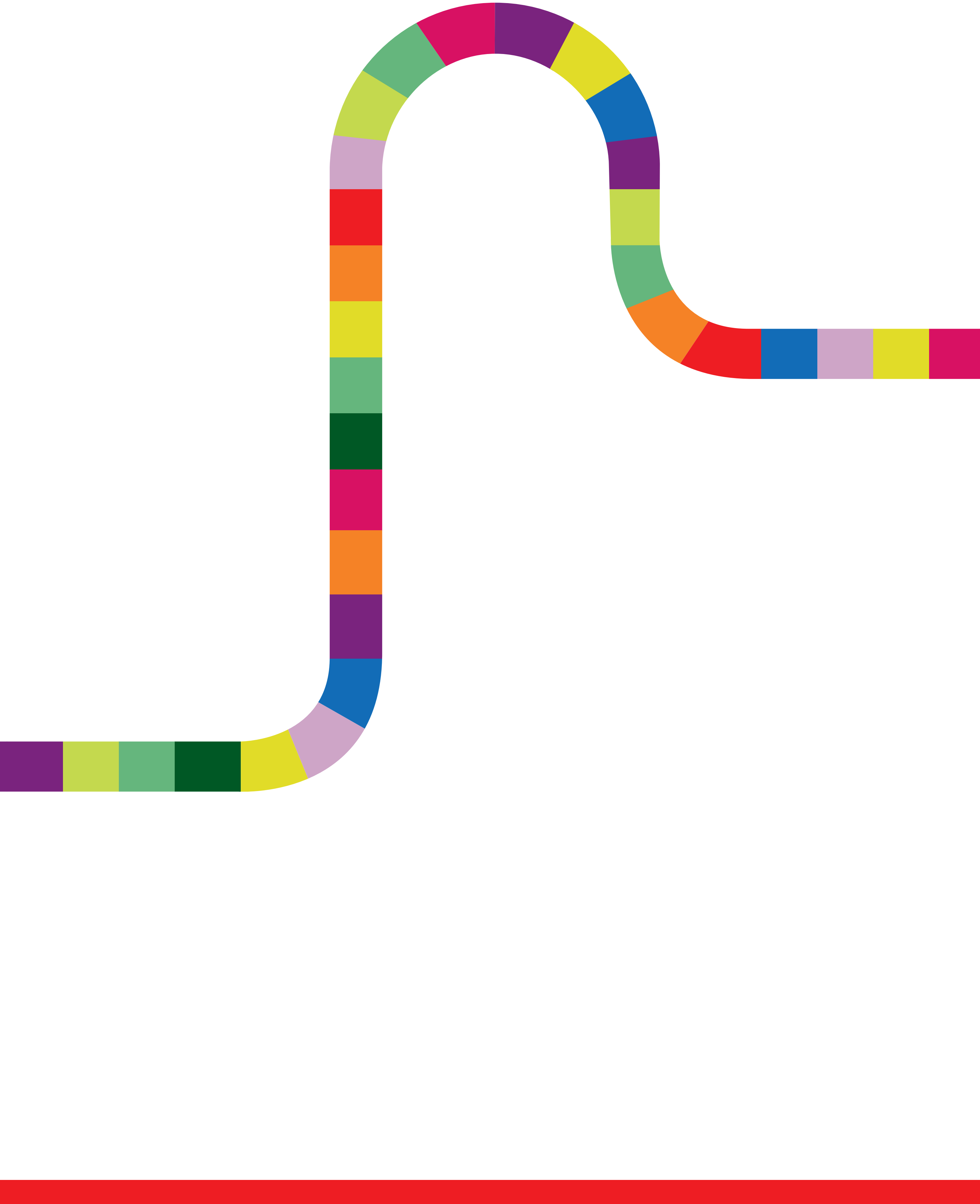
UniCredit Bank

For whatever
life brings

2010 Annual Report



UniCredit Bank

Life is full of surprises, many of which are positive, others less so. That's why people need their bank to be a reliable partner, helping them to manage whatever life brings their way.

And since this year's annual report draws its inspiration from real life, its graphic design also draws from certain joyous moments in life as well as from its darker times. A series of juxtapositions will unfold before you. Even the cover of this annual report presents a kaleidoscope of moments in everyday life.

Such is the world around us. It alternates between excitement and the mundane, the expected and the unforeseen. Incessantly changing, it surprises us all as it constantly presents new challenges.

UniCredit is prepared to extend a helping hand in every situation.

We do more than just offer banking products and execute transactions. Our work also means understanding the needs of our clients, be they individuals, families or corporations, each with a unique story. We know how to listen and to offer solutions for everyday situations. This entails giving people specific answers – every day, to every client, for every question.

2010 Annual Report

Contents

Financial highlights

(IFRS audited, non-consolidated)

UniCredit Bank Czech Republic, a.s.	2010 MCZK	2009 MCZK
Operating performance		
Net interest income	6,129	6,195
Net fee and commission income	2,634	2,450
General administrative expenses	(3,902)	(3,667)
Profit before income tax	3,473	3,382
Net profit for the year	3,002	2,768
Statement of financial position figures		
Total assets	270,176	264,627
Receivables from clients	172,070	167,700
Deposits from clients	174,373	171,827
Issued capital	7,325	5,125
Information about capital and capital adequacy		
Tier 1	28,849	26,580
Tier 2	–	–
Tier 3	–	–
Deductible items	(44)	(260)
Total capital	28,805	26,320
Risk-weighted assets	187,385	189,989
Capital requirement for credit risk	14,991	15,199
Capital requirement for settlement risk	–	–
Capital requirement for position, foreign exchange and commodity risk	327	551
Capital requirement for operational risk	1,007	1,011
Capital requirement for other instruments in the trading portfolio	–	2
Capital adequacy ratio	14.12%	12.56%
Key ratios		
Return on average assets	1.1%	1.0%
Return on average equity	9.9%	9.8%
Assets per employee	160.6	159.7
Administrative expenses per employee	2.3	2.2
Profit after tax per employee	1.8	1.7
Number of employees at end of period	1,796	1,661
Branch offices	67	57

CEO's Letter to the Shareholders

Dear shareholder, ladies and gentlemen,

According to Pythagoras, the number 10 symbolizes success. The famed mathematician's philosophy was given confirmation in the case of UniCredit Bank Czech Republic. The year 2010 was a successful one, both in the economic and business realm and in the sphere of social responsibility. I am convinced that the results of the past year helped us expand the solid foundations for UniCredit Bank's successful development in the coming decade.

The Czech economy demonstrated its stable position, which was also reflected in the exchange rate of the koruna. The financial and economic crisis slowly withdrew into the past, and individual companies began performing well once again. UniCredit Bank has shown that it proudly stands among successful organizations. Last year, we achieved further growth in profitability, and our total assets saw a moderate increase as well. These results show that the changes in our business strategy which we introduced in 2010 were well-founded and appropriate.

The Bank's new strategy put it on a new course with a focus on retail banking. UniCredit Bank became a pioneer on the Czech market when it started its low-cost sales point expansion by way of franchising. It opened its first branch of this type at the start of November 2010 in the Moravian city of Otrokovice. Our Bank had nearly 70 business locations at the end of 2010, but our expansion will certainly not end there. UniCredit Bank's long-term goal is to be as close as possible to our clients, and for that reason we want to multiply the number of branches over the next two years.

Despite a somewhat unfavourable situation and the population's low purchasing power, with our innovative products we successfully established the Bank's position in the market. One of our revolutionary products was the Ground-breaking Mortgage with a variable interest rate of 3% p.a., which significantly helped to revive the declining demand for mortgage products on the Czech market. We opened specialized offices, mortgage centres, dealing exclusively with advisory in the area of mortgage loans. The Presto, Duet and Expresní konto products are among other initiatives that were equally successful last year. These innovations also helped us to achieve exceptional success in competitions, including, to name a couple examples, our excellent position in the "Bank of the Year 2010" and "Golden Crown" opinion polls.

The Bank was the first in the Czech Republic, for instance, to launch the new SEPA debit cashless payment service. UniCredit Bank also demonstrated its irreplaceable role in the financing of export opportunities, taking advantage of the broad scope of UniCredit Group's activities in Europe.

Nor is the Bank indifferent to social responsibility or cultural values, which is why we continued the long-standing tradition of supporting prominent art institutions and cultural events in the Czech Republic. As usual, we continued our cooperation with Galerie Rudolfinum, the National Gallery in Prague and The Moravian Gallery in Brno again in 2010. We also supported the educational charity project of singer Anna K., named "Do you want to live like me?", in the fight against breast cancer. At the same time, we participated as a partner at the Karlovy Vary International Film Festival and the UniCredit Tennis Czech Open in Prostějov.

Probably the most prominent event organized under the umbrella of UniCredit was the Trophy Tour 2010, which brought the UEFA Champions League winners' trophy to the Czech Republic for the first time in history. Accompanied by one of the most famous Portuguese footballers, Luís Figo, as well as the renowned Czech player Vladimír Šmicer, football fans were able actually to reach out and touch the cup on Old Town Square in Prague.

The year 2010 was one of new paths for UniCredit Bank Czech Republic taking us ever closer to our customers. It is still a long journey to perfection, but we believe that we have again drawn nearer to the vision that informs our work. Our common efforts should result in a bank that is strongly positioned on the domestic banking market and with corresponding benefits that increase values for our customers, shareholder and employees.

April 2011

Ing. Jiří Kunert
Chairman of the Board of Directors

Macroeconomic environment in 2010

Following the crisis, the economy in the Czech Republic, as in most EU countries, returned to a growth track in 2010. With year-on-year GDP growth of 2.2%, the country remained behind Germany but slightly overtook the euro zone as a whole. The engines of growth, already at work from the start of the year, were export and replenishing of inventories. A degree of stabilization in fixed capital formation contributed to this in the second half of the year, especially due to corporate investments into solar power stations. Government investment and consumption, on the other hand, reverted from their earlier growth to a year-on-year drop in the second half of the year in response to the government's austerity measures. Private consumer spending was only steady when viewed for the year as a whole but declined slightly year on year in the last quarter. In production terms, GDP growth was driven primarily by manufacturing, followed by more moderately growing output in services for corporations, transportation and trade. A number of other branches, most notably the construction industry, however, remained in decline. The promisingly accelerating GDP dynamics weakened at the end of the year, albeit evidently due to the influence of unfavourable weather conditions rather than a long-term drop in demand.

Interest rates remained unusually low throughout the year. The Czech National Bank changed its repo rate only once, that being in May when it was decreased by 25 basis points to a record low 0.75%. Yields on long-term bonds fell in the first half of the year as a result of investors' fears of deflation in the global economy.
Only the alleviation of deflation risks brought normalization of long-term yields in the autumn. Trading of the Czech koruna was somewhat calmer in comparison with the previous two years.
The koruna's exchange rate against the euro strengthened in several waves and returned to a pre-crisis level.

The policy statement of the government that emerged from general elections promised to implement fundamental economic reforms with the goal of resolving, among other things, the long-neglected problems of pension and healthcare financing, and thus mitigating the existing fiscal imbalance. The first step towards that end was adoption of the state budget, which is to ensure a further decrease in the public budget deficit from the 4.7% of GDP level announced for 2010. A key measure on the expenditures side of the budget for 2011 is a 10% cut in funds allocated for salaries in public administration and at a majority of public institutions.

Corporate, investment and private banking

The year 2010 was a successful one for the Corporate, Investment and Private Banking Division. We continued to consolidate our traditionally strong position in the corporate banking area, where we will continue to concentrate on providing comprehensive services adapted to our clients' individual needs. This year was also characterized by product innovations, introduction of photovoltaic project financing, and implementation of a new medium-term strategy aiming to strengthen our market position in the small and medium-sized businesses segment.

Despite continuing decline in the volume of corporate lending on the Czech banking market in 2010, we managed – as few other banks were able – to achieve growth of approximately 2% in the corporate loans volume. Thus, we were able to strengthen our position as one of the three largest banks in this area. In an absolute comparison, UniCredit Bank's corporate loans portfolio grew year on year by almost CZK 3 billion to CZK 147.5 billion. The average volume of deposits from corporate clients rose year on year by nearly 8%.

The year 2010 was equally successful for our Global Transaction Banking products. We doubled the volume of export loans with EGAP insurance and increased the volume of documentary transactions by more than 50%. In the area of payment card acceptance, the turnover through our terminals grew by more than 23%. The volume of payment operations executed by corporate clientele through our Bank expanded by 16%.

Last year, UniCredit Bank intermediated the payment of subsidies from EU structural funds and the government budget in the amount of CZK 18.3 billion. In the years 2007–2010, branches of UniCredit Bank and Česká pojišťovna distributed more than CZK 81 billion in total. Last year, funds were delivered to 2,951 successful applicants for the realization of 5,142 projects. The total number of implemented and financed projects thus increased by 18.9% as compared with the previous year. UniCredit has been dispersing subsidies on the basis of a contract with the Ministry of Finance since 1 January 2007.

In 2010, the slump in the commercial real estate market came to a halt, and, in keeping with the worldwide trend, transaction activity recorded rather significant growth. The Bank's strategy in this particular segment focused on maintaining the existing market share in combination with financing select attractive business opportunities. The Bank's loan portfolio in the commercial real estate segment again confirmed (as it had in 2009) its very high quality and performance (substantial growth in yields with a minimal number of new default cases). We expect additional slight improvement in the market situation during 2011 in connection with continuing recovery of the Czech economy.

In the area of structured finance and syndicated lending, the Bank confirmed its position as market leader in 2010, especially in the area of complex transactions in the acquisitions and project financing segments. On the basis of client mandates, UniCredit Bank structured a number of large transactions which were thereafter successfully placed on the market. The most significant of these included financing the acquisition of International Power Opatovice for the group Energetický a průmyslový Holding (the largest LBO in the Czech Republic for 2010), financing construction of the Vepřek solar power plant (the 8th-largest solar project in the world at the time of its creation and the largest transaction financed by way of project financing last year in the Czech Republic), and acquisition financing for the firm Kordárna (the first successful case of financing the acquisition of a company in insolvency proceedings in the Czech Republic). We expect to see slight growth in transaction activities in this segment during 2011, and hence also in business opportunities for the Bank.

Private Banking

UniCredit Bank again confirmed in 2010 its historically strong position in the Private Banking segment, where its knowledgeable and capable private bankers provide professional and individually tailored services. Included among such truly unique services in the Czech Republic is advisory in the field of art – Art Banking, an exclusive service intended solely for clients of this segment.

In the Private Banking segment, 2010 was marked by continuing development of the model for providing services to wealthy private individuals. Great attention was devoted to improving the quality of the investment process with the aim of using the analytical know-how of the Global Investment Strategy teams based in Milan and Vienna for managing clients' portfolios. In the course of the year, the selection of products was supplemented by products from asset managers outside of the UniCredit Group, the goal being to offer private clients access to the best solutions conforming to their needs.

Retail banking

In addition to introducing new products and improving services for retail clients, 2010 was significant due also to the commencement in implementing the medium-term business strategy aimed specifically at strengthening UniCredit Bank's market share in this very segment. Our Bank's traditionally very strong position in the corporate banking area effectively motivates us to succeed as well in reaching our goals in the retail segment. A main step in making this new model reality was to expand our branch network and develop new distribution channels.

One such channel was developed through a project for distribution of financial products and services via a network of sales points operating on the franchising principle. Considering the uniqueness of this business model, UniCredit Bank became a true market innovator for new distribution channels. This sales channel combines the entrepreneurship of the business partner with the name and capacities of our Bank. These points of sale, under the name "UniCredit Bank Expres", offer customers a broad selection of financial products and services that are especially directed towards individuals, entrepreneurs, and small and medium-sized companies.

As part of the branch network expansion, 10 new UniCredit Bank branches were opened in 2010. Great emphasis was devoted to the selection and quality of the new sales points' locations.

Loans

The broad offer of modern, advantageous products and services underwent partial modification in 2010. Among others, a significant area of interest for UniCredit Bank was the provision of loans to retail clients for investments into real estate. In this area, it boosted its production by more than 30%. The Ground-breaking Mortgage achieved great popularity among customers. It featured a floating interest rate that was the lowest on the market. The Bank offered the rate to all applicants who opened a personal account with a credit card along with the loan and who also had the loan insured. Existing clients of UniCredit Bank had the possibility to switch from a fixed to a floating interest rate.

In addition to investment into housing, UniCredit Bank also decided to strengthen its position in the area of consumer financing with the offer of a new consumer loan, the PRESTO loan, which clients could use for any purpose without having to document that purpose.

The uniqueness of the PRESTO loan on the consumer financing market lies in the client's possibility for postponing payments up to five times during the repayment period (which can be done as early as the 10th monthly payment) and the choice of insured risk (e.g. hospitalization).

Investments and deposits

As from 28 June 2010, UniCredit Bank put into distribution a new Pioneer Funds product called Bond Plus. It offers investment into a fund targeted on bonds in Central Europe with a recommended medium-term investment horizon. Likewise, on 1 June a CZK class of the famous U.S. Pioneer Fund from Pioneer Group was launched. Founded in 1928, this fund at the end of 2010 surpassed a milestone by achieving 1,000,000% total return since its establishment.

The CZK fund of this famous namesake was also included into the offer of the Easy Rytmus regular investment programme.

On 1 September, the Duet programme also was launched.

This programme combines an investment into Pioneer Group funds with savings on a term deposit with a maturity of six months.

The product is suitable as a conservative complement to standard deposit products and other investments, providing a higher potential return than standard savings.

Likewise, as from mid-September we began offering a product aimed at conservative clients seeking guaranteed returns in the form of term deposit products provided as special offers. Named the Limited Edition of Term Deposits, it offers maturities of 3 and 5 years.

UniCredit continued in 2010 its long tradition of issuing structured bonds and introduced two conservative issues: Czech Conservative 2013 (focused on the Prague Stock Exchange) and Quattro Forte 2013 (a basket of commodity-oriented currencies against the euro), as well as two dynamic issues: Czech Dynamic 2011 and Final Four 2013. Both conservative issues offered a 100% guarantee of returning the invested funds at maturity and with an appealing potential return. The offer met with great interest from investors, and the second issue in particular registered subscriptions setting a record in the history of UniCredit Bank.

Direct banking

In response to the growing popularity of internet banking, we introduced a new Online Banking interface for our clients. In addition to its more modern design, this brought our clients a number of new features that not only facilitate work with the application but also offer the possibility easily to request other banking products and services, such as the Ground-breaking Mortgage, a consumer loan or a credit card.

We introduced a new type of ATM to our clients last year. These so-called iQ ATMs allow for easy depositing of CZK banknotes to a UniCredit account at any time, night or day. These deposited funds are credited to the selected account immediately, and customers can easily check their increased balance directly through the ATM on a mini-statement. This innovation is valued especially by companies and entrepreneurs who need effectively to manage their funds and are now no longer constrained by branches' business hours.

Payment cards

The first bank in the Czech Republic to do so, UniCredit Bank has been issuing Visa payment cards immediately with the opening of an account since December 2010. For the first time in history, clients thus can leave a Czech bank with a card that they can use immediately for payments at stores as well as for ATM withdrawals. A standard feature is its possibility also to be used for depositing funds to any account at UniCredit Bank. Meanwhile, UniCredit Bank lends support to credit cards issued in cooperation with airlines' frequent flyer programmes by way of its Miles and More card. Available in two versions (Standard and Gold), the Miles and More card makes it possible to earn miles for the prestigious Miles and More programme of the Star Alliance, which includes Lufthansa, Austrian Air, LOT, and others. It offers clients the advantages of a prestigious MasterCard World credit card, exclusive travel insurance and, for example, free transport of a golf bag.

Payment operations

UniCredit Bank has confirmed its position as a main innovator on the Czech banking market in the area of SEPA Direct Debit services. In autumn 2010, the Bank became the first in the Czech Republic to begin providing its customers with SEPA Direct Debit as part of the non-cash payment system for payment beneficiaries. UniCredit Bank has offered the service for payers since 2009.

Business clients

Last year, UniCredit Bank was among the few banks in the Czech Republic providing truly comprehensive services for clients operating in freelance professions. The Bank has systematically devoted itself to this area over the long term through its Competence Centre, which brings its clients a high level of services and products with a view to the needs of individual professional groups. In the past year, UniCredit Bank expanded its cooperation with additional professional associations and companies.

In keeping with its new business strategy, the Bank introduced specialized service programmes for select sectors, in particular for wholesale and retail companies, manufacturing firms, and entities providing professional services. A common feature of these service programmes is that their financial solutions include advisory adapted to the specific requirements of the client's business.

These specialized programmes are available to small companies and entrepreneurs with annual turnover of CZK 10–50 million.

In the area of services for small enterprises and freelance professionals, the Bank has begun offering a "dual service" programme through its new type of BUSINESS Account.

Modern, transparent services together with straightforward operation are designed for comprehensive management of basic business, personal and family needs. An interesting feature of the product is the possibility of maintaining the account free of charge if it is actively used.

Treasury

The International Markets Division (IMD) reaffirmed its position as an important long-term source of the Bank's profitability in 2010.

The year 2010 marked a return to calmer waters for financial markets. On the one hand, trust among the individual players on the market has gradually been renewed, although the liquidity of many products still has not reached its level from the years before the financial crisis. On the other hand, the market ceased to be as generous with opportunities due to the lower volatility and significantly lower credit spreads.

