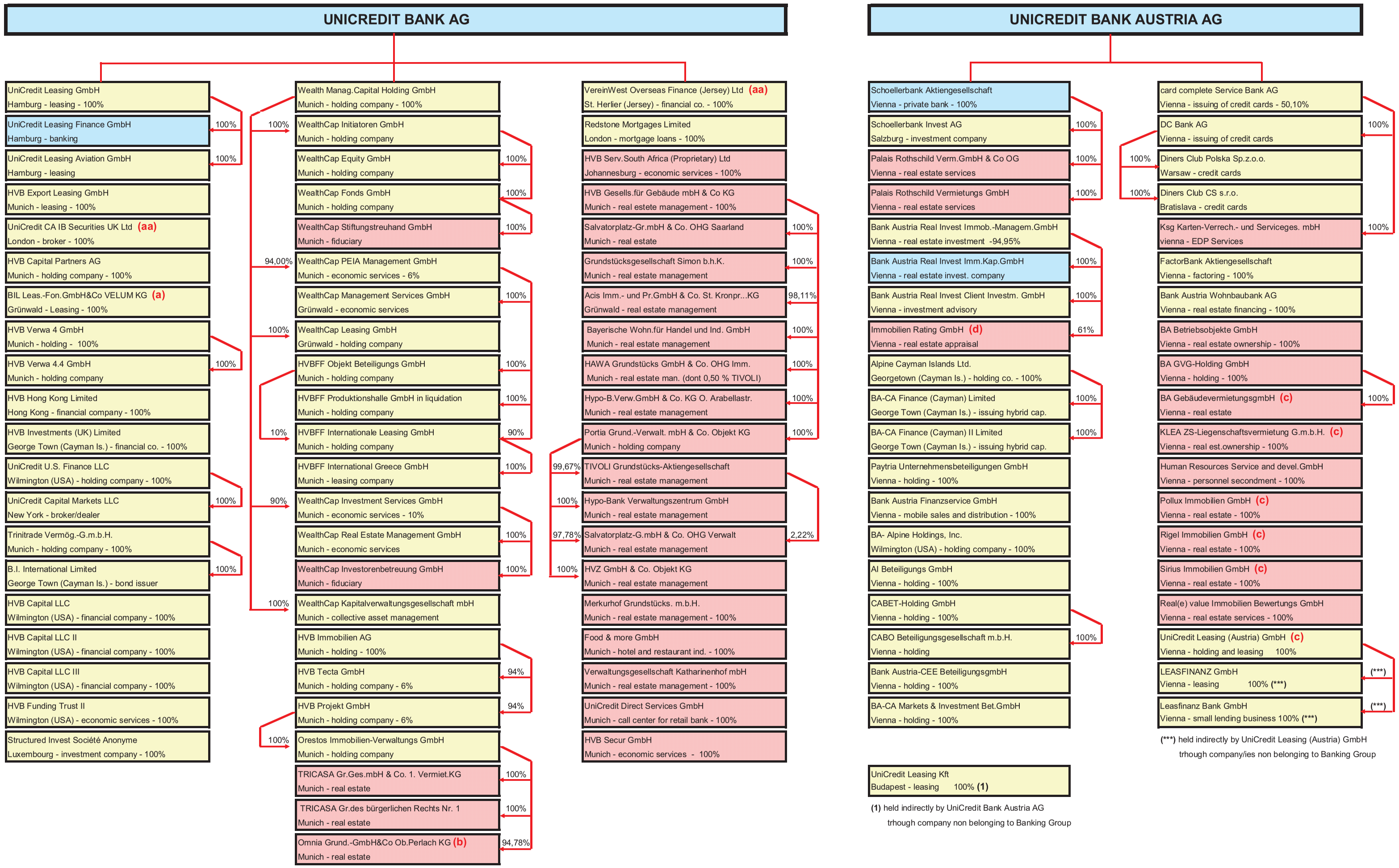

(a) not operative (b) 49,9% held by UniCredit SpA (d) Other companies belonging to UniCredit Group and a third party hold shares of the company (e) 0,00009% held by UniCredit U.S. Finance LLC

(z) Requested to Bank of Italy the inclusion in the Banking Group

Companies belonging to the Banking Group

| |
|---|
| banking |
| financial |
| instrumental |

## Annex A




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

(aa) under liquidation process
(z) Requested to Bank of Italy the inclusion in the Banking Group