As measured by the results achieved from trading in treasury products on the Bank's own account, 2010 can be seen as a successful year, particularly in the context of the significantly changed market conditions.

Positive influence on trading in treasury products with end consumers was exerted by both the economic recovery as well as by IMD's long-term direction that is characterized by an innovative approach and individual solutions to clients' needs. We managed to expand the sale of treasury products – including more sophisticated ones, so-called derivatives – to all segments of corporate banking. It is precisely the successful sale of derivatives that validates the declaration that UniCredit Bank Czech Republic, a.s. is a bank for all corporate clients.

Due to the increased penetration of existing clients and considerable initiatives in business acquisition, IMD achieved in 2010 its most successful result ever in the area of treasury product sales.

Sponsoring and charity

Sponsoring

UniCredit Bank devoted significant attention to contemporary visual arts in 2010 and once again became, as it has been for several years now, a year-long partner of the National Gallery in Prague, Galerie Rudolfinum and The Moravian Gallery in Brno.

As part of its year-round partnership with Galerie Rudolfinum, the Bank participated, for example, in an exhibition of the work of Herbert Tobias, rebel and star of the German photography scene, as well as in the photography exhibition “Double Fantasy”, inspired by landscape painting of the 17th century. UniCredit Bank also supported one of last year’s most popular exhibitions at Galerie Rudolfinum, entitled “Decadence Now! Visions of Excess”.

With the help of UniCredit Bank, in 2010 the National Gallery in Prague realised the exhibition “Monet–Warhol”, which presented 80 works by great personalities of the modern European and American scenes and achieved immense success among the public and critics alike. The Bank also made possible presentation of the long-awaited exhibition “Karel Škréta (1610–1674): His Work and his Era” at the end of last year. A significant project developed in cooperation with The Moravian Gallery in Brno last year was the oldest cyclical exhibition of graphic design from around the world, which presented more than 600 works by 181 artists from 32 countries. Important support was again provided in 2010 to the contemporary art fairs “Art Prague” and “Prague Photo” at Mánes Exhibition Hall, at which the Bank awarded the “UniCredit Prague Photo Award” to the best photographer under 35 years of age and the “ART PRAGUE Young Award”, intended for talented young artists under 35 years of age.

In 2010, UniCredit Bank also supported the majestic celebrations “Honouring the Music of Gustav Mahler” at the M&K Gallery in Jihlava, commemorating the 150th anniversary of the birth of the world-renowned composer and conductor.

Projects in 2011

The Bank has continued into 2011 its successful cooperation from previous years with the most prominent cultural institutions n the Czech Republic. Furthermore, it became the general partner of Galerie Rudolfinum for the first time for the whole of 2011. The successful cooperation with the National Gallery in Prague and The Moravian Gallery in Brno will continue in 2011, as well. Also this year, UniCredit Bank will cooperate with the most prominent international film festival in Central and Eastern Europe – the Karlovy Vary International Film Festival. The festival stands among such other prestigious international film festivals as those in Cannes, Berlin and Venice. Intended for both the general public and professionals, the festival provides its visitors with a carefully composed programme. Each year, several films appearing in the official competition later achieve significant international success or are pronounced the most successful films of the year in their respective countries. Moreover, deserved international attention is devoted each year to new films from Central and Eastern Europe. After premiering in Karlovy Vary, these films go on to be included in the programmes of other international festivals and to achieve international distribution. Starting in 2011, the Bank will participate in the Czech Lion Awards – film prizes that have been presented since 1993. The honours are awarded by the Czech Film and Television Academy to successful productions, including actors, film-makers and critics.

Sports sponsorship

UniCredit Group has become an official partner of the UEFA Champions League for the period July 2009–June 2012. Thanks to UniCredit Bank, last year the UEFA Champions League trophy came to the Czech Republic and travelled around Czech cities for an entire week. For three days, football fans were able to admire not only that unique cup, but also a self-contained exhibition located in a distinctive red marquee on Prague’s Old Town Square. The cup was accompanied on its trip to the Czech Republic by Official UniCredit Ambassador for the UEFA Champions League Luís Figo and fellow football legend Vladimír Šmicer. The wide circle of spectators which the UEFA Champions League brings together presents UniCredit Group with a platform for achieving its goals. The contract concluded for three years includes a number of various communications, branding, broadcasting and advertising rights. All newly issued Maestro debit cards also now appear with motifs from the UEFA Champions League. The UniCredit Czech Open tennis tournament represents another of UniCredit’s flagship events in the area of sports sponsorship. It was loaded once again last year with top stars of the international tennis scene. This year, for the fifth time, the tournament will be played in Prostějov and bearing the name UniCredit for a prize of USD 150,000.

Sponsoring and charity

Charity

In 2011, UniCredit Bank, through the UniCredit Foundation, joined the project "Learn, More" of the non-profit organization People in Need. The project will finance the education and motivation of specific families with the aim of increasing their children's attendance at educational institutions and improving their chances on the job market.

Another project of UniCredit Bank and UniCredit Foundation is the so-called Gift Matching Program, which enables the Bank's employees to support a non-profit organization of their own choosing. UniCredit Foundation subsequently supplies that non-profit organization with an amount, if possible, matching that donated by the employee (depending on the funds that are available). This year – already the programme's third – four non-profit organizations were supported.

Our employees supported the Wakitaka Primary School, St Teresa's Shelter, UNICEF's "Health and Nutrition" programme, and "street children" by way of the Keoogo Association. After deciding in 2009 to abandon the idea of hosting a Christmas party in order to donate over 1 million Czech crowns to support areas stricken by floods instead, neither did UniCredit Bank remain indifferent to the fate of people afflicted by flooding in 2010.

The Bank sent half a million Czech crowns to the flood aid account of the town of Chrastava in North Bohemia. The money went primarily towards repairing the local road network, which had been destroyed by a flood wave on 8 August 2010. Bank employees were also able to contribute to this demonstration of solidarity. The Bank directed similar interest to the tragic events in Haiti.

We maintain long-term cooperation with the BARRIERS Account foundation and artist auction salons, which have been organized since 1993 and in which artists as well as the general public take an interest. The Endowment Fund of Livie and Václav Klaus also has received targeted support in recent years.

UniCredit devotes attention to activities in the form of collecting for those in need. Collections for the Archdiocesan Charity Prague and Sue Ryder Hospice, for example, have previously been conducted. In cooperation with Czech Radio Brno, UniCredit Bank supported blood donation with a concert, the goal of which was especially to thank all blood donors and familiarize the public with the project of donating blood. Furthermore, UniCredit Bank endorsed the education campaign of singer Anna K., named "Do you want to live like me?", which aims to convince women of the necessity for timely breast examinations and regular medical check-ups.

Report of the Board of Directors

The Bank's financial results for 2010

In 2010, the Bank achieved very good results, recording a profit of CZK 3.002 billion. This represented year-on-year growth of 8.5% in comparison to 2009.

The Bank's financial indicators improved during 2010. Return on average assets rose to 1.1% from 1.0% in the previous year, and return on average equity came to 9.9% as compared to 9.8% in 2009.

Statement of comprehensive income

Net interest income decreased by 1.1% year on year to CZK 6.129 billion, as both components, interest expenses and interest income, fell year on year.

On the other hand, an increase in net fee and commission income by 7.5% to CZK 2.634 billion is attributable to the slight recovery in the economy and in the Bank's business.

Net trading income grew by 3.1% year on year to CZK 561 million. This was influenced primarily by a change in investment structure.

The Bank's other operating income dropped by 84.2% to CZK 34 million, while other operating expenses fell by 1.1% to CZK 351 million.

These movements were caused by last year's lower release of provisions created for off-balance sheet items.

General administrative expenses rose in comparison to 2009 by 6.4% to CZK 3.902 billion. The increase was especially evident in the area of marketing expenses, which was partly compensated by a drop in service expenses.

Impairments for loans and receivables fell year on year by 26.6%, due especially to the improved economic situation in the business sphere and measures adopted in the area of credit risk management.

Income tax also decreased year on year by 23.3% overall.

Statement of financial position

At the end of 2010, the Bank's assets totalled CZK 270 billion, which represents an increase of 2.1% in comparison with the close of 2009.

Receivables from banks grew year on year by 6.48%. This increase was recorded especially in loans provided under resale agreements and was partially counterbalanced by a decline in term deposits at other banks.

In 2010, receivables from clients grew by 2.6% to total CZK 172 billion. This development confirms the positive market signals, as credit risk is improving even as there is no decline in loan volume.

The proportion of classified loans in total loans was 10.6% at the end of 2010, while the proportion of loans in default was 5.3%. The growth rates for these indicators were thus 2% and 1.2%, respectively, for 2010.

Financial investments rose by 7.2% compared with the end of 2009. The amount of deposits from banks grew by 24.8% year on year. Growth was recorded in liabilities from repo operations and especially in term deposits.

Clients' deposits grew by 1.5% year on year to total CZK 174 billion, and once again their structure changed. A decline in term deposits was compensated by growth in clients' current account balances.

Bonds issued fell by 14.4% in comparison with the end of 2009 to CZK 24 billion. During 2010, the Bank continued successfully in issuing bonds intended for individual investors, while at the same time the issue from 2005 totalling CZK 5 billion reached maturity.

As at the end of 2010, shareholder's equity amounted to CZK 31 billion, which represents year-on-year growth of 6%. In 2010, the Bank raised its issued capital by CZK 2.2 billion and paid a dividend of CZK 2.7 billion to the sole shareholder.

Capital adequacy reached 14.12% at the end of 2010 (12.56% in 2009). Last year as a whole confirmed what its first few months had already indicated.

Thanks to the overall economic recovery, and hence also to the Bank's business activity, the year saw a confirmation of the positive growth trend in many key parameters of our Bank's business. We recorded slight growth in the overall loan volume, while at the same time decreasing costs of credit risk from CZK 2.2 billion in 2009 to CZK 1.7 billion last year. We saw year-on-year growth in our clients' deposits, which once again attests to the high level of trust in our banking institution. As a bank that last year began down a path towards optimizing its proportions of revenues from corporate and retail banking, we regard the more than 30% year-on-year growth in new mortgage loans as very positive. A great step also was taken toward further improving the communication between clients and the Bank, which facilitates our anticipating any potential problems that may arise as a result of impacts from the now-subsiding financial crisis. We thus regard the year-on-year growth in net income of more than 8% as excellent testimony to the key strategic decisions our Bank has taken in the past two years.

Expected economic and financial situation of UniCredit Bank in 2011

During 2011, UniCredit Bank will continue to expand its distribution network by opening new points of sale in the forms of branches and franchises, by developing consumer financing, and by increasing its market share in the area of small and medium-sized companies. This expansion, started in 2010, will yield substantially faster growth in revenues as compared with the banking market as a whole.
By means of this revenue base, the Bank will be able to finance its continued expansion while maintaining net income at just under CZK 3 billion.
An element of the business strategy is to achieve balanced growth in the loan and deposit portfolios with the objective of preserving the Bank's independence from external sources of refinancing.

Statement by the persons responsible for the annual report

While exercising all due care and to the best of my knowledge, the data contained in the annual report are correct and no facts that could change the meaning of the annual report were withheld.

In Prague on 29 April 2011

Ing. Jiří Kunert
Chairman of the Board of Directors

Ing. Aleš Barabas
Member of the Board of Directors

Report of the Supervisory Board

The Supervisory Board of UniCredit Bank Czech Republic, a.s. was regularly informed as to the progress of the Bank's business activities during the period 1 January to 31 December 2010 through meetings and discussions with the Board of Directors, and it has performed all of its tasks as set forth by Czech law and the Bank's Articles of Association.

The financial statements as at 31 December 2010 and the annual report, which are hereby presented, have been examined by the Supervisory Board and deemed to be correct. The financial statements and annual report were audited by the Bank's auditor, KPMG Česká republika Audit, s.r.o.

The Supervisory Board endorses the findings of the auditor's report on the financial statements as at 31 December 2010.

The Supervisory Board would like to thank the members of the Board of Directors and all the staff of UniCredit Bank Czech Republic, a.s. for their contributions to the results achieved by the Bank in its 2010 business year.

Basis for calculating the contribution to the Guarantee Fund

Pursuant to 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. The basis for calculating the contribution to the Guarantee Fund in 2010 was CZK 179,575,556. The contribution to the Guarantee Fund is 2% of this amount, and thus was CZK 3,591,511.

Non-consolidated financial statements

Statement of comprehensive income for the period ended 31 December 2010

	Note	2010 MCZK	2009 MCZK
Interest income and similar income	5	8,409	9,358
Interest expense and similar charges	5	(2,280)	(3,163)
Net interest income and similar income		**6,129**	**6,195**
Dividend income	6	73	252
Fee and commission income	7	3,082	2,879
Fee and commission expenses	7	(448)	(429)
Net fee and commission income		**2,634**	**2,450**
Net trading income	8	561	544
Net income from financial investments	11	(124)	(97)
Other operating income	10	34	215
General administrative expenses	9	(3,902)	(3,667)
Impairment of loans and receivables	15	(1,581)	(2,155)
Other operating expenses	10	(351)	(355)
Profit before income tax		**3,473**	**3,382**
Current income tax expense	27	(486)	(594)
Deferred income tax expense	27	15	(20)
Profit for the period		**3,002**	**2,768**
Other comprehensive income			
Cash flow hedges:		(29)	483
Effective portion of changes in fair value		(74)	810
Net amount transferred to profit and loss		45	(327)
Fair value reserve (AFS financial assets):		(722)	(90)
Net change in fair value		(822)	(49)
Net amount transferred to profit and loss		100	(41)
Other comprehensive income for the period, net of income tax		**(751)**	**393**
Total comprehensive income for the period		**2,251**	**3,161**

Statement of financial position as at 31 December 2010

	Note	31. 12. 2010 MCZK	31. 12. 2009 MCZK
ASSETS			
Cash in hand and balances with central banks	12	2,853	2,298
Financial assets held for trading	13	14,860	19,941
Receivables from banks	14	33,348	31,320
Receivables from clients	15	172,070	167,700
Financial investments	16	42,519	39,654
Property and equipment	17	1,578	1,618
Intangible assets	18	1	1
Deferred tax asset	27	374	217
Other assets	19	2,573	1,878
Total assets		**270,176**	**264,627**
LIABILITIES			
Deposits from banks	21	31,381	25,148
Deposits from clients	22	174,373	171,827
Debt securities issued	23	24,457	28,559
Financial liabilities held for trading	24	4,089	4,995
Provisions	25	708	543
Deferred tax liability	27	–	2
Other liabilities	26	3,935	4,071
Total liabilities		**238,943**	**235,145**
SHAREHOLDER’S EQUITY			
Issued capital	28	7,325	5,125
Share premium	28	3,481	3,481
Reserve funds	30	2,849	2,849
Reserves from revaluation of financial instruments		(654)	97
Retained earnings	30	18,232	17,930
Total shareholder’s equity		**31,233**	**29,482**
Total liabilities and shareholder's equity		**270,176**	**264,627**

Statement of cash flows for the period ended 31 December 2010

	Note	2010 MCZK	2009 MCZK
Net profit for the period		**3,002**	**2,768**
Adjustments for non-cash items:			
Impairment of loans and receivables	20	1,581	2,155
Impairment of property and equipment and intangible assets	20	(16)	(12)
Impairment of other assets	20	4	(271)
Impairment of participation interests	20	(8)	1
Impairment of financial investment	20	100	–
Creation and release of other provisions	25	165	21
Depreciation of property and equipment and intanglible fixed assets	17,18	145	157
Losses from property and equipment sold		172	–
Deferred tax	27	(15)	20
Operating profit before change in operating assets and liabilities		**5,130**	**4,839**
Financial assets held for trading		5,081	(5,725)
Loans and receivables from banks		(2,028)	20,762
Loans and receivables from clients		(5,951)	3,668
Other assets		(699)	1,807
Deposits from banks		6,233	(1,900)
Deposits from clients		2,546	1,207
Financial liabilities held for trading		(906)	(1,673)
Other liabilities		(136)	(4,894)
Net cash flows from operating activities		**9,270**	**18,091**
Changes in financial investments		(3,953)	(6,906)
Acquisition of property, equipment and intangible assets		(260)	(331)
Net cash flows from investing activities		**(4,213)**	**(7,237)**
Increase of issued capital		2,200	–
Dividends paid		(2,700)	(750)
Debt securities issued		(4,002)	(8,611)
Subordinated liabilities repaid		–	(1,000)
Net cash flows from financial activities		**(4,502)**	**(10,361)**
Cash and cash equivalents at 1 January	12	**2,298**	**1,805**
Net cash flows from operating activities		9,270	18,091
Net cash flows from investing activities		(4,213)	(7,237)
Net cash flows from financing activities		(4,502)	(10,361)
Cash and cash equivalents at 31 December	12	**2,853**	**2,298**
Income tax paid		(430)	(624)
Interest received		8,568	9,948
Interest paid		(2,297)	(3,537)
Dividends received		73	252

Statement of changes in equity for the period ended 31 December 2010

MCZK	Issued capital	Share premium	Reserve funds Statutory	Reserve funds Other	Reserves from revaluation of hedging instru-ments	Reserves from revaluation of available-for-sale securities	Retained earnings	Equity
Balance at 31 December 2008	**5,125**	**3,481**	**1,025**	**1,824**	**(424)**	**128**	**15,912**	**27,071**
Total comprehensive income for the period								
Profit for 2009							2,768	2,768
Other comprehensive income								
Effective portion of changes in fair value on available-for-sale financial assets						(49)		(49)
Net amount of available-for-sale revaluation transferred to profit or loss						(41)		(41)
Effective portion of changes in fair value on cash flow hedge					810			810
Net amount of cash flow hedge transferred to profit or loss					(327)			(327)
Total comprehensive income for the period					**483**	**(90)**	**2,768**	**3,161**
Transactions with owners, contribution and distribution to owners								
Dividend paid							(750)	(750)
Balance at 31 December 2009	**5,125**	**3,481**	**1,025**	**1,824**	**59**	**38**	**17,930**	**29,482**
Total comprehensive income for the period								
Profit for 2010							3,002	3,002
Other comprehensive income								
Effective portion of changes in fair value on available-for-sale financial assets						(822)		(822)
Net amount of available-for-sale revaluation transferred to profit or loss						100		100
Effective portion of changes in fair value on cash flow hedge					(74)			(74)
Net amount of cash flow hedge transferred to profit or loss					45			45
Total comprehensive income for the period					**(29)**	**(722)**	**3,002**	**2,251**
Transactions with owners, contribution and distribution to owners								
Dividend paid							(2,700)	(2,700)
Increase of issued capital	2 200							2 200
Balance at 31 December 2010	**7,325**	**3,481**	**1,025**	**1,824**	**30**	**(684)**	**18,232**	**31,233**

Notes to the separate financial statements

1. Background

UniCredit Bank Czech Republic, a.s. ("the Bank") was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. on 1 October 2006. All rights and obligations of the dissolved company Živnostenská banka, a.s. were assumed by the continuing company, HVB Bank Czech Republic a.s. In 2008 the Bank acquired HVB Reality CZ, s.r.o. In 2009, the Bank prepared a merger project with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o was the dissolved company and the successor company was the Bank. The changes of name and other changes connected with the acquisition were recorded on 1 November 2009 in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 3608. The sole shareholder of the Bank is UniCredit Bank Austria AG, Vienna. The ultimate parent of the entire UniCredit Group is UniCredit S.p.A, Milan.

Registered office of the Bank:
Na Příkopě 858/20
111 21 Prague 1

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

The main activities of the Bank are as follows:

- receiving deposits from the public;
- granting loans;
- investing in securities on its own behalf;
- operating a system of payments and clearing;
- issuing and administering payment products;
- granting guarantees;
- opening letters of credit (export financing);
- administering of cash collection;
- trading on its own behalf or on behalf of clients:
  1. with foreign exchange currency products,
  2. with forward and option contracts including foreign currency and interest rate contracts,
  3. with transferable securities;
- participating in share issues and other related services;
- issuing of mortgage bonds in accordance with legislation;
- 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;
- providing foreign currency exchange services;
- providing banking information;
- renting of safe-deposit boxes;
- pursuing activities directly connected with the activities mentioned above.

2. Basis for preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.
All presented amounts are in millions of Czech koruna (MCZK), unless stated otherwise. The Czech koruna is the functional currency in these financial statements Numbers in parentheses represent negative amounts.
These financial statements are separate financial statements prepared in accordance with Act No. 563/1991 Coll., on Accounting.
The ultimate parent of the Bank is UniCredit S.p.A, Milan which carries out the consolidation of the group as a whole in accordance with International Financial Reporting Standards as adopted by the European Union.
The financial statements have been prepared based on the fair value principle including for financial derivatives, financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(b), part (iv). Recognized 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 valued at amortized cost or historical cost.

3. Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are stated in the domestic currency translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies-which are not stated at fair value are translated at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost-are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in profit or loss as "Net trading income".

(b) Financial instruments

(i) Classification

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

Trading instruments are those held by the Bank 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 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 investments”.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the markets. Loans and receivables are mainly those created by the Bank providing money to a debtor 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 determinable payments 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 “Financial investments”.

Available-for-sale assets are financial assets that are not classified as financial assets recognized 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 “Financial investments”.

On 13 October 2008 an amendment to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments Disclosures was issued by the International Accounting Standards Board (“IASB”). This amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. In specific situations the amendment also permits an entity to transfer a financial asset from the available-for-sale category to loans and receivables. The Bank evaluated both possibilities and decided not to change the classification of its financial assets.

(ii) Recognition

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

Available-for-sale financial assets are recognized on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognized in other comprehensive income from the trade date.

Held-to-maturity assets are recognized on the settlement date.

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

(iii) Measurement

Financial instruments 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, which is stated at cost, including transaction costs, less impairment losses.

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

(iv) Fair value measurement principles

The fair value of financial instruments 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.

In connection with the situation on the financial markets during the year 2010, the Bank paid increased attention to monitoring the development of market factors and prices having an impact on the valuations of all the instruments in the Bank’s portfolio.

The valuation 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 valuation, is selected for each of the bonds. The credit spread of the bond is calculated from particular contributions and discount curves.If there are enough actual market prices of contributions available the valuation is calculated as an average value. To prevent possible errors of particular contributions comparison of daily changes is performed 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 the particular bond is adjusted based on comparison of credit spreads of similar bonds
- the Bank receives other information about a change of spread applied
- the issuer's credit rating changes (change of internal/external rating; evidence from the market that creditworthiness is worsening)
- the liquidity of the specific security has worsened significantly.

Subsequently the Bank will carry out the valuation comprising new aspects of the market price including assessment of possible impairment losses (see Note 3g(ii)).
Another model is used for Value at Risk (VaR) calculation (see Note 34) in the system for market risk management which assists to determine the volatility of the credit interest spread between given securities and the risk-free interest rate of an interest rate swap.
This model divides the calculated risk into credit (Spread VaR) and interest (VaR IR) portions. This spread VaR is calculated based on the volatility of the credit spread between securities and the risk-free interest rate. For this purpose the yield curves of particular issuers, industries, or groups of issuers with an identical rating are downloaded into the system for market risk management. Specific securities are matched with these yield curves, and the volatility of the credit spread is calculated. In connection with the situation on the financial markets and the development of the credit spreads of securities that the Bank holds in its portfolio, the securities were rematched in the system for market risk management during the year so that the calculated Spread VaR reflects more accurately the behaviour of the specific securities. This does not, however, have any impact on the method used for the securities portfolio valuation.
The Bank's management believes that the fair value of the assets and liabilities presented within the financial statements can be measured reliably.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognized directly in profit or loss as "Net trading 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 recognized directly in profit or loss as "Net income from financial investments".
Gains and losses arising from a change in the fair value of available-for-sale assets are recognized in other comprehensive income and become an equity item "Change in revaluation of available-for-sale securities". When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to profit or loss as "Net income from financial investments". Interest income from available-for-sale debt securities is recognized in the statement of comprehensive income 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 amortized cost are recognized in profit or loss when the financial asset or liability is derecognized or impaired (see Note 3(g)), and through the amortization process.

(vi) Derecognition

A financial asset is derecognized 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 realized, expire or are surrendered. A financial liability is derecognized when it is settled.
Available-for-sale assets and assets recognized at fair value through profit or loss that are sold are derecognized and the corresponding receivables from the buyer are recognized as 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 derecognized on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

(c) Participation interest

Controlling interest means a participation interest, where the Bank factually or legally executes direct or indirect controlling interest on governance of the company (that 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 of the registered capital or from contract or articles of incorporation regardless of the total amount of participation interest.
Substantial interest means a participation interest, where the Bank factually or legally executes direct or indirect substantial interest on guidance or prosecution of the company (that means the Bank's ability to participate on financial and operational guidance of the company without executing controlling interest). This participation interest results from a share of the registered capital (more than 20%) or from contract or articles of incorporation regardless of the total amount of participation interest. Controlling and substantial interests are valued at acquisition price less losses arising from impairment of these participation interests. Participation interests are shown within "Financial investments".

(d) Derivatives

(i) Hedging derivatives

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

If the derivative hedges the exposure to changes in the fair value of recorded assets and liabilities or unrecognized commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on re-measurement of the interest-bearing hedged item and hedging derivative are recognized in profit or loss in "Interest income and similar income" or "Interest expense and similar charges".
If the derivative hedges the exposure to the variability of cash flows related to recognized assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognized in other comprehensive income and become equity item "Reserve from revaluation of hedging instruments". The ineffective part of the hedge is recognized 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 the revaluation of the hedging derivative previously recognized in other comprehensive income are transferred to profit or loss in the same period 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 recognized in other comprehensive income remains in equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss previously recognized in other comprehensive income is immediately recognized in profit or loss.

(ii) Embedded derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative must be separated from the host contract 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, and
- the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognized in other comprehensive income.

(e) Borrowing and lending of securities

Investments lent under securities lending arrangements or sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.
As a consequence of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Bank recognizes a liability to either banks or customers in the amount of that collateral.
Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized in the statement of financial position.
As a consequence of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Bank recognizes loans and advances to either banks or customers in the same amount. The receivables are shown as collateralized by the underlying security.
Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognized on an accrual basis over the period of the transactions and are recognized in profit or loss in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities are 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 recognized amounts and the transactions are intended to be settled in the statement of financial position on a net basis.

(g) Impairment

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

(i) Loans and receivables and held-to-maturity assets

Loans and receivables and held-to-maturity assets are presented net of impairment losses for uncollectibility.
Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets that are identified as being individually impaired based on regular reviews of the outstanding balances 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, late payments of interest or penalties and other qualitative factors. Historical loss experience is the basis for the calculation of 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 as at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly and any previously unrecognized loss is recognized in profit or loss under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognized 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 recognized in other comprehensive income, the cumulative loss is reclassified to profit or loss and recognized in "Net income from financial investments". 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 recognized in equity, the increase in fair value of the asset recognized in other comprehensive income is reversed to the extent of the impairment. Any additional impairment loss is recognized in profit or loss. Impairment losses recognized 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 fixed 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 over 1 year. Property and equipment and intangible assets are stated at acquisition cost less accumulated depreciation and impairment. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over estimated useful lives) for individual categories of property and equipment and intangible assets are as follows:

• Buildings	30 – 50 years
• Technical improvement of buildings protected as a cultural heritage	15 years
• Technical improvement of rented premises	10 years
• Air-conditioning equipment	5 years
• Machinery and equipment	4 – 5 years
• Bank vaults	20 years
• Fixtures and fittings	6 years
• Motor vehicles	4 years
• IT equipment	4 years
• Software and intangible assets	2 – 6 years
• Low value tangible assets	2 years

Both tangible and intangible assets are assessed for potential impairment or a reduction in useful life. The gains and losses on disposal are determined based on the net book value and are included in "Other operating income". The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalized.

(i) Provisions
Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions are recognized 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%),
- the amount of the obligation can be reliably estimated.

(j) Interest income and expense
Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued linearly on a daily basis. Interest income and expenses include the amortization of any discount or premium, relevant transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Unless in the specific instance a management decision to the contrary is made, accrued interest income is also recognized 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 amortized cost which forms a basis for the impairment calculation.

(k) Fee and commission income and expense
Fee and commission income and expense represents 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 recognized when the corresponding service is provided.

(l) Dividend income
Dividend income is recognized in profit or loss in "Dividend income" on the date that the dividend is declared.

(m) Taxation
Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits. 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's recovery or liability settlement. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(n) 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 chiefly responsible for operational decisions. At the Bank, that decision-maker is the Board of Directors.
The Bank's primary segment reporting is broken out by types of clients: retail banking (including small and medium-sized companies), corporate banking, 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 bank products.
Retail banking (including small and medium-sized companies) includes in particular providing loans, mortgages, payment services (including payment cards for consumers), term and saving deposits.
Corporate banking includes in particular providing banking products and services to corporate clients and government institutions, including loans, credit commitments and guarantees, account maintenance, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies.
Investment banking comprises in particular capital market activities, including underwriting of clients share issues, investment consultancy, and mergers and acquisition consultancy.
Other includes banking activities not included in retail, corporate or investment banking.

(o) Impact of standards that are not yet effective

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force, were not yet used in preparing these financial statements, but which are already approved and will have an impact in future on the Bank's financial statements.
The revision of *IAS 24 Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011) exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption The revised Standard also amends the definition of a related party which results in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.
Amendment to *IAS 32 Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of existing owners of the same class of its own non-derivative equity instruments.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010) – The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.
IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, earlier application is permitted) replaces the guidance in *IAS 39, Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39. Financial assets will be classified into one of two categories on initial recognition:
- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset may be measured at amortized cost if the following two conditions are met: the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except those for an investment in an equity instrument which is not held for trading. IFRS 9 provides for an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income (OCI).
The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.
Additions to *IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early application is permitted) replace the guidance in *IAS 39 Financial Instruments:* Recognition and Measurement, about classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.
The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI). However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may only be transferred within equity.
Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.
The Bank's management regards the effect of these standards to be immaterial.

4. Critical accounting estimates and judgments

These disclosures supplement the commentary on financial risk management (see Note 34).

(a) Key sources of estimation uncertainty

(i) Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(b)(iii).
The specific counterparty component of an 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 realizable value of any underlying collateral.
Collectively assessed impairment cover 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, and other economic factors.
In order to quantify the impairment, assumptions are made based on historical experience and current economic conditions to define the way inherent losses are modelled and to determine the required input parameters. 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 is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(iv).
For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgements depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other factors affecting the specific instrument.

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on initial recognition into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that these meet the description of trading assets and liabilities set out in accounting policy 3(b)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that these have met at least one of the criteria for this designation set out in accounting policy 3(b)(i).

Details of the Bank's classification of financial assets and liabilities are given in Note 3 (b)(i).

(ii) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument.
In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

(iii) Change in accounting policy

There were no changes in accounting policies during the year 2010 and 2009.

(iv) Effect of the changes in accounting standards in these financial statement

In 2009, the Bank made more extensive disclosures related to valuation of financial instruments and liquidity risk, as required by an amendment to IFRS 7 Financial Instruments – Disclosures. Information on fair valuation is presented based on the type of inputs used for fair value determination. The types of inputs are divided into three levels:

Level 1 – prices of identical assets or liabilities quoted in an active market (not adjusted)
Level 2 – inputs that are not categorised as Level 1 but are objectively observable, either directly (i.e. prices) or indirectly (i.e. derived from prices)
Level 3 – inputs that do not result from observable market data (unobservable inputs).

Classification of fair value of financial assets and liabilities according to the individual fair value levels is presented in Note 36.
The changes related to liquidity risk represent minimum information which is required for disclosures, e.g. analysis of the contractual maturity of financial liabilities. The information disclosed in accordance with this standard is presented in Note 34.
In 2010, the Bank did not identify any changes of financial reporting standards that would significantly affect the Bank's financial statements.

5. Net interest income and similar income

MCZK	2010	2009
Interest income and similar income		
Balances with central bank	54	252
Receivables from banks	230	426
Loans and receivables from clients	6,698	7,259
Financial investments	1,427	1,414
Net income from fair value hedges of issued securities and loans	–	7
Interest income and similar income	**8,409**	**9,358**
Interest expense and similar charges		
Repos loans with the central bank	(1)	(47)
Deposits from banks	(169)	(267)
Deposits from clients	(1,168)	(1,886)
Debt securities issued	(942)	(932)
Subordinated liabilities	–	(31)
Interest expense and similar charges	**(2,280)**	**(3,163)**
Net interest income and similar income	**6,129**	**6,195**

6. Dividend income

MCZK	2010	2009
Dividend income		
From investment certificates classified as securities at fair value through profit or loss not held for trading	73	252
Total dividend income	**73**	**252**

7. Net fee and commission income

MCZK	2010	2009
Fee and commissions income from		
Securities transactions	24	35
Management, administration, deposit and custody services	208	154
Loans	429	308
Payment services	830	813
Foreign exchange (FX) transactions	1,061	1,112
Payment cards	484	439
Other	46	18
Fee and commission income	**3,082**	**2,879**
Fee and commission expense from		
Securities transactions	(19)	(32)
Management, administration, deposit and custody services	(39)	(36)
Loans	(8)	(5)
Payment services	(16)	(17)
Payment cards	(289)	(252)
Other	(77)	(87)
Fee and commission expense	**(448)**	**(429)**
Net fee and commission income	**2,634**	**2,450**

Net fee and commission income from payment services includes FX commissions from clean and documentary payments and from cash transactions and currency exchange transactions with clients of the Bank. The FX commission represents the difference between the buy/sell FX rate set by the Bank and the official CNB FX rate, which is required by the Accounting Act when valuing transactions denominated in foreign currency. FX commission is included in “Net fee and commission income” as this income represents significant continuous income from cash transactions and currency exchange transactions with customers of the Bank.

8. Net trading income

MCZK	2010	2009
Net realized and unrealized gain/(loss) from securities held for trading	64	123
Net realized and unrealized gain/(loss) from derivatives held for trading	1,128	(209)
Net realized and unrealized gain/(loss) from spot transactions with FX and from revaluation of receivables and liabilities denominated in FX	(631)	630
Net trading income	**561**	**544**

9. General administrative expenses

MCZK	2010	2009
Personnel expenses		
Wages and salaries paid to employees	(1,252)	(1,213)
Social and health insurance	(546)	(456)
	(1,798)	**(1,669)**
Including wages and salaries paid to:		
Members of the Board of Directors	(46)	(49)
Other executives	(113)	(111)
	(159)	**(160)**
Other administrative expenses		
Rent and building maintenance	(300)	(305)
Information technologies	(730)	(766)
Promotion and marketing	(309)	(160)
Consumables used	(37)	(32)
Audit, legal and advisory services	(77)	(54)
Payments services	(238)	(236)
Services	(277)	(294)
Other	(7)	(6)
	(1,975)	**(1,853)**
Depreciation of property and equipment	(144)	(154)
Depreciation of intangible fixed assets	(1)	(3)
Release of impairment loss from tangible and intangible assets	16	12
	(129)	(145)
Total general administrative expenses	**(3,902)**	**(3,667)**

Social and health insurance includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 10 (for 2009: MCZK 10). Information about bonuses tied to equity is included in Note 29.

The average number of employees of the Bank (including UCI Group expatriates) was as follows:

MCZK	2010	2009
Employees	1 682	1,657
Members of the Board of Directors	5	5
Members of the Supervisory Board	3	3
Other executives	30	32

10. Other operating income and expenses

MCZK	2010	2009
Income from written-off and ceded receivables	4	6
Income from rent	9	9
Release of impairment losses on other assets	–	9
Release of other provisions	2	1
Release of provisions for off-balance sheet items	–	170
Use of other provisions	–	9
Income from litigations settlement	4	5
Other	15	6
Total other operating income	**34**	**215**
Deposits and transactions insurance	(163)	(122)
Other receivables write-off	(14)	(8)
Creation of impairment losses on other assets	(4)	(15)
Creation of other provisions	(25)	(2)
Loss on disposal of fixed assets	–	(3)
Creation of provisions for off-balance sheet items	(138)	(201)
Other	(7)	(4)
Total other operating expenses	**(351)**	**(355)**

11. Net income from financial investments

MCZK	2010	2009
Net gain/(loss) from available-for-sale and held-to-maturity securities	(87)	41
Net gain/(loss) from hedging against risk of changes in fair value of available-for-sale securities	(22)	(9)
Net gain/(loss) from securities at fair value through profit or loss not held for trading	(15)	(129)
Net income from financial investments	**(124)**	**(97)**

The item "Net loss from available-for-sale securities and held-to-maturity securities" includes an impairment loss from bonds amounting to MCZK 100. At the beginning of 2011 these bonds were sold for the carrying amount which includes the impairment.

12. Cash in hand and balances with central banks

MCZK	31.12.2010	31.12.2009
Cash in hand	1,864	1,652
Obligatory minimum reserves	985	645
Other balances at central banks	4	1
Total cash in hand and balances with central banks	**2,853**	**2,298**

The obligatory minimum reserves represent deposits whose average monthly value is determined in accordance with Czech National Bank (CNB) regulations and which are not available for ordinary operations. CNB pays interest on these mandatory deposits based on the official CNB two week repo rate.

Cash in hand, obligatory minimum reserves and balances with central banks are defined as cash and cash equivalents for the purpose of the statement of cash flows.

13. Financial assets held for trading

MCZK	31.12.2010	31.12.2009
Bonds and other securities with fixed rates of return held for trading	10,832	15,463
Shares and other securities with variable rates of return held for trading	16	18
Fair value of financial derivatives held for trading	4,012	4,460
Total financial assets held for trading	**14,860**	**19,941**

(a) Analysis of bonds and other securities with a fixed rate of return held for trading

MCZK	31.12.2010	31.12.2009
Issued by government sector	10,832	15,463
Total	**10,832**	**15,463**

All the bonds held for trading are listed on public markets.

(b) Analysis of shares and other securities with variable rates of return held for trading

MCZK	31.12.2010	31.12.2009
Shares issued by financial institutions	7	6
Shares issued by non-financial institutions	9	12
Total	**16**	**18**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31.12.2010	31.12.2009
Interest rate contracts	2,326	2,094
Currency contracts	1,566	2,142
Equity contracts	36	144
Commodity contracts	84	80
Total	**4,012**	**4,460**

14. Receivables from banks

(a) Analysis of receivables from banks by type

MCZK	31.12.2010	31.12.2009
Current accounts at other banks	537	470
Loans provided to banks	16,965	12,434
Term deposits	15,846	18,416
Total receivables from banks	**33,348**	**31,320**
Impairment losses on receivables from banks	–	–
Net receivables from banks	**33,348**	**31,320**

(b) Subordinated loans due from banks

The Bank granted a subordinated loan to another bank, totalling TEUR 7,500 in 2004. The subordinated loan balance as at 31 December 2010 was MCZK 188 (as at 31 December 2009: MCZK 199). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, and the interest rate is based on the relevant EURIBOR rate.

(c) Analysis of receivables from banks by geographical sector

MCZK	31.12.2010	31.12.2009
Czech Republic	18,298	13,322
Other countries of European Union	14,412	17,391
Others	638	607
Total receivables from banks	**33,348**	**31,320**

15. Receivables from clients

(a) Analysis of receivables from clients by type

MCZK	31.12.2010	31.12.2009
Loans to clients	178,300	172,883
Total receivables from clients	**178,300**	**172,883**
Impairment losses on receivables from clients	(6,230)	(5,183)
Net receivables from clients	**172,070**	**167,700**

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 88 (as at 31 December 2009: MCZK 72) and loans that have not been adjusted for interest accruals in the amount of MCZK 1,197 (as at 31 December 2009: MCZK 815). Had the accrual principle been applied for interest income on these loans, the Bank would have recognized MCZK 44 as interest income for the year 2010 (for 2009: MCZK 30).

(b) Classification of receivables from clients

MCZK	31.12.2010	31.12.2009
Receivables not impaired		
Standard	159,432	157,998
Internal rating 1	*47*	*2,414*
Internal rating 2	*12,280*	*6,490*
Internal rating 3	*14,563*	*29,443*
Internal rating 4	*35,708*	*41,941*
Internal rating 5	*36,822*	*46,878*
Internal rating 6	*49,789*	*22,630*
Other internal rating	*6,939*	*2,927*
Receivables without internal rating	*3,284*	*5,275*
Receivables impaired		
Watched	9,442	7,753
Substandard	4,201	1,788
Doubtful	561	1,068
Loss	4,664	4,276
Total receivables from clients	**178,300**	**172,883**

The Bank regularly classifies its receivables from clients. The categories used for classification consider the Bank's analysis of the probability of repayment and analysis of the debtor's behaviour (number of days payments are past due, financial performance, etc.).
The Bank assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realized collateral).

The following table summarizes loan receivables not impaired based on the days overdue. These standard receivables may also include overdue receivables as the Bank only classifies overdue receivables exceeding the amount of TCZK 1 per client.