Companies belonging to the Banking Group

| |
|---|
| banking |
| financial |
| instrumental |

# 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.

# List of Branches

## Czech Republic

### RETAIL BRANCHES UNICREDIT BANK

#### REGION PRAGUE

**BD POBOČKA BANKOVNÍ DŮM**
náměstí Republiky 3a
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110 00 Praha 1

**BD PODNIKATELSKÉ CENTRUM**
náměstí Republiky 3a
110 00 Praha 1

**BD CENTRUM MEZINÁRODNÍ KLIENTELY**
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**BUTOVICE**
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**EDEN**
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#### REGION BOHEMIA SOUTH

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**EXPRES BOSKOVICE**
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680 01 Boskovice

**EXPRES BRANDÝS NAD LABEM**
Petra Jilemnického 15/4
250 01 Brandýs nad Labem

**EXPRES BRNO – VINOHRADY**
Pálavské náměstí 4246/5
628 00 Brno – Vinohrady

**EXPRES ČÁSLAV**
Dusíkova 78
286 01 Čáslav

**EXPRES ČESKÁ TŘEBOVÁ**
Staré náměstí 16
560 02 Česká Třebová

**EXPRES DOBŘICHOVICE**
5. května 348
252 29 Dobřichovice

**EXPRES DOBŘÍŠ**
Plukovníka B. Petroviče 219
263 01 Dobříš

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

**EXPRES HODONÍN**
Národní třída 24
695 01 Hodonín

**EXPRES HOLEŠOV**
Náměstí Doktora Edvarda Beneše 37
769 01 Holešov

**EXPRES JIČÍN**
Husova 60
506 01 Jičín

**EXPRES KRALUPY NAD VLTAVOU**
Náměstí J. Seiferta 698
278 01 Kralupy nad Vltavou – Lobeček

**EXPRES KRNOV**
Zámecké náměstí 13/1
794 01 Krnov

**EXPRES KYJOV**
Jungmannova 1310/10
697 01 Kyjov

**EXPRES LANŠKROUN**
Nám. J.M. Marků 52
563 01 Lanškroun

**EXPRES LITVÍNOV**
nám. Míru 186
436 01 Litvínov

**EXPRES LOUNY**
Osvoboditelů 2649
440 01 Louny

**EXPRES LOVOSICE**
Osvoboditelů 1228
410 02 Lovosice

**EXPRES LYSÁ NAD LABEM**
Husovo náměstí 175
289 22 Lysá nad Labem

**EXPRES MARIÁNSKÉ LÁZNĚ**
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353 01 Mariánské Lázně

**EXPRES NERATOVICE**
28. října 1510
277 11 Neratovice

**EXPRES NYMBURK**
Palackého Tř. 2553
288 02 Nymburk

**EXPRES PODĚBRADY**
Lázeňská 1458
290 01 Poděbrady

**EXPRES PŘELOUČ**
28.října 146
535 01 Přelouč

**EXPRES RAKOVNÍK**
Vysoká 82
269 01 Rakovník

**EXPRES ROUDNICE NAD LABEM**
Karlovo náměstí 24
413 01 Roudnice nad Labem

**EXPRES ŘÍČANY**
Olivova 9
251 01 Říčany

**EXPRES SLANÝ**
Masarykovo nám. 142/17
274 01 Slaný

**EXPRES SUŠICE**
T.G.Masaryka 153
342 01 Sušice

**EXPRES SVITAVY**
Náměstí Míru 133/70
568 02 Svitavy

**EXPRES TURNOV**
Havlíčkovo náměstí 32
511 01 Turnov

**EXPRES UHERSKÝ BROD**
Masarykovo náměstí 101
688 01 Uherský Brod

**EXPRES VRCHLABÍ**
Krkonošská 825
543 01 Vrchlabí

**EXPRES VSETÍN**
Tyršova 1019
755 01 Vsetín

**EXPRES ZÁBŘEH NA MORAVĚ**
Valová 2357/8
789 01 Zábřeh na Moravě

## BUSINESS VENUES EXPRES PARTNERS

**EXPRES PARTNERS ČESKÝ KRUMLOV**
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381 01 Český Krumlov

**EXPRES PARTNERS ČESKÝ TĚŠÍN**
Nádražní 207
737 01 Český Těšín