MCZK	31.12.2010	31.12.2009
Receivables not impaired		
Due receivables	159,428	157,979
30–60 days overdue	1	16
60–90 days overdue	1	–
90–180 days overdue	1	1
More than 180 days overdue	1	2
Total receivables not impaired	**159,432**	**157,998**

(c) Analysis of receivables from clients by sector

MCZK	31.12.2010	31.12.2009
Financial institutions	19,398	19,841
Non-financial institutions	121,254	118,568
Government sector	1,445	1,281
Non-profit organizations	348	431
Self-employed individuals	1,300	1,426
Resident individuals	24,027	20,539
Non-residents	10,528	10,797
Total receivables from clients	**178,300**	**172,883**

(d) Analysis of receivables from clients by type of security provided

MCZK	Standard	Watched	Substandard	Doubtful	Loss	Total
As at 31 December 2010						
Bank and similar guarantee	13,061	91	597	–	–	13,749
Mortgage	29,536	1,233	551	219	590	32,129
Corporate guarantee	3	7	–	–	–	10
Other security	4,910	61	26	1	41	5,039
Unsecured	111,922	8,050	3,027	341	4,033	127,373
Total receivables from clients	**159,432**	**9,442**	**4,201**	**561**	**4,664**	**178,300**
As at 31 December 2009						
Bank and similar guarantee	10,785	1,212	1	–	–	11,999
Mortgage	33,403	1,594	304	319	820	36,440
Corporate guarantee	236	–	–	–	33	269
Other security	5,612	105	52	–	104	5,873
Unsecured	107,961	4,842	1,431	749	3,319	118,302
Total receivables from clients	**157,998**	**7,753**	**1,788**	**1,068**	**4,726**	**172,883**

(e) Analysis of receivables from clients by business activity

MCZK	31.12.2010	31.12.2009
Real estate services	52,710	52,249
Financial services	21,921	22,535
Wholesale	15,447	15,004
Household services	25,102	21,541
Retail	5,172	5,972
Leasing	391	130
Others	57,557	55,462
Total receivables from clients	**178,300**	**172,883**

(f) Analysis of receivables from clients by region

MCZK	31.12.2010	31.12.2009
Czech Republic	167,772	162,086
Other countries of European Union	6,582	7,719
Other	3,946	3,078
Total receivables from clients	**178,300**	**172,883**

(g) Impairment of receivables from clients

MCZK	31.12.2010	31.12.2009
Impairment of individual receivables from clients	(5,158)	(4,209)
Watched	(544)	(311)
Substandard	(483)	(272)
Doubtful	(268)	(384)
Loss	(3,863)	(3,242)
Impairment of portfolios of standard receivables from clients	(1,072)	(974)
Total impairment of receivables from clients	**(6,230)**	**(5,183)**

MCZK		
Balance as at 1 January 2009		(3,072)
Creation during the current year	(2,605)	
Release during the current year	450	
Net effect on profit or loss		(2,155)
Receivables written off – use		39
FX differences		5
Balance of impairment of receivables from clients as at 31 December 2009		**(5,183)**
Balance as at 1 January 2010		(5,183)
Creation during the current year	(2,599)	
Release during the current year	1,018	
Net effect on profit or loss		(1,581)
Receivables written off – use		500
FX differences		34
Balance of impairment of receivables from clients as at 31 December 2010		**(6,230)**

16. Financial investments

(a) Classification of financial investments into portfolios based on the Bank's intention

MCZK	31.12.2010	31.12.2009
Available-for-sale securities	40,350	36,550
Securities at fair value through profit or loss not held for trading	2,169	3,104
Participation interests	–	–
Total financial investments	**42,519**	**39,654**

Financial investments include bonds with a market value of MCZK 1,239 (as at 31 December 2009: MCZK 1,180) that were provided as collateral to the holder of the particular mortgage bonds issue.

In 2010, the Bank assessed its financial investments for impairment. Based on the results, the Bank recognized impairment loss for available-for-sale securities amounting to MCZK 100. This impairment loss is recognized in profit or loss within "Net income from financial investments" (see Note 11).

(b) Analysis of available-for-sale securities

MCZK	31.12.2010	31.12.2009
Bonds and other securities with a fixed rates of return		
Issued by financial institutions	8,975	13,181
Issued by government sector	26,101	18,974
Power industry	1,039	43
Other	2,215	2,242
Total	**38,330**	**34,440**

Shares and other securities with a variable rates of return

Issued by financial institutions	2,006	2,110
Other	14	–
Total	**2,020**	**2,110**
Total available-for-sale securities	**40,350**	**36,550**
Thereof:		
Listed	38,304	34,409
Unlisted	2,046	2,141

(c) Analysis of securities at fair value through profit or loss not held for trading

MCZK	31.12.2010	31.12.2009
Bonds and other securities with fixed rates of return		
Issued by financial institutions	1,352	2,267
Issued by government sector	120	123
Other	697	714
Total	**2,169**	**3,104**
Total of securities designated at fair value through profit or loss not held for trading	**2,169**	**3,104**
Thereof:		
Listed	2,144	3,075
Unlisted	25	29

(d) Analysis of participation interests

Registered Name	Office	Date of Acquisition	Acquisition price	Net book value 2010	Net book value 2009	Share of the Bank 31.12.2010	Share of the Bank 31.12.2009
CAE PRAHA a.s. in the process of liquidation (real estate)	Prague	27.6.2003	78	–	0.10	–	100%
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10.10.2001	0.24	0.24	0.24	20%	20%
Total			**78.24**	**0.24**	**0.34**	**–**	**–**

As at 31 December 2010, the impairment losses of participation interests amounted to MCZK 0 (as at 31 December 2009: 8 MCZK). The liquidation of CAE PRAHA a.s. (in the process of liquidation) was completed in 2010.

17. Property and equipment

Movements in property and equipment

MCZK	Land and buildings	Machinery and Equipment	Fixtures and fittings	Other non-oper. property	Fixed assets not yet in use	Total
Cost						
At 1 January 2009	3,198	791	358	2	73	4,422
Additions	63	38	8	–	222	331
Disposals	(5)	(74)	(46)	–	(252)	(377)
Other	–	(4)	–	–	–	(4)
At 31 December 2009	3,256	751	320	2	43	4,372
At 1 January 2010	3,256	751	320	2	43	4,372
Additions	64	30	8	–	158	260
Disposals	(32)	(46)	(13)	–	(169)	(260)
Other	–	–	–	–	–	–
At 31 December 2010	3,288	735	315	2	32	4,372
Depreciation						
At 1 January 2009	(1,420)	(649)	(293)	(2)	–	(2,364)
Charge for the year	(93)	(52)	(9)	–	–	(154)
Disposals	5	71	44	–	–	120
Other	–	–	–	–	–	–
At 31 December 2009	(1,508)	(630)	(258)	(2)	–	(2,398)
At 1 January 2010	(1,508)	(630)	(258)	(2)	–	(2,398)
Charge for the year	(91)	(44)	(9)	–	–	(144)
Disposals	31	45	12	–	–	88
Other	–	–	–	–	–	–
At 31 December 2010	(1,568)	(629)	(255)	(2)	–	(2,454)
Impairment						
At 1 January 2009	(368)	–	–	–	–	(368)
Creation	–	–	–	–	–	–
Release	12	–	–	–	–	12
Use	–	–	–	–	–	–
At 31 December 2009	(356)	–	–	–	–	(356)
At 1 January 2010	(356)	–	–	–	–	(356)
Creation	–	–	–	–	–	–
Release	16	–	–	–	–	16
Use	–	–	–	–	–	–
At 31 December 2010	(340)	–	–	–	–	(340)
Net book value						
At 1 January 2009	**1,410**	**142**	**65**	**–**	**73**	**1,690**
At 31 December 2009	**1,392**	**121**	**62**	**–**	**43**	**1,618**
At 31 December 2010	**1,380**	**106**	**60**	**–**	**32**	**1,578**

The release of impairment losses is included in profit or loss in “General Administrative Expenses”.

18. Intangible assets

Movements in intangible fixed assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 January 2009	6	–	20	26
Additions	–	–	–	–
Disposals	–	–	(11)	(11)
At 31 December 2009	6	–	9	15
At 1 January 2010	6	–	9	15
Additions	–	–	–	–
Disposals	(1)	–	(4)	(5)
At 31 December 2010	5	–	5	10
Amortization				
At 1 January 2009	(5)	–	(17)	(22)
Charge for the year	(1)	–	(2)	(3)
Disposals	–	–	11	11
At 31 December 2009	(6)	–	(8)	(14)
At 1 January 2010	(6)	–	(8)	(14)
Charge for the year	–	–	(1)	(1)
Disposals	1	–	5	6
At 31 December 2010	(5)	–	(4)	(9)
Net book value				
At 1 January 2009	**1**	**–**	**3**	**4**
At 31 December 2009	**–**	**–**	**1**	**1**
At 31 December 2010	**–**	**–**	**1**	**1**

19. Other assets

MCZK	31.12.2010	31.12.2009
Prepaid expense and accrued income	133	100
Trade receivables	350	30
Positive fair value of hedging derivatives	1,892	1,560
Receivables from securities	21	22
Suspense accounts	180	161
Income tax receivable	–	5
Other taxes receivable	–	2
Other	4	1
Total other assets	**2,580**	**1,881**
Impairment of other assets	(7)	(3)
Net other assets	**2,573**	**1,878**

Impairment of other assets

MCZK	
Balance as at 1 January 2009	(274)
Creation during the current year	(15)
Release during the current year	9
Write-offs covered by impairment provisions and others	277
Balance of impairment of other assets as at 31 December 2009	**(3)**
Balance as at 1 January 2010	(3)
Creation during the current year	(4)
Release during the current year	–
Write-offs covered by impairment provisions and others	–
Balance of impairment of other assets as at 31 December 2010	**(7)**

The impairment is presented in profit or loss under “Other operating expenses”. Write-offs in 2009 include primarily write-offs of factoring receivables.

20. Impairment of assets total

MCZK	Receivables from clients (Note 15)	Financial investments (Note 16)	Tangible and intangible assets (Note 17, 18)	Other assets (Note 19)	Total
Balance as at 1 January 2009	(3,072)	(7)	(368)	(274)	(3,721)
Creation during the current year	(2,605)	(1)	–	(15)	(2,621)
Release during the current year	450	–	12	9	471
Write-offs and others	44	–	–	277	321
Impairment loss as at 31 December 2009	**(5,183)**	**(8)**	**(356)**	**(3)**	**(5,550)**
Balance as at 1 January 2010	(5,183)	(8)	(356)	(3)	(5,550)
Creation during the current year	(2,599)	(100)	–	(4)	(2,703)
Release during the current year	1,018	–	16	–	1,034
Write-offs and others	534	8	–	–	542
Impairment loss as at 31 December 2010	**(6,230)**	**(100)**	**(340)**	**(7)**	**(6,677)**

21. Deposits from banks

Analysis of deposits from banks by type

MCZK	31.12.2010	31.12.2009
Current accounts	3,118	1,845
Bank loans	5,053	4,823
Term deposits	23,210	18,480
Total deposits from banks	**31,381**	**25,148**

22. Deposits from clients

Analysis of deposits from clients by type

MCZK	31.12.2010	31.12.2009
Current accounts	101,238	81,825
Loans	12,283	10,139
Term deposits	40,093	60,156
Issued depository notes	15,619	17,227
Saving deposits	5,140	2,480
Total deposits from clients	**174,373**	**171,827**

Issued depository notes are short-term securities and represent an alternative form of term deposits. Therefore, the Bank decided to include them in "Deposits from clients" rather than "Debt securities issued".

Analysis of deposits from clients by sector

MCZK	31.12.2010	31.12.2009
Financial institutions	15,138	11,801
Non-financial institutions	75,147	73,190
Government sector	15,870	18,828
Non-profit organizations	1,177	1,687
Self-employed individuals	11,405	11,031
Resident individuals	43,522	44,813
Non-residents	12,114	10,477
Total deposits from clients	**174,373**	**171,827**

23. Debt securities issued

(a) Analysis of payables in respect of debt securities issued

MCZK	31.12.2010	31.12.2009
Mortgage bonds	18,992	23,810
Structured bonds	3,104	2,440
Zero coupon bonds	2,219	2,027
Other issued bonds	142	282
Net book value	**24,457**	**28,559**

(b) Analysis of mortgage bonds issued

Issue date	Maturity Date	Currency	Interest rate	31.12.2010 MCZK	31.12.2009 MCZK
19 August 2004	19 August 2012	CZK	6.00%	1,361	1,381
29 September 2005	29 September 2015	CZK	4.00%	1,045	1,053
5 October 2005	5 October 2015	CZK	4.50%	6,078	5,839
15 November 2005	15 November 2010	CZK	3.50%	–	4,742
23 November 2005	15 November 2025	CZK	5.00%	166	167
15 June 2007	15 June 2012	CZK	5.00%	1,023	248
12 December 2007	21 December 2037	CZK	6.60%	6,378	6,479
12 December 2007	15 March 2010	CZK	–*	–	722
12 December 2007	15 June 2010	CZK	–*	–	326
12 December 2007	15 September 2010	CZK	–*	–	461
12 December 2007	15 December 2010	CZK	–*	–	356
12 December 2007	15 March 2011	CZK	–*	622	208
12 December 2007	15 June 2011	CZK	–*	694	228
12 December 2007	15 September 2011	CZK	–*	409	147
12 December 2007	15 December 2011	CZK	–*	468	298
12 December 2007	15 March 2012	CZK	–*	560	83
12 December 2007	15 December 2017	CZK	6.00%	188	72
27 December 2007	28 December 2017	CZK	0.94%	–	1,000
Total of mortgage bonds issued				**18,992**	**23,810**

* discounted mortgage bonds

24. Financial liabilities held for trading

MCZK	31.12.2010	31.12.2009
Negative fair values of financial derivatives held for trading		
Interest rate contracts	2,107	2,151
Currency contracts	896	1,661
Equity contracts	36	142
Commodity contracts	84	91
Liabilities from short sales of securities	966	950
Total financial liabilities held for trading	**4,089**	**4,995**

25. Provisions

Provisions include the following items:

MCZK	31.12.2010	31.12.2009
Provisions for off-balance sheet credit items	563	425
Other provisions	145	118
Claims and litigations	85	62
Unclaimed vacation	60	56
Total provisions	**708**	**543**

(a) Provisions for off-balance sheet credit items

MCZK	
Balance at 1 January 2009	394
Creation during the current year	201
Release during the current year	(170)
Balance of provisions for off-balance sheet credit items at 31 December 2009	**425**
Balance at 1 January 2010	425
Creation during the current year	138
Release during the current year	–
Balance of provisions for off-balance sheet credit items at 31 December 2010	**563**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation	Other	Total
Balance at 1 January 2009	60	58	10	128
Creation during the current year	2	–	–	2
Use during the current year	–	–	(9)	(9)
Release of provisions	–	(2)	(1)	(3)
Balance of provisions at 31 December 2009	**62**	**56**	**–**	**118**
Balance at 1 January 2010	62	56	–	118
Creation during the current year	25	4	–	29
Use during the current year	–	–	–	–
Release of provisions	(2)	–	–	(2)
Balance of provisions at 31 December 2010	**85**	**60**	**–**	**145**

The use of MCZK 4 (2009: MCZK 2) in provisions for unclaimed vacation payments is presented as a part of general administrative costs, under "Wages and salaries".

26. Other liabilities

MCZK	31.12.2010	31.12.2009
Deferred income and accrued expenses	72	213
Trade payables	50	93
Negative fair value of hedging derivatives	2,035	1,837
Income taxes payable	32	–
Other taxes payable	8	–
Estimated payables	482	398
Suspense accounts	1,243	1,523
Other	13	7
Total other liabilities	**3,935**	**4,071**

27. Income tax

(a) Tax in profit or loss

MCZK	31.12.2010	31.12.2009
Current year income tax	(597)	(601)
Income tax for previous period (adjustment of estimate)	111	7
Total current income tax	**(486)**	**(594)**
Deferred tax	15	(20)
Total income tax	**(471)**	**(614)**

Pursuant to Act No. 586/1992 Coll., the Income Tax Act, as subsequently amended, in 2010 the income tax rate for legal entities was changed from the 20% used in 2009 to 19%.

The Bank's income tax is different from the theoretical income tax, which would be calculated using the tax rate applicable in the Czech Republic, as follows:

MCZK	31.12.2010	31.12.2009
Current year profit (loss) before tax	3,473	3,382
Income tax calculated using tax rate 19%	(660)	(676)
Effect of the difference between Czech Accounting Standards used for calculating the tax base and IFRS	(1)	(13)
Effect of previous years	138	43
Foreign income tax effect	19	21
Non-taxable income	155	262
Tax non-deductible expenses	(139)	(231)
Change in deferred tax by reason of the tax rate change	–	(11)
Change in deferred tax	15	(9)
Other	2	–
Total income tax	**(471)**	**(614)**

The Bank's effective tax rate is 13.6% (for 2009: 18.2%).

(b) Tax in statement of financial position

The Bank made advance payments for income tax of MCZK 565 (for 2009: MCZK 605). When offsetting with the income tax payable, the Bank presents for the accounting period net tax payable of MCZK 32 in the item "Other liabilities" (as at 31 December 2009: net tax receivable of MCZK 5 included in "Other assets").

(c) Deferred tax asset and liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method and applying the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following:

MCZK	31.12.2010		31.12.2009	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	16	–	12	–
Social and health insurance from bonuses	14	–	12	–
Impairment of loans	204	–	185	–
Fixed assets net of book value differences	–	(11)	–	(2)
Other	9	–	10	–
Deferred tax liability/asset	243	(11)	219	(2)
Net deferred tax liability/asset recognized in profit or loss	**232**	**–**	**217**	**–**
Cash flow hedge revaluation reserves	–	(7)	–	–
Revaluation reserve for available-for-sale assets	149	–	–	(2)
Deferred tax liability/asset recognized in other comprehensive income	149	(7)	–	(2)
Net deferred tax liability/asset recognized in other comprehensive income	**142**	**–**	**–**	**(2)**
Total deferred tax liability/asset	**373**	**–**	**217**	**(2)**

When calculating the net tax liability/asset the Bank offset deferred tax liabilities and deferred tax assets arising from income tax payable to the tax authority within the same tax category. Deferred tax liabilities and assets recognized in other comprehensive income are not offset against deferred tax liabilities and assets recognized in profit or loss.
The Bank's management believes that it is highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2010 based on the Bank's current and expected future level of taxable profits.

Due to application of the prudence principle, the Bank does not recognize deferred tax assets attributable to net book value differences among fixed assets totalling MCZK 34 (as at 31 December 2009: MCZK 40).

28. Issued capital and share premium

The issued capital (registered, subscribed and paid-up) as at 31 December 2010 amounted to MCZK 7,325 (as at 31 December 2009: MCZK 5,125). The Bank raised the issued capital by MCZK 2,200 in 2010, which increase was recorded in the Commercial Register on 27 August 2010.

(a) Shareholder

Name	Registered office	Share nominal value (MCZK)	Share premium (MCZK)	Share in equity (%)
As at 31 December 2010				
UniCredit Bank Austria AG, Vienna	Austria	7,325	3,481	100
Total		**7,325**	**3,481**	**100**
As at 31 December 2009				
UniCredit Bank Austria AG, Vienna	Austria	5,125	3,481	100
Total		**5,125**	**3,481**	**100**

(b) Issued capital analysis

	31.12.2010 Nr. of shares	31.12.2010 MCZK	31.12.2009 Nr. of shares	31.12.2009 MCZK
Common share at CZK 16,320,000	100	1,632	100	1,632
Common share at CZK 13,375,000	200	2,675	200	2,675
Common share at CZK 10,000	294,000	2,940	74,000	740
Common share at CZK 7,771,600	10	78	10	78
Total of issued capital		**7,325**		**5,125**

Shares are transferable with the general meeting's approval. The common shares carry a right to participate in the Bank's management and the right to share in the Bank's profits.
The Bank did not hold any of its own shares as at 31 December 2010 and 31 December 2009.

29. Bonuses tied to equity

The Bank has implemented no incentive bonus scheme or motivation programme for employees involving purchase of the Bank's shares or paid any remuneration in the form of options to purchase its shares.

30. Reserve funds and retained earnings

Reserve funds are as follows:

MCZK	31.12.2010	31.12.2009
Legal reserve fund	1,025	1,025
Other reserve funds	1,824	1,824
Reserve funds total	**2,849**	**2,849**
Retained earnings	**18,232**	**17,930**

The Bank creates, in accordance with law, a legal reserve fund (part of the item "Reserve funds"). The legal reserve fund is created from net profit as at the date of preparation of the financial statements for the year in which a profit was achieved for the first time, in the amount of at least 20% of the net profit but not more than 10% of the registered capital. This reserve is added to annually by 5% of the net profit up to 20% of the registered capital. The legal reserve fund can only be used to cover incurred losses and use of the legal reserve fund is under the control of the Board of Directors. In accordance with applicable legal provisions, the Board of Directors is entitled to create funds allocated from profit to cover the Bank's specific risks as well as to create other funds in excess of the legally required reserve fund. The Board of Directors likewise decides on the use of these funds.

The Bank intends to distribute the profit for 2010 of MCZK 3,002 as follows:
– allocation to legal reserve fund of MCZK 150
– remaining part amounting to MCZK 2,852 will be transferred to retained earnings
The Bank intends to pay dividends amounting to MCZK 3,000 from retained earnings.

31. Borrowing and lending of securities, repurchase and resale commitments

(a) Resale commitments

MCZK	31.12.2010	31.12.2009
Receivables from banks	16,610	11,800
Fair value of securities received	16,306	11,846
Receivables from clients	379	2,701
Fair value of securities received	377	2,846

(b) Repurchase commitments

MCZK	31.12.2010	31.12.2009
Deposits from banks	–	2,139
Fair value of given securities (Financial assets held for trading)	–	612
Fair value of given securities (Financial investments)	–	1,494
Deposits from clients	12,283	10,139
Fair value of given securities (Financial assets held for trading)	4,015	8,143
Fair value of given securities (Financial investments)	8,267	2,002

32. Contingent liabilities, contingent assets and derivatives

In the course of regular business operations the Bank enters into various financial operations which are not recognized in the statement of financial position. These operations are called off-balance sheet operations. Unless stated otherwise the following off-balance sheet operations are stated in nominal amounts.

(a) Contingent liabilities

Litigation and claims

The Bank reviewed all legal disputes affecting the Bank as at 31 December 2010 and created appropriate provisions for litigation and claims (see Note 25). In addition to these litigations there are other claims related to the Bank's business activities. However, the management does not expect the result of such claims to have any significant impact on the financial situation of the Bank.

Taxation
Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also unclear which interpretation the tax authority will choose. The results of this uncertainty cannot be quantified and may be resolved only provided that the legislation will be put into actual practice or after release of official interpretation.

Liabilities from guarantees and credit commitments and other contingent liabilities
Unused credit commitments represent the most significant part of contingent liabilities. The credit commitments granted by the Bank include issued commitments for loans or guarantees and also unused credit lines and overdraft facilities. The Bank can revoke the revocable credit commitments at any time without stating reasons. On the other hand, irrevocable credit commitments represent the Bank's undertaking to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Bank even though it depends on the client's fulfilment of the terms and conditions. Liabilities from financial guarantees represent irrevocable commitments that the Bank will execute payments when the conditions defined in guarantee certificates are fulfilled. These commitments bear similar risk as do loans, so the Bank creates reserves for these commitments using a similar algorithm as that used when creating loan loss provisions (see Note 34). Letters of credit represent the Bank's written irrevocable undertaking to provide funds to a third party or to its order (beneficiary, commissioned) if the letter of credit's conditions were fulfilled in a defined period. These are issued on the basis of customers' (applicants') requests. The Bank creates reserves for these financial instruments using a similar algorithm as that used when creating loan loss provisions (see Note 34).
The Bank has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2010, these provisions totalled to MCZK 563 (as at 31 December 2009: MCZK 425) (see Note 25 (a)).

MCZK	31.12.2010	31.12.2009
Letters of credit and financial guarantees	23,642	30,220
Other contingent liabilities (unused credit commitments)	68,833	61,166
Total	**92,475**	**91,386**

Values taken into administration and management

MCZK	31.12.2010	31.12.2009
Bonds	189,109	175,109
Shares	191,922	201,496
Depository notes	25,155	17,227
Total values taken into administration and management	**406,186**	**393,832**

(b) Contingent assets
As at 31 December 2010 the Bank has not option to draw any loans:
As at 31 December 2009, the Bank had the option to draw the credit line provided by the European Investment Bank (EIB) in the amount of MCZK 2,647 (MEUR 100) with latest maturity of 13 years from the drawing. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB and it was drawn during 2010. Further the Bank had the possibility to draw the credit line provided by UniCredit Bank Austria AG, Vienna in the maximum amount of MCZK 2,885 (MEUR 109) and maturing in March 2010.

(c) Financial derivatives
Financial derivatives from the interbank market (OTC derivatives)

	Contractual amounts		Fair value	
MCZK	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Hedging instruments				
Interest rate swap contracts	70,768	67,158	194	(103)
Cross currency swap contracts	27,042	21,898	(337)	(174)
Trading instruments				
Forward rate agreements (FRA)	2,139	–	–	–
Interest rate swap contracts	108,867	95,280	196	(99)
Forward foreign exchange contracts			6	369
Purchase	46,038	8,859		
Sale	46,045	8,492		
Option contracts			23	3
Purchase	59,026	64,056		
Sale	59,026	64,056		
Cross currency swap contracts	12,637	80,113	640	112

Listed financial derivatives

MCZK	Contractual amounts 31.12.2010	Contractual amounts 31.12.2009	Fair value 31.12.2010	Fair value 31.12.2009
Trading instruments				
Interest rate futures	1,291	2,157	22	40
Commodity instruments	935	1,638	1	(10)

Residual maturity of financial derivatives

The nominal values of individual types of derivatives can be divided based on their residual maturity as follows (basis 30/360):

MCZK	Up to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
As at 31 December 2010									
Hedging instruments									
Interest rate swap contracts	–	2,138	8,916	14,273	8,111	6,690	5,177	25,463	70,768
Cross currency swap contracts	–	–	7,495	634	1,974	5,642	1,660	9,637	27,042
Trading instruments									
Forward rate agreements (FRA)	–	2,004	45	45	45	–	–	–	2,139
Interest rate swap contracts	502	3,637	16,883	15,587	17,104	17,641	16,293	21,220	108,867
Foreign exchange contracts (Purchase)	31,645	7,645	4,795	1,309	558	80	6	–	46,038
Foreign exchange contracts (Sale)	31,565	7,634	4,837	1,335	580	87	7	–	46,045
Option contracts (Purchase)	3,570	4,160	20,168	18,200	6,601	2,264	2,276	1,787	59,026
Option contracts (Sale)	3,570	4,160	20,168	18,200	6,601	2,264	2,276	1,787	59,026
Interest rate futures	–	1,291	–	–	–	–	–	–	1,291
Commodity instruments	22	–	77	836	–	–	–	–	935
Cross currency swap contracts	5,152		2,133	2,985	438	800	125	1,004	12,637
As at 31 December 2009									
Hedging instruments									
Interest rate swap contracts	1,092	2,700	12,732	11,212	10,666	6,210	1,994	20,552	67,158
Cross currency swap contracts	–	–	1,907	7,495	634	1,974	4,942	4,946	21,898
Trading instruments									
Forward rate agreements (FRA)	–	–	–	–	–	–	–	–	–
Interest rate swap contracts	300	2,489	17,382	19,259	13,945	17,096	11,211	13,598	95,280
Foreign exchange contracts (Purchase)	722	927	5,460	1,045	303	133	82	7	8,859
Foreign exchange contracts (Sale)	714	911	5,317	1,016	306	137	84	7	8,492
Option contracts (Purchase)	4,786	3,476	15,273	16,832	14,410	4,533	2,691	2,055	64,056
Option contracts (Sale)	4,786	3,476	15,273	16,832	14,410	4,533	2,691	2,055	64,056
Interest rate futures	–	2,157	–	–	–	–	–	–	2,157
Commodity instruments	47	198	645	–	748	–	–	–	1,638
Cross currency swap contracts	48,737	7,618	13,115	6,436	2,985	302	800	120	80,113

33. Segment reporting

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

(a) Information on segments based on client categories

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2010					
Net interest and dividend income	1,536	3,711	120	835	6,202
Other net income	728	1,816	103	107	2,754
Depreciation of property and equipment and amortization of intangible assets	(89)	(2)	–	(38)	(129)
Impairment and provisions	(455)	(1,126)	–	–	(1,581)
Segment expenses	(1,118)	(650)	(68)	(1,937)	(3,773)
Profit before tax	602	3,749	155	(1,033)	3,473
Income tax	–	–	–	(471)	(471)
Result of segment	602	3,749	155	(1,504)	3,002
Segment assets	30,321	142,802	95,452	1,601	270,176
Segment liabilities	79,731	93,479	47,762	17,971	238,943

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2009					
Net interest and dividend income	1,651	3,666	244	886	6,447
Other net income	747	1,551	505	(46)	2,757
Depreciation of property and equipment and amortization of intangible assets	(92)	(4)	(1)	(48)	(145)
Impairment and provisions	(188)	(1,964)	(3)	–	(2,155)
Segment expenses	(1,293)	(751)	(131)	(1,347)	(3,522)
Profit before tax	825	2,498	614	(555)	3,382
Income tax	–	–	–	(614)	(614)
Result of segment	825	2,498	614	(1,169)	2,768
Segment assets	26,233	142,546	94,773	1,075	264,627
Segment liabilities	81,176	87,242	43,983	22,744	235,145

34. Financial risk management

(a) Introduction

The Bank is exposed to the following types of risk:

- Credit risk
- Market risk
- Operational risk

The Bank's Board of Directors is responsible for, and approves, the overall strategy of risk management, which is reviewed on a regular basis. The Board has established an Assets and Liabilities Committee (ALCO), Credit Committee and Committee for the Management of Operational Risk in order to monitor and manage particular risks for its specific areas. These Committees report to the Bank's Board on a regular basis.

(b) Credit risk

The Bank is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and intermediation activities.

Credit risk is managed at two levels: at the level of the individual client (transaction) and at the portfolio level.

The Credit Risk Underwriting Division, the Credit Models and Reporting Division and the Credit Risk Operations Division are directly responsible for credit risk management. All of them are organizationally independent of the business divisions and report directly accthe member of the Board of Directors responsible for risk management.

The Bank defines in its credit policy general principles, methods and instruments used for the purpose of identification, measurement and management of credit risk. The Credit Models and Reporting Division is responsible for loan policy, which is revised at least once a year.

The Bank defines in its internal guidelines approval competencies for credit deals, including definition of responsibilities and competencies of the Credit Committee.

(i) Credit risk management at individual client level

The credit risk at client level is managed by analyzing the client's financial standing and setting limits on the credit extended. The analysis is focused on the client's standing in the relevant market, rating of the client's financial statements, prediction of future liquidity etc. The result of this analysis is, among other things, to establish a rating that reflects the probability of the client's default and takes into account both quantitative and qualitative factors. The financial standing analysis is carried out, and a credit limit and rating set, before credit is granted as well as regularly during the course of the credit relationship with the client.

The internal rating system comprises 26 rating levels (1 to 10 with the use of "+" and "–" in several rating classes: 1+, 1, 1–, 2+, etc). This system assesses not only the client's possible delay in making loan payments, but also the client's financial ratios and indicators (such as the structure of, and relationships between, the balance sheet, income statement, and cash flows), quality of management, ownership structure, market position of the client, quality of the client's reporting, production equipment, etc. Clients with receivables categorized as substandard, doubtful and loss are always assigned to a rating class for clients in default, i.e. one of 8–, 9 or 10.

If an external rating of the debtor prepared by a reputable rating agency is available, the rating results are also taken into account in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.

For receivables from individuals, the ability of the client to fulfil his or her obligation is determined using a standardized system of credit scoring based on risk-relevant characteristics (credit application scoring).

The Bank likewise sets and regularly updates the probability of client default for individuals using the behavioural scoring method.

As an additional source of information for assessing a client's financial standing, the Bank uses information from credit registries, mainly the CBCB–Czech Banking Credit Bureau, a.s., the CNB Central Credit Registry and the SOLUS association registry.

In accordance with its credit risk management strategy, the Bank requires collateral for all provided credit before the credit is granted (according to the client's financial standing and the nature of the transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, a bank guarantee from a reputable bank, a guarantee from a highly reputable non-banking entity, real estate, and assignment of high quality receivables.

The Bank's assessment of the net realizable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist department. The net realizable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realize the collateral if and when necessary.

(ii) Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting including analyses and monitoring of trends in certain credit sub-portfolios.

The Bank monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Bank regularly monitors its credit exposure to individual economic segments, countries, and economically connected groups of debtors.

The Bank assesses the concentration risk of a loan portfolio on a regular basis and establishes concentration limits when necessary in relation to individual economic segments, countries, and economically connected groups of debtors.

(iii) Classification of receivables, impairment and provisions

The Bank categorizes its receivables arising from financial activities on a monthly basis, in accordance with Decree No. 123/2007 Coll. of the CNB.

The Bank regularly assesses whether any possible permanent decrease in the balance sheet value of receivables has occurred. In case that the Bank identifies such a decrease, it creates provisions for each receivable or portfolio of receivables respectively in accordance with IFRS.

Impairment of individual loans
The Bank recognizes the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off such amount, or, as the case may be, that part of the loan receivable corresponding to the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default. The Bank writes off a receivable when it expects no income from that receivable or from collateral accepted in relation to such receivable.
The Bank calculates an individual impairment in the amount of loss resulting from decrease of the loan's carrying amount, i.e. impairment loss is equal to the difference between the carrying amount (reduced by the materially realizable value of the collateral) and the discounted value of estimated future cash flows from the unsecured part of the loan.

Impairment of loan portfolios
The Bank recognizes impairment losses for portfolios of standard loans if it identifies a decrease in a portfolio's carrying amount as a result of events indicating a decrease of expected future cash flows from such portfolio.
Provisions are assigned to individual portfolios, not to individual loan cases within such a portfolio.
The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering the time delay between the impairment event and the time when the Bank obtains information on the impairment event (i.e. when a receivable is taken out from the portfolio of standard receivables and the impairment is assessed in accordance with the common practice used for single receivables; that is to say, a provision for the specific receivable is created). The method currently used is in accordance with the UniCredit Group methodology used for incurred loss determination.

Provisions for off-balance sheet items
The Bank creates provisions for selected off-balance sheet items, namely:
(i) Provisions for off-balance sheet items at the Bank's clients for whom there are currently recorded particular balance sheet receivables having fulfilled the conditions for their ranking as watched loans or as loans categorized for debtors in default and the Bank creates provisions for such loans.
Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.
(ii) Provisions for selected off-balance sheet items at the Bank's clients for whom the Bank records no balance sheet receivables in a given period but when in the case of such receivables' existence the conditions for their ranking as watched loans or loans categorized for debtors in default would be fulfilled.
(iii) Provisions for selected off-balance sheet items that are ranked into portfolios. The Bank recognizes such provisions in the same way as is used in accounting for impairment of loan portfolios.

(iv) Recovery of receivables
The Bank has established a Credit Workout and Restructuring Department to deal with the recovery of loans in respect of receivables considered to be at risk. This department aims to achieve one or more of the following goals:
a) "revitalization" of the credit relationship, restructuring and subsequent reclassification to standard receivables;
b) full repayment of the loan;
c) minimization of the loss from the loan (realization of collateral, discounted sale of receivable, etc.);
d) prevention of further losses from the loan (evaluating future costs relative to possible income).

(c) Market risk

(i) Trading
The Bank holds trading positions in certain financial instruments including financial derivatives. The majority of the Bank's business activities are conducted according to 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 the quoting of 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 maximize 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 volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in the following section "Market risk management".
The majority of derivatives are contracted on the interbank (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, principles of managing positions resulting from these activities and also management of these risks.
The procedures that the Bank uses to measure and manage these risks are described in detail in the following paragraphs.
The Bank is exposed to market risks which ensue from its open positions in interest rate, equity and foreign currency instruments that are sensitive to changes in financial market conditions.
The Bank's risk management concentrates on management of the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods, which is expressed by change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes, the Bank identifies specific assets/liabilities causing this

incongruity in a way that fulfils the accounting criteria for the application of hedge accounting.

Value at Risk

Value at Risk is the main method for managing the market risks arising from the Bank's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Bank determines the Value at Risk through stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a one-day holding period and a confidence level of 99%.
The assumptions on which the Value at Risk model is based have the following limitations:

– The 1-day holding period supposes that all the positions can be closed during a single day. This assumption need not always apply on less liquid markets.
– 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 "intra-day".
– Using historical data as a basic determinant of possible future development does not necessarily cover all of the possible future scenarios, especially crisis scenarios.

The Bank uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with negative movements in the prices of market factors (spread risk, option risk, etc.). The structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO), and at least once a year the structure and amount of limits are revised in accordance with the Bank's needs and developments on the financial markets. The results of VaR calculation are published daily for selected users (Board of Directors, plus selected employees of the Financial Markets Division, Market Risk Division, Assets and Liabilities Management Division and the parent bank's MARS).

Back testing – Value at Risk

The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

The following are Values at Risk for the Bank.

MCZK	As at 31.12.2010	Average 1.1.2010 – 31.12.2010	As at 31.12.2009	Average 1.1. 2009 – 31.12.2009
VaR of interest rate instruments	154.3	192.0	192.4	139.7
VaR of currency instruments	2.0	2.1	2.2	2.2
VaR of equity instruments	0.3	0.7	0.1	1.1

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 optimizing the Bank's net interest revenue in accordance with the strategy approved by the Board of Directors.
The Bank's overall interest rate position as at 31 December is characterized by greater interest rate sensitivity on the liability side. This is seen in the positive overall basis point value (or "BPV"), whereby in the case of a simultaneous rise in interest rates for individual currencies there could occur a modest growth in market valuation. The Bank's interest rate position is diversified into several currencies, whereby the divergent interest rate risks of individual currencies are compensated with regard to the overall portfolio of assets and liabilities. The major sensitivity is connected to the CZK and EUR. The Bank's overall position is approximately balanced.
Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional incongruity between the interest rate sensitive assets and liabilities.
The Bank applies a "Basis Point Value – BPV" approach for the measurement of interest sensitivity of assets and liabilities. BPV represents the change in present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. represents the sensitivity of instruments to interest rate risk. The Bank has established interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

Stress testing of interest rate sensitivity

The Bank carries out a weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Bank's financial results.
Due to the fact that the Bank enters into derivatives transactions in order to hedge the interest rate risk for the entire credit-sensitive part of the balance sheet, the stress tests are not performed separately for trading and investment portfolios but on an aggregated basis.
The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basic 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 for major currencies (CZK, EUR, USD), with a maturity of up to 2 years, by 250 basic points. The following table shows the impact of a parallel shift of the yield curve on the Bank's profit. The Bank uses the euro as the basic currency for stress testing. The values as at year ends and maximum and minimum values are translated to CZK by CNB FX rate as at 31 December of the particular year (2010: 25.06 CZK/EUR; 2009: 26.465 CZK/EUR). Average values are translated to CZK by average value of daily FX rates for the particular year (average 2010: 25.2878 CZK/EUR; average 2009: 26.445 CZK/EUR):

MCZK	Basic stress test –200 bp	Basic stress test +200 bp	MM stress test +250 bp
Value as at 31 December 2010	(143)	66	(182)
Average for the year	(157)	127	(128)
Maximum value	113	411	19
Minimum value	(422)	(172)	(276)
Value as at 31 December 2009	(92)	34	(160)
Average for the year	(41)	9	(65)
Maximum value	202	176	38
Minimum value	(234)	(242)	(245)

The following table includes interest rate sensitivity of the Bank's assets and liabilities as well as effective interest rates (EIR):

MCZK	% EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2010											
Cash in hand and balances with central banks	–	989	–	–	–	–	–	–	–	1,864	2,853
Financial assets held for trading	3.44	227	1,981	8,646	–	–	–	–	–	4,006	14,860
Receivables from banks	0.98	28,845	2,027	2,473	3	–	–	–	–	–	33,348
Receivables from clients	3.70	40,315	80,812	16,884	12,521	9,827	4,885	2,279	4,547	–	172,070
Financial investments	4.16	1,024	5,321	34,155	–	–	–	–	–	2,019	42,519
Deposits from banks	0.75	26,361	3,161	1,859	–	–	–	–	–	–	31,381
Deposits from clients	0.80	154,909	10,633	6,695	1,103	370	393	203	67	–	174,373
Debt securities issued	5.36	332	947	23,075	–	103	–	–	–	–	24,457
Financial liabilities held for trading	–	–	–	–	–	–	–	–	–	4,089	4,089

MCZK	% EIR	Up to 1 month	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2009											
Cash in hand and balances with central banks	–	646	–	–	–	–	–	–	–	1,652	2,298
Financial assets held for trading	1.04	84	3,515	11,864	–	–	–	–	–	4,478	19,941
Receivables from banks	1.14	26,369	3,328	1,591	32	–	–	–	–	–	31,320
Receivables from clients	3.74	48,285	63,734	23,088	9,608	10,363	5,234	2,943	3,205	1,240	167,700
Financial investments	3.88	2,079	4,215	31,250	–	–	–	–	–	2,110	39,654
Deposits from banks	0.83	22,139	1,552	1,457	–	–	–	–	–	–	25,148
Deposits from clients	0.73	149,158	8,164	12,937	784	299	84	400	1	–	171,827
Debt securities issued	3.57	2,165	999	25,305	–	–	90	–	–	–	28,559
Financial liabilities held for trading	–	–	–	–	125	174	–	–	650	4,046	4,995

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 can be financial assets and liabilities recognized at their carrying amounts (except securities held-to-maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognized in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).
The Bank performs a fair value hedge effectiveness test on the basis of future cash flows of hedged and hedging instruments and of expected interest rates movements (a so-called "prospective test"). On the basis of real interest rates development, the test of effectiveness is carried out at the last day of each month.
The Bank has chosen the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of hedge relationships on a timely basis.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc.) the amount of cash flows and dates are determined from the beginning of a hedged relationship until the maturity of the hedged instrument, or until the end of the hedge relationship. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of discount factors for specific currencies. The fair value of the trade 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 realized cash flows by subtracting or adding them back. The hedge is considered as effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

The following table shows the contractual amounts and fair values of derivatives designated as fair value hedging instruments.

	Contractual amount		Fair value	
MCZK	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**
Interest rate swaps	11,597	15,644	21	(126)
Hedged instruments				
Available-for-sale securities			99	111
Receivables from clients			(226)	(269)
Debt securities issued			366	299
The remaining part of formerly hedged financial instruments				
Available-for-sale securities			(7)	–
Receivables from clients			–	(2)

In line with a change in group strategy in the area of hedge accounting, the Bank terminated fair value hedge accounting for selected financial instruments in December 2003. In connection with this change the Bank still reports the remaining fair value of those instruments, which is amortized till maturity.

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 interest expense sensitive to changes of market interest rates. Future expected transactions are based both on the currently concluded contracts and future transactions defined with the help of replication models. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps).
The effectiveness of the cash flow hedge is determined in accordance with BA Group standards which are contained in an approved methodology. First, the nominal values (divided into assets and liabilities) of external trades for which the interest cash flow (set on the basis of refinancing the "funding" rate) may be considered as variable are identified for specific currencies (hedged cash flows). Secondly, for these same currencies the nominal interest cash flows of variable hedged parts are identified and are monitored on a net basis (i.e. cash in net of cash out).
The Bank compares the absolute value of future variable interest cash flows from hedged deals for specific time periods with the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedge derivatives. The time periods are defined as follow: up to 1 month, 1–2 months, 2–3 months, 3–6 months, 6–9 months, 9–12 months, 12–18 months, 18 months to 2 years, and thereafter for individual years, 10–15 years, and greater than 15 years. The hedge is judged effective if the absolute volume of variable interest cash flows from hedged deals is greater in each of the time periods, and this is measured separately for each monitored currency.