**EXPRES PARTNERS HORNÍ POČERNICE**
Náchodská 444/145
193 00 Horní Počernice

**EXPRES PARTNERS HRANICE**
Třída 1. máje 1260
753 01 Hranice

**EXPRES PARTNERS CHRUDIM**
Masarykovo náměstí 32
537 01 Chrudim

**EXPRES PARTNERS KUŘIM**
Tyršova 84
664 34 Kuřim

**EXPRES PARTNERS MORAVSKÁ TŘEBOVÁ**
Cihlářova 5/15
571 01 Moravská Třebová

**EXPRES PARTNERS OTROKOVICE**
tř. Osvobození 154
765 02 Otrokovice

**EXPRES PARTNERS ROKYCANY**
Palackého 11
337 01 Rokycany

**EXPRES PARTNERS ROŽNOV**
Bayerova 53
756 61 Rožnov pod Radhoštěm

**EXPRES PARTNERS RUMBURK**
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408 01 Rumburk

**EXPRES PARTNERS ŠTERNBERK**
Radniční 87/4
785 01 Šternberk

## BUSINESS VENUES PARTNERS BANK SERVICES

**PBS BRNO – NOVÉ SADY**
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602 00 Brno

**PBS BRNO BYSTRC**
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635 00 Brno Bystrc

**PBS BŘECLAV**
17. listopadu 57/8
690 02 Břeclav

**PBS BYSTŘICE NAD PERNŠTEJNEM**
Masarykovo náměstí 53
593 01 Bystřice nad Pernštejnem

**PBS ČESKÁ TŘEBOVÁ**
Litomyšlská 1536
560 02 Česká Třebová

**PBS ČESKÉ BUDĚJOVICE**
B. Němcové 1692/38
370 01 České Budějovice

**PBS DOMAŽLICE**
Poděbradova 303
344 01 Domažlice

**PBS FRÝDEK MÍSTEK**
Viléma Závady 3679
738 01 Frýdek Místek

**PBS HLUČÍN**
Pode Zdí 156/23
748 01 Hlučín

**PBS HRADEC KRÁLOVÉ**
Gočárova třída 28
500 02 Hradec Králové

**PBS HUMPOLEC**
Dolní náměstí 25
396 01 Humpolec

**PBS IVANČICE**
Palackého náměstí 187/20
664 91 Ivančice

**PBS JABLONEC NAD NISOU**
Soukenná 1
446 01 Jablonec nad Nisou

**PBS JINDŘICHŮV HRADEC**
Panská 97/II
377 01 Jindřichův Hradec

**PBS KOPŘIVNICE**
Záhumenní 493
742 21 Kopřivnice

**PBS LIBEREC**
Lípová 665
460 01 Liberec

**PBS LITOMYŠL**
Smetanovo náměstí 28
570 01 Litomyšl

**PBS NOVÉ MĚSTO NAD METUJÍ**
T.G. Masaryka 64
549 01 Nové Město nad Metují

**PBS OLOMOUC**
Dolní náměstí 171/17
779 00 Olomouc

**PBS ORLOVÁ**
Osvobození 828
735 14 Orlová

**PBS OSTRAVA – 28.ŘÍJNA**
28. října 439/221
709 00 Ostrava

**PBS OSTRAVA – DLOUHÁ**
Dlouhá 185/5
702 00 Ostrava

**PBS OSTRAVA – PORUBA**
Hlavní třída 562/85
708 00 Ostrava – Poruba

**PBS PARDUBICE**
17. Listopadu 360
530 02 Pardubice

**PBS PÍSEK**
Velké náměstí 180/2
397 01 Písek

**PBS UHŘÍNĚVES**
Nové náměstí 11
104 00 Praha 22 Uhříněves

**PBS PRAHA – ARCHEOLOGICKÁ**
Archeologická 2256/1
155 00 Praha 5

**PBS PRAHA – SOKOLOVSKÁ**
Sokolovská 979/209
190 00 Praha 9

**PBS PRAHA – ZBRASLAV**
Zbraslavské náměstí 463
156 00 Praha Zbraslav

**PBS PROSTĚJOV**
Poděbradovo náměstí 1590/1
796 01 Prostějov

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

**PBS SEMILY**
Tyršova 27
513 01 Semily

**PBS ŠUMPERK**
Dr. Eduarda Beneše 1832/12
787 01 Šumperk

**PBS TÁBOR**
Husovo nám. 529/6
390 02 Tábor

**PBS TIŠNOV**
Mlýnská 127
666 01 Tišnov

**PBS UHERSKÉ HRADIŠTĚ**
Prostřední 132
686 01 Uherské Hradiště

**PBS ÚSTÍ NAD ORLICÍ**
Polská 1308
562 01 Ústí nad Orlící

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# Slovak Republic

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