The following table shows the contractual and fair values of derivatives designated as cash flow hedging instruments.

MCZK	Contractual amount 31.12.2010	Contractual amount 31.12.2009	Fair value 31.12.2010	Fair value 31.12.2009
Interest rate swaps	59,172	51,513	176	23
Cross currency swaps	27,042	21,898	(337)	(174)

Currency risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Bank's exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income.

The Bank has set up a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 30 with respect to the total net currency exposure and to individual main currencies (CZK, EUR) and of MEUR 20 to the USD. For the remaining currencies, valid limits range from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

The position of the Bank in foreign currencies is as follows:

MCZK	CZK	EUR	USD	CHF	HUF	Others	Total
As at 31 December 2010							
Cash in hand and balances with central banks	2,186	439	121	36	–	71	2,853
Financial assets held for trading	14,435	425	–	–	–	–	14,860
Receivables from banks	21,274	11,542	93	25	1	413	33,348
Receivables from clients	121,106	48,770	1,459	729	–	6	172,070
Financial investments	33,706	8,373	–	–	440	–	42,519
Property and equipment	1,578	–	–	–	–	–	1,578
Intangible assets	1	–	–	–	–	–	1
Deferred tax asset	374	–	–	–	–	–	374
Other assets	2,393	109	69	–	–	2	2,573
Deposits from banks	20,515	8,458	2,327	20	8	53	31,381
Deposits from clients	139,221	28,981	4,837	477	30	827	174,373
Debt securities issued	23,805	478	174	–	–	–	24,457
Financial liabilities held for trading	4,089	–	–	–	–	–	4,089
Provisions	708	–	–	–	–	–	708
Deferred tax liability	–	–	–	–	–	–	–
Other liabilities	3,441	391	84	5	3	11	3,935
Equity	32,444	(1,214)	–	3	–	–	31,233
As at 31 December 2009							
Cash in hand and balances with central banks	1,679	403	122	33	–	61	2,298
Financial assets held for trading	19,259	682	–	–	–	–	19,941
Receivables from banks	15,728	15,129	135	14	–	314	31,320
Receivables from clients	117,048	48,637	1,280	720	–	15	167,700
Financial investments	30,117	8,882	10	–	645	–	39,654
Propertyand equipment	1,618	–	–	–	–	–	1,618
Intangible assets	1	–	–	–	–	–	1
Deferred tax asset	217	–	–	–	–	–	217
Other assets	1,839	20	16	1	–	2	1,878
Deposits from banks	12,994	9,515	2,573	–	1	65	25,148
Deposits from clients	136,193	28,896	5,622	347	6	763	171,827
Debt securities issued	27,813	596	150	–	–	–	28,559
Financial liabilities held for trading	4,995	–	–	–	–	–	4,995
Provisions	543	–	–	–	–	–	543
Deferred tax liability	2	–	–	–	–	–	2
Other liabilities	3,296	571	180	7	–	17	4,071
Equity	29,861	(382)	–	3	–	–	29,482

Equity risk
Equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is in trading with 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 type of financing of the Bank's activities and management of its positions. It includes both the risk that the Bank is unable to finance its assets using instruments with appropriate maturity and the risk that the Bank is 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 accepted (including subordinated loans) and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's 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 by analyzing differences between the residual maturity of assets and liabilities. Two perspectives are considered: short-term and long-term (structural). For the short-term perspective, the Bank daily monitors in detail over a horizon of the coming several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If the limits are breached, the Bank takes action to reduce the liquidity risk. For the long-term perspective, the Bank monitors the difference between the maturity of assets and liabilities in periods longer than 1 year. For products with a non-specified maturity (e.g. current accounts), the Bank has developed a model for their expected residual maturity. For this perspective, too, the Bank sets limits, and appropriate measures are taken if these are breached, e.g. acquiring long-term sources of refinancing. For the case of a liquidity crisis, a contingency plan has been drawn up by the Bank. This plan defines roles, responsibilities and the process of managing a crisis. It also defines the possible measures which should be considered if there is a crisis situation. Stress tests of short-term liquidity are performed by the Bank on a monthly basis. The stress tests verify the Bank's ability to overcome extreme situations, such as a systemic disruption of the interbank money market, a reduction in the Bank's credit rating, IT system collapses, and risks to the Bank's reputation. Results from the stress scenarios are presented to the ALCO.

Residual maturity of Bank's assets and liabilities:

MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2010										
Cash in hand and balances with central banks	989	–	–	–	–	–	–	–	1,864	2,853
Financial assets held for trading	622	2,125	6,575	2,309	835	829	462	1,066	37	14,860
Receivables from banks	28,093	774	3,225	755	–	–	–	501	–	33,348
Receivables from clients	20,244	13,116	22,788	20,555	10,871	17,307	24,927	42,262	–	172,070
Financial investments	6	3,790	8,021	5,184	2,910	860	10,791	10,943	14	42,519
Property and equipment	–	–	–	–	–	–	–	–	1,578	1,578
Intangible assets	–	–	–	–	–	–	–	–	1	1
Deferred tax asset	–	–	374	–	–	–	–	–	–	374
Other assets	5	–	188	127	90	48	248	1,192	675	2,573
Total	**49,959**	**19,805**	**41,171**	**28,930**	**14,706**	**19,044**	**36,428**	**55,964**	**4,169**	**270,176**
Deposits from banks	25,296	1,494	491	40	4	22	–	4,034	–	31,381
Deposits from clients	149,068	14,449	7,493	1,033	369	393	267	5	1,296	174,373
Debt securities issued	–	695	3,296	4,602	1,648	188	7,220	6,808	–	24,457
Financial liabilities held for trading	203	138	548	583	870	436	303	1,008	–	4,089
Provisions	–	–	–	–	–	–	–	–	708	708
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other liabilities	33	57	321	231	278	236	194	758	1,827	3,935
Equity	–	–	–	–	–	–	–	–	31,233	31,233
Total	**174,600**	**16,833**	**12,149**	**6,489**	**3,169**	**1,275**	**7,984**	**12,613**	**35,064**	**270,176**
Gap	**(124,641)**	**2,972**	**29,022**	**22,441**	**11,537**	**17,769**	**28,444**	**43,351**	**(30,895)**	**–**
Cumulative gap	**(124,641)**	**(121,669)**	**(92,647)**	**(70,206)**	**(58,669)**	**(40,900)**	**(12,456)**	**30,895**	**–**	

MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2009										
Cash in hand and balances with central banks	646	–	–	–	–	–	–	–	1,652	2,298
Financial assets held for trading	647	3,724	9,087	725	2,108	621	680	2,290	59	19,941
Receivables from banks	20,452	2,466	1,754	6,648	–	–	–	–	–	31,320
Receivables from clients	27,603	11,012	27,921	17,248	8,676	10,517	25,178	38,235	1,310	167,700
Financial investments	966	737	7,823	5,134	5,220	2,614	568	16,581	11	39,654
Property and equipment	–	–	–	–	–	–	–	–	1,618	1,618
Intangible assets	–	–	–	–	–	–	–	–	1	1
Deferred tax asset	–	–	217	–	–	–	–	–	–	217
Other assets	33	25	154	231	92	33	42	964	304	1,878
Total	**50,347**	**17,964**	**46,956**	**29,986**	**16,096**	**13,785**	**26,468**	**58,070**	**4,955**	**264,627**
Deposits from banks	22,063	401	6	941	65	6	29	1,633	4	25,148
Deposits from clients	145,685	9,504	13,455	791	307	86	389	5	1,596	171,827
Debt securities issued	168	812	7,583	1,699	3,045	351	179	14,722	–	28,559
Financial liabilities held for trading	575	195	744	923	479	748	336	995	–	4,995
Provisions	–	–	–	–	–	–	–	–	543	543
Deferred tax liability	–	–	2	–	–	–	–	–	–	2
Other liabilities	186	45	161	279	229	261	212	647	2,051	4,071
Equity	–	–	–	–	–	–	–	–	29,482	29,482
Total	**168,677**	**10,957**	**21,951**	**4,633**	**4,125**	**1,452**	**1,154**	**18,002**	**33,676**	**264,627**
Gap	**(118,330)**	**7,007**	**25,005**	**25,353**	**11,971**	**12,333**	**25,314**	**40,068**	**(28,721)**	**–**
Cumulative gap	**(118,330)**	**(111,323)**	**(86,318)**	**(60,965)**	**(48,994)**	**(36,661)**	**(11,347)**	**28,721**	**–**	

The following table shows the undiscounted cash flows for the Bank's non-derivative financial liabilities, including issued guarantees and undrawn loan commitments. Split of these financial instruments into time baskets is performed on a basis of residual maturity of loan commitments.
The Bank's expected cash flows vary significantly from those shown in the table. For example demand deposits from clients are expected to maintain a stable or increasing balance (as they will be replaced over time) and undrawn loan commitments are not all expected to be drawn.
The gross nominal inflow / (outflow) in the following table represents the contractual undiscounted cash flows relating to derivative financial liabilities. The values represent actually known nominal cash flows and also future nominal cash flow determined on a basis of FRA rates calculated from yield curves as at 31 December 2010.

Remaining maturity of the Bank's non-derivative financial liabilities:

MCZK	Book value	Total amount to/ (from)	Up to 1 month	1–3 months	3 months to 1 year	1–5 years	Over 5 years.	Unspe-cified
As at 31 December 2010								
Liabilities from banks	31,381	(32,333)	(22,177)	(1,508)	(491)	(82)	(4,957)	(3,118)
Liabilities from clients	174,373	(174,594)	(49,160)	(14,468)	(7,539)	(2,197)	(7)	(101,223)
Issued debt securities	24,457	(28,907)	–	(752)	(2,960)	(15,250)	(9,945)	–
Financial guarantees held for trading	966	(966)	(966)	–	–	–	–	–
Total	**231,177**	**(236,800)**	**(72,303)**	**(16,728)**	**(10,990)**	**(17,529)**	**(24,909)**	**(104,341)**
Unused credit commitments	63,833	(63,833)	(1,744)	(9,552)	(24,520)	(20,934)	(12,083)	–
Letters of credits and bank guarantees	23,642	(23,644)	(354)	(3,341)	(7,190)	(11,190)	(1,569)	–
As at 31 December 2009								
Liabilities from banks	25,148	(25,805)	(20,220)	(402)	(3)	(1,080)	(2,255)	(1,845)
Liabilities from clients	171,827	(172,133)	(65,496)	(9,524)	(13,589)	(1,688)	(16)	(81,820)
Issued debt securities	28,559	(34,002)	(174)	(812)	(7,404)	(5,501)	(20,111)	–
Financial guarantees held for trading	950	(950)	(950)	–	–	–	–	–
Total	**226,484**	**(232,890)**	**(86,840)**	**(10,738)**	**(20,996)**	**(8,269)**	**(22,382)**	**(83,665)**
Unused credit commitments	61,166	(61,166)	(4,609)	(8,158)	(20,962)	(14,713)	(12,724)	–
Letters of credits and bank guarantees	30,220	(30,220)	(669)	(2,860)	(8,356)	(14,781)	(3,554)	–

Remaining maturity of the Bank's derivative financial liabilities:

MCZK	Book value	Total amount to/ (from)	Up to 1 month	1–3 months	3 months. to 1 year	1–5 years	Over 5 years	Unspe-cified
As at 31 December 2010								
Trading derivatives	3,123	–	–	–	–	–	–	–
Inflows	–	70,543	18,582	10,983	3,619	15,047	22,312	–
Outflows	–	(70,545)	(18,446)	(11,051)	(3,530)	(15,095)	(22,423)	–
Derivatives used for hedging	2,035	–	–	–	–	–	–	–
Inflows	–	13,470	5,156	2,962	–	4,348	1,004	–
Outflows	–	(12,866)	(5,022)	(2,963)	–	(3,879)	(1,002)	–
Total	**5,158**	**602**	**270**	**(69)**	**89**	**421**	**(109)**	**–**
As at 31 December 2009								
Trading derivatives	4,045	–	–	–	–	–	–	–
Inflows	–	46,273	24,876	4,664	9,513	6,603	617	–
Outflows	–	(45,366)	(24,340)	(4,511)	(9,364)	(6,504)	(647)	–
Derivatives used for hedging	1,837	–	–	–	–	–	–	–
Inflows	–	12,962	117	303	1,880	7,262	3,400	–
Outflows	–	(12,402)	(79)	(293)	(1,769)	(6,890)	(3,371)	–
Total	**5,882**	**1,467**	**574**	**163**	**260**	**471**	**(1)**	**–**

(d) Operational risk

Operational risk represents the risk of a loss due to the absence, violation, exceeding or failure to uphold rules and to damages caused by failure of internal processes, human or system error, or external events. Strategic risk, business risk and reputation risk differ from operational risk while legal risk and compliance risk are included into the definition of operational risk.

The Bank's organizational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. Internal rules unambiguously define rights and obligations of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Division is an independent body, which directly reports to the Board of Directors' member responsible for finance and operational risk management. The Operational Risk Division is entrusted with securing unified and coordinated operational risk management, congruent with the applicable regulation and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the particular 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.

In 2010, the Bank continued developing and setting up a comprehensive system for identification, monitoring and management of operational risk.

To ensure effective collection of operational risk events and data, the Bank uses an online information system developed within the UniCredit Group. The system complies with the requirements for capital adequacy management in accordance with Basel II.

The data acquired through the system are taken into account when calculating capital requirements and for managing operational risk. They comprise one of the bases for the design of processes that will lead to a reduced number of particular events and the mitigation of their consequences (e.g. in preparing a strategic insurance plan for the Bank). The data are also used for rechecking the reliability of proposed measures for operational risk mitigation. Data is collected continuously, in cooperation with the Bank's individual departments. 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 Bank's Board of Directors, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or promptly, if needed. The data is regularly reconciled with the accounting and other sources in order to ensure its completeness and accuracy.

In 2010, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) forms another important part of operational risk management. In 2010, the Bank updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness in the current conditions. The Operational Risk Division is also increasing the overall awareness of operational risk in the Bank and trains the Bank's staff, including by means of training via e-learning.

Based on the consent obtained from the regulatory body in 2008, the Bank calculates the capital requirement for operational risk under the advanced measurement approach. The Bank uses the Group model in calculating the capital adequacy for operational risk, which is based on internal and external data, results of scenarios analysis, and risk indicators data.

(e) Capital management

The bank market regulator, the Czech National Bank (CNB), sets the rules for the calculation of capital requirements and monitors their development. Since 1 January 2008 the Bank has met its requirements in accordance with Basel II. They were implemented by CNB Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms. The Bank currently uses the standardized approach.

The Bank's regulatory capital consists of:
– Original capital (Tier 1), which comprises paid up registered capital, share premium, reserve funds, retained earnings, audited profit for the previous period after tax; minus intangible assets;
– Deductible items, which comprise capital investments over 10% in banks and other financial institutions, and significant prudential adjustments as part of a market appraisal or an appraisal using a model.

The following table shows the regulatory capital of the Bank:

MCZK	31.12.2010	31.12.2009
Tier 1 Capital		
Paid up registered capital	7,325	5,125
Share premium	3,481	3,481
Reserve funds	2,849	2,849
Retained earnings	18,195	17,893
Planned dividend outflows	(3,000)	(2,700)
Intangible assets	(1)	(1)
Total Tier 1	28,849	26,647
Deductible items		
Subordinated debt – granted	–	(198)
Significant prudential adjustments	(44)	(62)
Total deductible items	(44)	(260)
Total regulatory capital	**28,805**	**26,387**

Capital funds amounting to MCZK 37 are not included in Tier 1.
The Bank's management monitors development of the Bank's capital adequacy and monitors the Bank's capital position. The Bank's capital adequacy fulfils the minimum requirement of 8% set by the CNB and Basel II.

(f) Market development in 2010

The year 2010 was marked by gradual subsiding of the economic crisis in the Czech Republic. Interest rates gradually declined further, however, and reached a minimum at the start of the year's second half. In spite of this negative development, the Bank reported only moderate decline in net interest income relative to budget. The Bank continued to invest surplus liquidity primarily into Czech government bonds, which, in a context of bond price developments for other EU countries, maintained relatively low credit spreads. Investments into other bonds were mainly of complementary nature. The Bank consciously purchased bonds for their use as collateral in repo transactions with central banks for the purpose of preserving strong liquidity and additional sources of financing in case of sudden needs.
During 2010, the Bank further improved its internal systems and risk management processes as follows:

(i) Credit risk area
– tightening of specific loan policies for clients in defined industries (commercial real estate, energy, automotive, construction, machinery, chemicals and transport)
– update of concentration limits established in relation to economically connected groups of debtors based on their probability of default within a 1 year horizon
– adjustment of maximum loan limits for several particular industries
– modification of selected credit product parameters in the retail segment
– refining the process for identifying credit fraud in the retail segment
– strengthening processes for loan portfolio monitoring (early identification of warning signals) and for collecting loan receivables in default
– continuous improvement in the area of credit risk stress testing
– finalizing preparations for adopting the advanced (F-IRB) approach for calculating capital requirements for credit risk to all non-retail portfolios, including to obtain approval of the regulators
– continuous improvement of the Bank's credit risk models, and especially in the retail segment

(ii) Market risk area
– preparation for implementing an internal VaR model for calculating the capital requirement for market risks to the trading portfolio

(iii) Liquidity area
– further improvements in stress testing scenarios for short-term liquidity. These scenarios are presented at regular ALCO meetings.

35. Related parties transactions

Entities are considered to be related entities if one entity is able to control the activities of the other or is able to exercise significant influence over the financial or operational policy of the other entity. In its normal course of business, the Bank enters into transactions with related entities. These transactions represent mainly loans, deposits and other types of transactions and are concluded under usual business terms and conditions and at normal market prices so that there is no injury to any of the contracting parties.
Identified as related parties were in particular affiliated companies within UCI/HVB/BA Group, subsidiaries and associated companies, Board members, and other management employees of the Bank.

MCZK	31.12.2010	31.12.2009
Assets		
Receivables from banks	11,860	16,559
Thereof:		
UniCredit Bank Austria AG	10,872	8,005
UniCredit CA IB AG	–	7,562
UniCredit Bank AG	660	335
UniCredit Bank Serbia Jsc	188	199
UniCredit S.p.A.	114	–
Receivables from clients	4,397	4,835
Thereof:		
UniCredit Leasing GmbH	4,331	4,806
Board of Directors	7	8
Other management employees	59	21
Financial investments	515	855
UniCredit Bank Austria AG	75	210
UniCredit Jelzalogbank Zrt	440	645
Total	**16,068**	**21,394**

MCZK	31.12.2010	31.12.2009
Liabilities		
Deposits from banks	15,718	6,433
Thereof:		
UniCredit Bank Austria AG	5,745	5,298
UniCredit CA IB AG	–	234
UniCredit Bank AG	9,813	409
UniCredit Bank Slovakia a.s.	97	–
UniCredit S.p.A.	32	47
Deposits from clients	1,336	1,104
Thereof:		
UniCredit Leasing GmbH	177	210
Pioneer Asset Management	538	356
Pioneer Investment Company	210	–
UniCredit Business Partner s.r.o.	50	69
Board of Directors	43	39
Other management employees	68	70
Total	**17,054**	**7,537**

MCZK	2010	2009
Revenues		
Interest income and similar income	432	531
Thereof:		
UniCredit S.p.A.	–	1
UniCredit Bank Austria AG	136	82
UniCredit Bank AG	96	16
UniCredit Leasing GmbH	152	168
UniCredit CA IB AG	–	174
Fee and commission income	8	11
Thereof:		
UniCredit Bank AG	2	1
UniCredit Bank Austria AG	2	4
UniCredit Leasing GmbH	3	–
UniCredit Bank Slovakia a.s.	–	2
Total	**440**	**542**

MCZK	2010	2009
Expenses		
Interest expenses and similar charges	36	175
Thereof:		
UniCredit S.p.A.	1	32
UniCredit CA IB AG	–	48
UniCredit Bank Austria AG	22	68
UniCredit Bank Hungary Zrt.	1	10
UniCredit Bank AG	6	–
Fee and commission expense	27	–
Thereof:		
UniCredit Bank Austria AG	26	–
General administrative expenses	917	921
Thereof:		
UniCredit Business Partner s.r.o.	198	236
UniCredit Servizi Informativi S.P.	648	685
Total	**980**	**1,096**

36. Fair value of financial assets and financial liabilities

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, however, the market prices of various financial instruments are not available. In such circumstances, the fair values are based on management estimates, discounted cash flow models or other commonly used valuation methods. The discount factors used for discounting cash flows are derived from yield curves quoted on the market using the standard mathematical approach for discounting. Many from the methods mentioned above are characterized by certain levels of uncertainty, and the fair value estimates cannot be always considered as market values, and, in many cases, these would not necessarily be achieved in selling a given financial instrument. Changes of initial assumptions used for establishing fair value could have significant impact on this value determination.

The following table analyzes the carrying values and fair values of financial assets and liabilities which are not presented in the balance sheet at their fair values:

MCZK	31.12.2010 Carrying amount	31.12.2010 Fair value	31.12.2009 Carrying amount	31.12.2009 Fair value
Financial assets				
Receivables from banks	33,348	33,522	31,320	31,582
Receivables from clients	172,070	173,087	167,700	169,622
Financial liabilities				
Deposits from banks	31,381	32,538	25,148	25,668
Deposits from clients	174,373	174,579	171,827	172,131
Debt securities issued	24,457	24,449	28,559	28,547

The following table analyzes financial assets and liabilities recognized at fair value based on the quality of entry data used for valuation. The fair value levels are defined in Note 4 b (iv):

MCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2010				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	2,866	7,982	–	10,848
Derivatives held for trading	22	3,988	2	4,012
Securities not held for trading	94	2,072	3	2,169
Hedging derivatives with positive FV	–	1,892	–	1,892
Available-for-sale securities	13,525	26,196	629	40,350
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	226	740	–	966
Derivatives held for trading	–	3,121	2	3,123
Hedging derivatives with negative FV	–	2,035	–	2,035
As at 31 December 2009				
Financial assets				
Financial assets at fair value through profit or loss				
Securities held for trading	241	15,240	–	15,481
Derivatives held for trading	41	4,419	–	4,460
Securities not held for trading	9	3,095	–	3,104
Hedging derivatives with positive FV	–	1,560	–	1,560
Available-for-sale securities	2,627	31,573	2,350	36,550
Financial liabilities				
Financial assets at fair value through profit or loss				
Securities held for trading	125	825	–	950
Derivatives held for trading	–	4,045	–	4,045
Hedging derivatives with negative FV	–	1,837	–	1,837

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

Financial assets at fair value which out flowed from Level 1 and 2:						
		Financial assets at fair value through profit or loss		Available-for-sale securities	Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading			
31 December 2010						
Transfers from Level 1 to Level 2	–	–	–	–	–	–
Transfers from Level 2 to Level 1	(1,645)	–	(86)	(6,939)	–	(8,670)

There were no transfers of financial assets recognized at fair value between Levels 1 and 2 in 2009.

Financial liabilities at fair value which out flowed from Level 1 and 2:					
		Financial liabilities at fair value through profit or loss		Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading		
31 December 2010					
Transfers from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	(825)	–	–	–	(825)

There were no transfers of financial liabilities recognized at fair value between Levels 1 and 2 in 2009.

The following tables state the transfers of financial assets and liabilities recognized at fair value to and from Level 3:

Financial assets at fair value which flowed out from Level 3:						
		Financial assets at fair value through profit or loss		Available-for-sale securities	Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading			
Balance as at 1 January 2009	**–**	**–**	**–**	**2,356**	**–**	**2,356**
Profit and loss from revaluation						
In profit or loss	–	–	–	–	–	–
In other comprehensive income	–	–	–	(1)	–	(1)
Purchases	–	–	–	–	–	–
Sales/ maturity	–	–	–	(5)	–	(5)
Transfers into Level 3	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–
Balance as at 31 December 2009	**–**	**–**	**–**	**2,350**	**–**	**2,350**
Total gains or losses included in profit or loss for the period:						–
Thereof: Total gains or losses for the period included in profit or loss for financial assets held at the end of reporting period					–	
Balance as at 1 January 2010	**–**	**–**	**–**	**2,350**	**–**	**2,350**
Profit and loss from revaluation						
In profit or loss	–	–	3	–	–	3
In other comprehensive income	–	–	–	(28)	–	(28)
Purchases	–	2	–	–	–	2
Sales/ maturity	–	–	–	(560)	–	(560)
Transfers into Level 3	–	–	–	–	–	–
Transfers out of Level 3 to Level 2	–	–	–	(1,133)	–	(1,133)
Balance as at 31 December 2010	**–**	**2**	**3**	**629**	**–**	**634**
Total gains or losses included in profit or loss for the period:						–
Thereof: Total gains or losses for the period included in profit or loss for financial assets held at the end of reporting period					–	

Financial liabilities at fair value which flowed out from Level 3:

MCZK	Financial liabilities at fair value through profit or loss: Securities for trading	Derivatives for trading	Securities not for trading	Hedging derivatives	Total
Balance as at 1 January 2010	**–**	**–**	**–**	**–**	**–**
Profit and loss from revaluation					
In profit or loss	–	–	–	–	–
In equity	–	–	–	–	–
Purchases	–	2	–	–	2
Sales/ maturity	–	–	–	–	–
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–
Balance as at 31 December 2010	**–**	**2**	**–**	**–**	**2**
Total gains or losses included in profit or loss for the period:					–
Thereof: Total gains or losses for the period included in profit or loss for financial liabilities held at the end of reporting period				–	

There were no movements in financial liabilities recognized at fair value which flowed out from Level 3 in 2009.

37. Subsequent events

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Bank's financial statements.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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of UniCredit Bank Czech Republic, a.s.

Financial statements

On the basis of our audit, on 1 March 2011 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of UniCredit Bank Czech Republic, a.s., which comprise the statement of financial position as of 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of UniCredit Bank Czech Republic, a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodní rejstřík vedený Městským soudem v Praze oddíl C, vložka 24185.

IČ 49619187
DIČ CZ699001996

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the assets and liabilities of UniCredit Bank Czech Republic, a.s. as of 31 December 2010, and of its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union."

Report on relations between related parties

We have reviewed the factual accuracy of the information disclosed in the report on relations between related parties of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2010. The responsibility for the preparation and factual accuracy of this report rests with 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 No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. 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.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between related parties of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2010 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

KPMG

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague
28 April 2011

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

Ing. Vladimír Dvořáček
Partner

Ing. Jindřich Vašina
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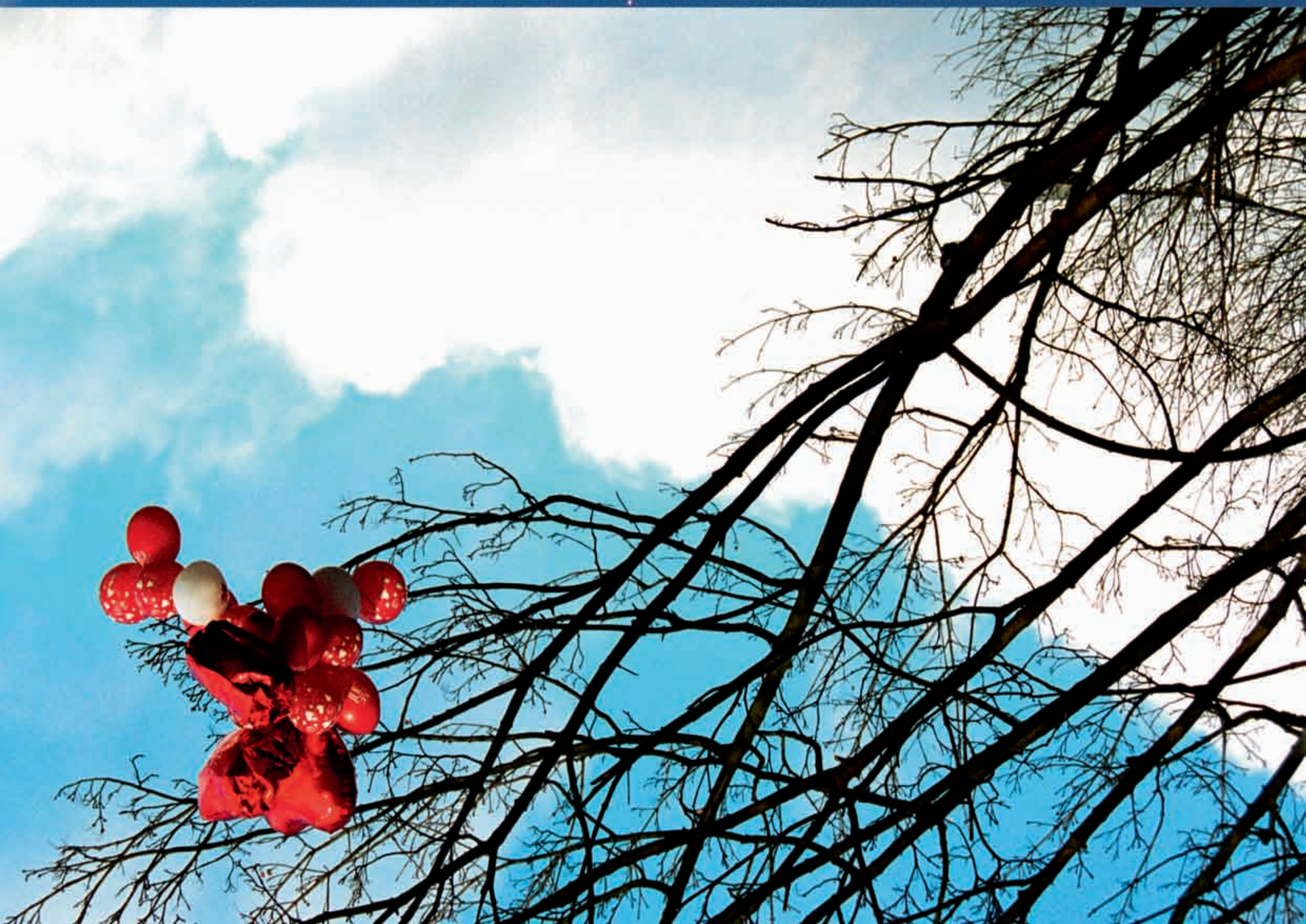


Resolution of the Sole Shareholder

of UniCredit Bank Czech Republic, a.s.

UniCredit Bank Austria AG, with its registered office at Schottengasse 6–8, 1010 Vienna (Court File Number FN 150714 p), represented by Mag. Josef Duregger and Mag. Karl Gössler, **as the sole shareholder of** the commercial company **Unicredit Bank Czech Republic, a.s.** (hereinafter referred to as the „Bank"), with the registered office at Praha 1, Na Příkopě 858/20, PSČ: 111 21, Česká republika, Id. No 64948242,

adopts hereby in exercising the powers of the general meeting of the Bank pursuant to the Section 190 Par. 1 of the Act no. 513/1991 Coll., as amended **the following**

Resolution

1) The Bank reported the following audited main non-consolidated financial results for the year 2010:

Total assets:	270,176 MCZK
Profit before tax:	3,473 MCZK
Profit after tax:	3,002 MCZK

2) The sole shareholder approves the final non-consolidated accounts started under point 1) of this Resolution, which were audited by the company KPMG Česká republika Audit, s.r.o., Pobřežní 648/1a, Praha 8 (Licence number 71) and by the Auditor Jindřich Vašina (Licence number 2059).

In Vienna 28th April 2011

UniCredit Bank Austria AG

Mag. Josef Duregger **Mag. Karl Gössler**


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, a.s.
Registered office:	Na Příkopě 858/20, 111 21 Prague 1, Czech Republic
Company identification no.:	64948242
Commercial register:	entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 3608
Tax identification no.:	CZ699001820
Date of incorporation:	1 January 1996, for an indefinite period
Legal form:	joint-stock company
Internet address:	www.unicreditbank.cz
Email:	info@unicreditgroup.cz
Telephone:	+420 955 911 111
Fax:	+420 221 112 132

UniCredit Bank Czech Republic, a.s. ("UniCredit Bank") is a joint-stock company incorporated according to Czech law.
The issuer fulfils all of its obligations in a due and timely manner.
No changes have occurred that could be of material significance in evaluating the issuer's solvency.
In carrying out its activities, the issuer is governed by Czech legal regulations, in particular the Banking Act, Commercial Code and regulations governing operations on the banking and capital markets

2. Persons responsible for the audit of the financial statements and authorized auditors

Responsible person:	Ing. Jindřich Vašina
Licence no.:	2059
Domicile:	Volutová 2522/16, 158 00 Prague 5
Auditor:	KPMG Česká republika Audit, s.r.o.
Licence no.:	071
Registered office:	Pobřežní 648/1a, 186 00 Prague 8

3. Information about UniCredit Bank as an issuer of registered securities

3.1 History and development of the issuer

UniCredit Bank Czech Republic, a.s. launched its activities in the Czech market on 5 November 2007. It 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, Postcode 113 80, Company ID: 000 01 368, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 1350, were assumed by the continuing 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 Hypo-Vereinsbank 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 Commercial 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 nationalized, 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 Commercial Register maintained by the Municipal Court in Prague in Section B, file 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorization 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 privatization of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16% share in the issued capital of Živnostenská banka, a.s. from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

UniCredit Bank Czech Republic, a.s. is a strong and rapidly developing bank offering a wide range of quality products to both corporate and private clients. It is one of the market's strongest banks 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 financing commercial real estate.

Among other services, UniCredit Bank's clients can utilize services to obtain project financing from the EU structural funds offered through UniCredit Bank's European Competence Centre.

In the sphere of services for private clients, UniCredit Bank plays a significant role on the market for private banking, securities, credit cards and mortgages, and it is doing very well in serving clients in the freelance professions (doctors, judges, attorneys-at-law, notaries, and others). The Bank's Competence Centre for Freelance Professions is devoted to these clients.

UniCredit Bank Czech Republic, a.s. operates in all regional cities and currently has 67 branches and 116 ATMs. The Bank's branch network is now undergoing consolidation aimed at increasing UniCredit Bank's accessibility for clients in individual regions as much as possible. It is preparing to open new branches in cities where it currently has no representation. The first phase will encompass larger cities, while subsequent phases will be carried out in a number of smaller cities. The Bank holds a more than 6% share of the market with total assets exceeding CZK 270 billion and is the fourth largest bank in the Czech Republic.

The Bank provides retail, commercial and investment banking services, in Czech and foreign currencies for domestic and foreign clients, mainly in the Czech Republic but also in other European Union countries.

3.2 Issuer's share capital

UniCredit Bank has share capital of CZK 7,324,716,000 consisting of:
(a) 100 unlisted, registered book-entry common shares, each with a nominal value of CZK 16,320,000;
(b) 200 unlisted, registered book-entry common shares, each with a nominal value of CZK 13,375,000;
(c) 294,000 unlisted, registered book-entry common shares, each with a nominal value of CZK 10,000; and
(d) 10 unlisted, registered book-entry common shares, each with a nominal value of CZK 7,771,600.

All the aforementioned shares are registered with the Securities Centre. UniCredit Bank's share capital has been fully paid up.

In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank shares entitle the shareholder to participate in the company's management and to share in its profit as well as in its liquidation balance upon dissolution of the company.

UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares.

UniCredit Bank does not hold any of its own participating securities nor does any entity in which UniCredit Bank has a direct or indirect ownership interest exceeding 50% of that entity's share capital or voting rights hold any such securities.

To transfer shares of UniCredit Bank, prior approval of the Supervisory Board is required. Voting rights pertaining to these shares are in no way limited.

The sole shareholder of UniCredit Bank with a 100% ownership interest in its share capital is UniCredit Bank Austria AG, having its registered office at Schottengasse 6-8, 1010 Vienna, Austria.
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 a party to a controlling contract or a contract for transfer of profit. The character of the control by the controlling entity, which is Bank Austria AG, results from the directly owned portion of the issuer's shares. UniCredit S.p.A., having its registered office at Via Specchi 16, Rome, Italy, which is the main shareholder of UniCredit Bank Austria AG with a 99.995% share, is an indirect controlling entity. 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 authorizations or special powers of the Board of Directors in the sense of Section 118, para. 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, and including the following:
a) receiving deposits from the public;
b) granting loans;
c) investing in securities on its own behalf;
d) operating a system of payments and clearing;

e) issuing and administering payment products;
f) granting guarantees;
g) opening letters of credit;
h) administering cash collection;
i) providing investment services,

– main investment service pursuant to Section 8, para. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), taking receipt of and conveying instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 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, para. 1a) and 1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2c) of the Securities Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2d) of the Securities Act, management of individual portfolios at its own discretion within the terms of a contractual covenant with the client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1b) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1c) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3c) of the Securities Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, para. 1a)–1d) and 1g) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 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, para. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, para. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, para. 1a)–1b) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3f) of the Securities Act, consulting services related to investment into investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act; and
– supplementary investment service pursuant to Section 8, para. 3g) of the Securities Act, executing of foreign currency operations related to provision of investment services;

j) issuing mortgage bonds;
k) engaging in financial brokerage;
l) providing depository services;
m) providing foreign currency exchange services (purchase of foreign currencies);
n) providing banking information;
o) trading foreign currencies and gold on its own behalf or on behalf of clients;
p) renting safe-deposit boxes; and
q) other activities directly related to the activities specified above.

4.2 Key activities

Corporate, investment and private banking

- Credit transactions
- Financing commercial real estate
- Project financing and structured financing
- Trade and export financing
- Documentary transactions
- Treasury & custody services
- Asset management
- EU funds
- Maintaining accounts and deposits
- Payment systems
- Electronic banking
- Direct banking
- SWIFT services
- Cash pooling
- Payment cards
- Card acquiring
- Trading on the Prague Energy Exchange
- Asset management and Art Banking

Retail banking

- Personal accounts and packages – EXPRESNÍ Account, POHODA Account, PRAKTIK Account, MOZAIKA Account, KOMPLET Account, EXKLUSIVE Account, Student Account
- Business accounts and packages – BUSINESS Account, DOMOV Account (an account for housing cooperatives and owners associations), PROFESE Account, PROFESE – Aesculap Account (account for freelancers)
- Mortgages, consumer loans including the PRESTO loan, and overdrafts for private clientele
- Operating capital, investment and mortgage loans for business clientele
- Payment cards including insurance (debit, credit and partnership)
- Deposit, savings and investment products (the Bank's own or in cooperation with Pioneer Investments)

- Internet, telephone and mobile banking
- Cash and money changing operations and supporting services

Launching new products or activities

Loans

Last year, UniCredit Bank came up with an innovation in the area of mortgage loans. It introduced to the market a mortgage with a floating interest rate derived from 1M PRIBOR. At the same time, clients who, along with the mortgage loan, also acquire other UniCredit Bank products (a personal account, insurance against inability to pay, a credit card) were able to obtain an additional discount on the interest rate. The offer was valid for both new as well as existing clients, whom UniCredit Bank allowed to switch from the fixed rate to the floating interest rate.
In last year's fourth quarter, UniCredit Bank also introduced the new, modern PRESTO consumer loan tailored to the expectations of the Czech market. The PRESTO loan is a personal loan which clients can use for any purpose, without evidencing that purpose, and is available in amounts from CZK 30,000 to CZK 500,000. Worthy of note is its flexibility and speed, which are demonstrated, for example, by the possibility to postpone payments up to five times during the repayment period, the possibility of an early repayment of the entire loan or a part thereof, and a choice of insured risks. Moreover, for amounts up to CZK 250,000, no guarantor/co-applicant is required. The PRESTO loan can be obtained with just a single visit to one of UniCredit Bank's branches and upon submitting the standard documents (for example, a document with permanent residence address and proof of income). This last requirement does not apply for existing UniCredit Bank clients who have been actively using a current or personal account for 12 months, as they can obtain the loan even without providing proof of income.

Deposits and investments

In 2010, UniCredit Bank continued its long tradition of issuing structured bonds and introduced two conservative issues: Czech Conservative 2013 (focused on the Prague Stock Exchange) and Quattro Forte 2013 (a basket of commodity-oriented currencies against the euro), as well as two dynamic issues: Czech Dynamic 2011 and Final Four 2013. Both conservative issues offered a 100% guarantee of returning the invested funds at maturity and with an appealing potential return. The offer met with great interest from investors, and the second issue in particular registered subscriptions setting a record in the history of UniCredit Bank.
As from 28 June 2010, UniCredit Bank put into distribution a new Pioneer fund product called Bond Plus. It offers investment into a fund targeted on bonds in Central Europe with a recommended medium-term investment horizon. Likewise, on 1 June a CZK class of the famous U.S. Pioneer Fund from Pioneer Group was launched. This fund was also included into the offer of the Easy Rytmus regular investing programme. On 1 September, the Duet programme also was launched. This programme combines an investment into Pioneer Group funds with savings on a term deposit with a maturity of six months. The product is suitable as a conservative complement to standard deposit products and other investments, providing a higher potential return than standard savings. As from mid-September, we also began offering a product aimed at conservative clients seeking guaranteed returns in the form of term deposit products provided as special offers. Named the Limited Edition of Term Deposits, it offers maturities of 3 and 5 years.

Direct banking

In response to the growing popularity of internet banking, we introduced a new Online Banking interface for our clients. In addition to a more modern design, this brought our clients a number of new features that not only facilitate work with the application but also offer the possibility easily to request other banking products and services, such as the Ground-breaking Mortgage, a consumer loan or a credit card.
We introduced a new type of ATM to our clients last year.
These so-called iQ ATMs allow for easy depositing of CZK banknotes to a UniCredit account at any time, night or day. These deposited funds are credited to the selected account immediately, and customers can easily check their increased balance directly through the ATM on a mini-statement. This innovation is valued especially by companies and entrepreneurs who need effectively to manage their funds and are now no longer constrained by branches' business hours.

Payment cards

The first bank in the Czech Republic to do so, UniCredit Bank has been issuing Visa payment cards immediately with the opening of an account since December 2010. The client thus can immediately use the card for payments at stores as well as for ATM withdrawals.
The Miles and More credit card is another card combining the benefits of a worldwide frequent flyer club and a financial partner. By making payments with this MasterCard, the holder earns miles for the Miles and More programme and thus is able more quickly to obtain the benefits for Star Alliance members – free air tickets, upgrades for trips, and others. The Miles and More card represents our support for the partnership with Lufthansa Group throughout UniCredit Group.

Payment operations

UniCredit Bank has confirmed its position as a main innovator on the Czech banking market in the area of SEPA Direct Debit services. In the autumn of 2010, the Bank became the first in the Czech Republic to start providing its customers with SEPA Direct Debit as part of the non-cash payment system on the active side for payment beneficiaries, as well. UniCredit Bank has offered the passive side since 2009.

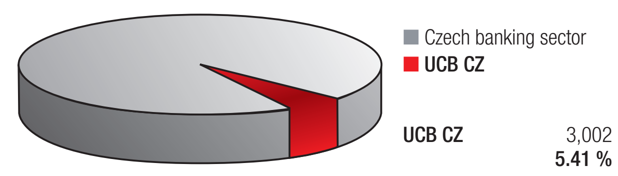
Branch network

In 2010, UniCredit Bank continued to open new branches and the total number of points of sale reached 67 at year's end.
A new branch was opened in Prague 9 – Vysočany, and more branches were opened outside of Prague in the following cities: Havlíčkův Brod, Jablonec, Jindřichův Hradec, Karviná, Kladno, Kolín, Most, Nový Jičín, Trutnov, Třinec and Znojmo. In 2010, apart from the standard branch network, UniCredit Bank successfully realized a project to develop points of sale on the franchise principle, opening the first franchise points of sale in Otrokovice and Chrudim at the close of the year.

4.3 Competitive position of the issuer

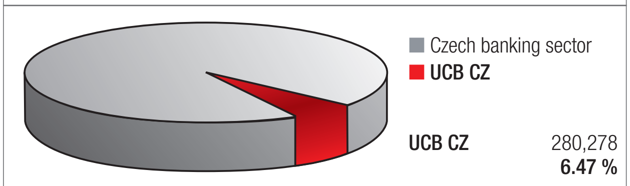
i. Profit after tax

Profit after tax (in CZK millions)	**For the year ending 31 December 2010**
Czech banking sector	55,447
UCB CZ	3,002
	5.41 %



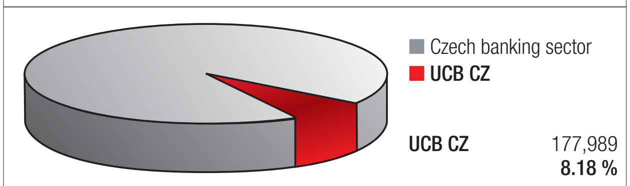
ii. Total assets

Total assets (in CZK millions)	**As at 31 December 2010**
Czech banking sector	4,333,105
UCB CZ	280,278
	6.47 %



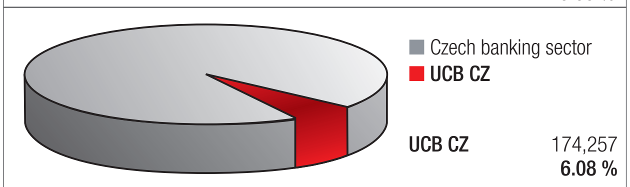
iii. Receivables from clients

Receivables from clients (in CZK millions)	**As at 31 December 2010**
Czech banking sector	2,174,751
UCB CZ	177,989
	8.18 %



iv. Deposits from clients

Deposits from clients (in CZK millions)	**As at 31 December 2010**
Czech banking sector	2,867,218
UCB CZ	174,257
	6.08 %



5. Organizational 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, subject to applicable law, with directives issued by UniCredit Bank Austria AG, as the Group’s sub-holding (hereinafter the “Sub-holding Company”). The Sub-holding Company shall monitor the proper implementation and observation of the directives (hereinafter the “Holding Guidelines”) issued by UniCredit S.p.A (hereinafter the “Holding Company”) in the Bank. The Holding Guidelines are rules that define the management, organizational structure and managerial responsibilities within key processes in the Group. The Holding Company issues the Holding Guidelines in exercising its powers to supervise and coordinate the Group in accordance with the instructions issued by the Bank of Italy aimed at maintaining the Group’s stability.

History of the Group

While the banking group’s history dates back as far as 1473, in which year Rolo Banca was created, the contemporary history of UniCredit Group begins from a 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 launched 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.

With total assets of more than € 929.488 billion and ranking among the largest financial groups in Europe, UniCredit operates in 22 countries, with around 10,000 branches and over 161,000 employees. In the CEE region, UniCredit Group operates the largest international banking network with around 4,000 branches and outlets. The Group operates in the following countries: Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Germany, Hungary, Italy, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

Main shareholders of UniCredit Bank Austria AG

UniCredit Bank Austria AG shareholders	Share in %
UniCredit S.p.A.	99.995%

Affiliated companies in the Czech Republic

Company	Address	Partner/Shareholder (share in %)
UniCredit CAIB Czech Republic, a.s.	Prague 2, Italská 24	UniCredit Bank Austria AG (100%)

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 supreme body of the Bank. It decides on all matters of the Bank falling within its competence by law or under the Bank's Articles of Association. The powers of the Bank's General Meeting are exercised by the sole shareholder, UniCredit Bank Austria AG.

The following activities fall within the General Meeting's exclusive competence:

a) deciding on changes in the Articles of Association if these are not changes resulting from an increase in share capital by the Board of Directors pursuant to Section 210 of the Commercial Code or on changes occurring on the basis of other legal facts;
b) deciding on any increase or decrease of the share capital, or on authorising the Board of Directors pursuant to Section 210 of the Commercial Code, or on the possibility of setting off financial claims due to the Bank against a claim for payment of an issuance price;
c) deciding about a decrease of the share capital and about issuing bonds pursuant to Section 160 of the Commercial Code;
d) electing and dismissing members of the Supervisory Board and other bodies established by the Articles of Association, with the exception of members of the Supervisory Board elected and dismissed pursuant to Section 200 of the Commercial Code;
e) approving the regular or extraordinary financial statements and consolidated financial statements, and, in cases established under law, interim financial statements; deciding on distributing profits or settling losses and setting of directors fees;
f) deciding on remunerating members of the Supervisory Board;
g) deciding on the listing of the Bank's participating securities under special legal regulations and about their withdrawal from trading on an official 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 proposal for distributing the liquidation balance;
i) deciding on a merger, transfer of the assets to a single shareholder, or on division or a change of legal form;
j) approving contracts cited in Section 67a of the Commercial Code;
k) approving negotiations carried out in the name of the Bank before its incorporation pursuant to Section 64 of the Commercial Code;
l) approving controlling contracts (Section 190b of the Commercial Code), contracts on the transfer of profit (Section 190a of the Commercial Code), and contracts on silent partnerships and their changes;
m) appointing auditors of the Bank at the recommendation of the Audit Committee;
n) deciding on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilization; and
o) deciding on other issues that the Commercial Code or Articles of Association entrust to the competence of the General Meeting.

7.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of the Bank and as of 31 December 2010 had five members. The members of the Board of Directors exercise their functions personally and are elected by the Supervisory Board for the period of 3 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 members of the Board of Directors.

The Board of Directors makes decisions by 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 Chairman shall cast 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 simultaneously to see and hear one another during the meeting (i.e. via videoconference) or in writing without holding a meeting (per rollam). Those voting shall be regarded as present in such case.

The competence of the Board of Directors includes especially the following:
a) to organize 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 and its business policy; such report forms a part of the Bank's annual report;
   regular, extraordinary, consolidated or interim financial statements along with a proposal for distributing profits or settling losses, and to process these documents;
d) to enable shareholders to acquaint themselves with the main data in the annual financial statements at least 30 days before the date of the annual General Meeting by publishing such data in the manner stipulated in Section 26 of the Articles of Association;
e) to decide on opening and closing regional branches and appointing their directors and to open and close the Bank's branches;
f) to appoint and dismiss the Bank's managers;
g) to exercise the rights of an employer;
h) to issue, if it deems fit, rules of procedure for the Board of Directors, which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to the prior approval of the Supervisory Board;
i) to grant and withdraw authorizations to act on behalf of the Bank and the powers of attorney of the Bank's representatives;
j) to establish the compulsory funds of the Bank in accordance with generally binding legal regulations and to determine, together with the Supervisory Board, how such funds are to be created and used;
k) to conclude an agreement 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 company secretaries with the prior approval of the Supervisory Board; and
n) to fulfil other obligations stipulated by law or the Articles of Association.

Ing. JIŘÍ KUNERT
Chairman of the Board of Directors and Chief Executive Officer responsible for the Bank's overall results and for managing the Chief Operating Officer and the Director of the Risk Management Division. He also is responsible to the Bank's Board of Directors for the management of the finance, human resources and legal areas.
Work address: Na Příkopě 858/20, Prague 1
Domicile: Pod Kaštany 1107/19, Prague 6
Born: 31 January 1953

PAOLO IANNONE
Vice-Chairman of the Board of Directors and Chief Operating Officer 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: Na Příkopě 858/20, Prague 1
Domicile: Warsaw, Jana Pawla II 80/A
Born: 15 December 1960

Ing. ALEŠ BARABAS
Member of the Board of Directors and Director of the Risk Management Division 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: Na Příkopě 858/20, Prague 1
Domicile: U Dubu 1371, Prague 4
Born: 28 March 1959

DOMENICO PIGNATA
Member of the Board of Directors and Director of the Global Banking Services Division responsible for activities aimed at optimising costs and internal processes in order to guarantee the best possible synergies and success throughout the Bank as well as for the quality of services provided to third parties.
Work address: Na Příkopě 858/20, Prague 1
Domicile: Via Cielo 2, Milan, Italy
Born: 28 April 1955

Ing. DAVID GRUND
Member of the Board of Directors and Director of the Corporate, Investment and Private Banking Division responsible for managing and supervising the Bank's business activities in the relevant business segment.

Work address: nám. Republiky 2090/3a, Prague 1
Domicile: K lukám 702, Šestajovice
Born: 24 February 1955

There were no changes in the composition of the Board of Directors during 2010.

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 Commercial Code. Members of the Supervisory Board exercise their functions personally. Members of the Supervisory Board are elected for the period of 3 years and may be re-elected.

The Supervisory Board shall have a quorum if an absolute majority of all its members is present. The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to be valid. In the event of a parity of votes, the Chairman shall cast the deciding vote. If the Chairman is not present, the Vice-Chairman shall cast the deciding vote in the event of a parity of votes.

If all members so agree, the Supervisory Board may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members simultaneously to see and hear one another during the meeting (i.e. via videoconference) or in writing without holding a meeting (per rollam). Those voting shall be regarded as present in such case.

The Supervisory Board established the Remuneration Committee, which consists of two members of the Supervisory Board (Carlo Vivaldi, Carmine Ferraro). Each year, the Remuneration Committee approves the principles for remuneration to members of the Board of Directors and the respective amounts.

The Supervisory Board shall:
a) review the specific directions of the Bank's activities and business policy and supervise its implementation;
b) be entitled to verify any action concerning the Bank's affairs;
c) review the regular, extraordinary and consolidated financial statements, and, as the case may be, the interim financial statements, as well as the proposal for distributing profits or settling losses and submit its opinion to the General Meeting;
d) be entitled to examine all documents and records as to the Bank's activities through any of its members;
e) monitor whether accounting records are properly maintained in accordance with the facts and whether the Bank's business activities are conducted in accordance with legal regulations, the Articles of Association and the instructions of the General Meeting;
f) convene the General Meeting if the Bank's interests so require and propose requisite measures to the General Meeting;
g) appoint one of its members to represent the Bank in proceedings held before courts and other bodies against a member of the Board of Directors;
h) issue, if it deems appropriate, rules of procedure for the Supervisory Board, which may not contradict the Articles of Association;
i) approve any potential rules of procedure for the Board of Directors;
j) elect and dismiss the members of the Board of Directors; it shall elect new members of the Board of Directors from a group of candidates, who may be nominated by any member of the Supervisory Board and decide on dismissing members of the Board of Directors, also at the proposal of any of its members;
k) nominate candidates for Chairman and Vice-Chairman of the Board of Directors;
l) stipulate general terms and conditions for the Bank's activities as well as 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) decide on the establishment and dissolution of the Bank's subsidiaries and on their transfer to other entities;
n) approve 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 66, paras. 2 and 3 of the Commercial Code;
o) decide on remunerating members of the Board of Directors and stipulate rules for remunerating the Director of the Internal Audit Department;
p) establish committees of the Supervisory Board and define their tasks;
q) oversee the effectiveness and efficiency of the Bank's management and control system;
r) give prior approval to the appointment and dismissal of the Bank's company secretaries;
s) be able to request the Chairman of the Audit Committee to convene a meeting of the Audit Committee; and
t) fulfil other obligations stipulated by law, the Articles of Association and the Group's rules.

Carlo Vivaldi
Born: 2 December 1965
Chairman of the Supervisory Board
Domicile: Köhlergasse 17, Vienna, Postcode A-1180, Austria

Carmine Ferraro
Born: 14 December 1944
Vice-Chairman of the Supervisory Board
Domicile: Monza (MI), Via Monviso 33, Postcode 200 52, Italy

Carlo Marini
Born: 23 March 1968
Domicile: Piacenza, Str. Ne Farnese 81, Postcode 291 00, Italy

Graziano Cameli
Born: 18 August 1967
Domicile: Trieste, Strada Costiera 31, Postcode 341 36, Italy

Heinz Meidlinger
Born: 6 September 1955
Domicile: Kalmusweg 46/Haus 107, Vienna, Postcode 1220, Austria

JUDr. Ivana Burešová
Born: 11 October 1953
Work address: Na Příkopě 858/20, Prague 1
Domicile: Dlouhá 714/36, Prague 1, Postcode 110 00

Eva Mikulková
Born: 29 January 1957
Work address: nám. Republiky 3a/2090, Prague 1
Domicile: Dlouhá 512, Kročehlavy, Kladno, Postcode 272 01

Ing. Pavel Šlambor
Born: 12 March 1972
Work address: Revoluční 7, Prague 1
Domicile: Černošická 614, Prague 5, Postcode 155 31

Gerhard Deschkan
Born: 20 February 1967
Domicile: Matzingerstraße 11/11, Vienna, Postcode A-1140, Austria

No member of the Supervisory Board is conducting any other business activity in the Czech Republic or any business activity that might be relevant for the purpose of appraising the issuer other than his or her activities for the issuer as stated above.

Conflicts of interest at the level of management and supervisory bodies: The issuer is not aware of any possible conflicts of interest between the aforementioned persons' duties to the issuer 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.

7.4 Audit Committee

The Audit Committee is an independent committee with the task to oversee, monitor and advise in matters of concern regarding accounting and financial reporting, the internal control, audit and risk management, the external audit, and monitoring compliance with laws, the Bank's regulations and the Code of Conduct. The Audit Committee consists of three members appointed and dismissed by the General Meeting for a term of 3 (three) years from among the Supervisory Board members or third persons. At least one member of the Audit Committee must be independent from the Bank and must have at least 3 years of practical experience in accounting or statutory auditing.

Meetings of the Audit Committee shall have a quorum if attended in person or via videoconference by the majority of its members. Decisions are passed by a simple majority vote of the attending members, with the exception of "per rollam" resolutions, which must be approved by all Audit Committee members.

Without prejudice to the responsibilities of the Board of Directors and Supervisory Board members, the Audit Committee in particular shall:
a) monitor the procedure for preparing the financial statements and consolidated financial statements;
b) assess the effectiveness and efficiency of the Bank's internal control system, internal audit and risk management system;
c) monitor the statutory audit process for the financial statements and consolidated financial statements;
d) assess the independence of the statutory auditor and audit company and especially the provision of supplementary services to the Bank which fall outside the scope of the annual audit; and
e) recommend an auditor to be appointed by the General Meeting.

Carmine Ferraro
Born: 14 December 1944
Domicile: Monza (MI), Via Monviso 33, Postcode 200 52, Italy

Stefano Cotini
Born: 31 March 1951
Domicile: Viale Zugna 6, 38068 Rovereto Tn, Italy

Heinz Meidlinger
Born: 6 September 1955
Domicile: Kalmusweg 46/Haus 107, Vienna, Postcode 1220, Austria

7.5 Conflicts of interest at the level of administrative, 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.

7.6 Information on company management and administration codes

The Bank adopted no company management and administration code. The Bank complies with the rules of conduct established by UniCredit Group.

8. Judicial and arbitration proceedings

The Bank has reviewed all legal disputes affecting the Bank as at 31 December 2010 and created appropriate provisions for litigation and claims. In addition to these litigations, there exist other claims related to the Bank's business activities. The Bank is not, and during the past 12 months was not, involved in any judicial, administrative or arbitration proceedings that, in its opinion, could have, or in the past 12 months had, a significant impact on the Bank's financial situation or profitability.

9. Significant change in the issuer's financial situation

Since the date of presenting the audited financial statements for the year ended 31 December 2010, no significant change has occurred in the financial situation of the issuer.

10. Loans outstanding and other liabilities

Creditor:	**European Investment Bank, Luxembourg**
Debtor:	HVB Czech Republic a.s.
Loan amount:	USD 50,000,000
Interest rate:	EIB POOL RATE**
Loan origination date:	17 March 2003
Maturity date:	15 March 2011
Collateral:	No collateral*
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 54,392,000
Interest rate:	4.699%
Loan origination date:	16 June 2008
Maturity date:	15 June 2016
Collateral:	No collateral*
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 25,000,000
Interest rate:	3M EURIBOR + 0.43%
Loan origination date:	25 June 2010
Maturity date:	25 June 2020
Collateral:	Collateralized by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 40,000,000
Interest rate:	3M EURIBOR + 0.31%
Loan origination date:	13 October 2010
Maturity date:	13 October 2020
Collateral:	Collateralized by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 35,000,000
Interest rate:	3M EURIBOR + 0.285%
Loan origination date:	10 December 2010
Maturity date:	10 December 2020
Collateral:	Collateralized by bonds
*) The loan is guaranteed by UniCredit Bank Austria AG, Vienna. **) EIB POOL RATE is an interest rate fixed by EIB on a quarterly basis.	
Total amount of loans as at 31 December 2010 (in CZK 000)	**4,806,615**

11. Significant contracts

UniCredit Bank has concluded no contracts that could cause an obligation or a claim to arise for any member of the Group that would be material as to the Bank's ability to fulfil its obligations to securities holders on the basis of the securities issued.

12. Third parties' information and experts' declarations and declarations on any interests

The annual report does not include any declaration or report of an entity acting as an expert. Moreover, no information comes from a third party, unless expressly stated otherwise.

13. List of bond issues outstanding

The total volume of outstanding bond issues, including EUR and USD bonds converted at the CNB's exchange rate valid as at 31 December 2010: CZK 24,457,187,769.

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, because all shares issued by the issuer are held by the sole shareholder, UniCredit Bank Austria AG, Vienna. 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 consists of the basic salaries policy, the "Executive Incentive Program" variable remuneration system, UniCredit Group's "Value2you" programme, and the benefits system. The key pillars of the remuneration policy include clearly organized and transparent company management and administration, compliance with the requirements of regulations and ethical rules, constant monitoring of market trends and practices, providing sustainable wages supported by sustainable performance, and motivation and stabilization of all employees oriented especially toward promising staff members and those who are pivotal for the company in order to fulfil its mission.

Board of Directors

The Remuneration Committee of the Supervisory Board always approves the remuneration policy 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 Personnel Department of the Central and Eastern Europe division of UniCredit Group. The Remuneration Committee of the Supervisory Board in 2010 consisted of Carmine Ferraro and Carlo Vivaldi.

The remuneration to members of the Board of Directors is set as a fixed amount that is paid monthly. In accordance with the Banking Act, the members of the Board of Directors are also executive managers of the Bank who manage particular divisions on the basis of an employment contract in accordance with the Labour Code. According to this contract, they are entitled to monthly payment of a basic contractual salary, salary compensations and an annual variable bonus, and they are granted certain additional benefits. The bonus to members of the Board of Directors amounts to 50% of the contractual salary established in the employment contract of the respective executive manager. Foreign members of the Board of Directors are not entitled to remuneration for executing their offices.

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 Banding"), the key abilities of the executive manager, and a market comparison with other entities on the financial and banking markets in the Czech Republic.

The particular amounts of the contractual salaries of the Bank's individual executive managers are approved by the Remuneration Committee of the Supervisory Board each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group.

Remuneration to the Bank's foreign executive managers is provided by the parent company. These remuneration costs are accounted for by the parent company and included in the remuneration summary.

Variable annual bonuses of the Bank's executive managers

UniCredit Group's variable annual remuneration system, the "Executive Incentive Program", was approved by the Supervisory Board of UniCredit Bank Czech Republic, a.s. as a binding provision for executive managers' variable remuneration. It is based on three basic pillars:

1. Regular annual evaluation of the entire Group's performance expressed in the so-called **UniCredit "GSP Condition"** (Group Sustainable Profit Condition). This evaluation is conducted each year

by UniCredit Group's Board of Directors based on indicators measuring the Group's sustainable profit generation and influences the determination of executive managers' adjusted bonus opportunity, to be approved by the Remuneration Committee of the Supervisory Board. This adjusted bonus opportunity ranges from 0% to 100% of the target variable annual bonus. The target variable annual bonus of the Bank's executive managers is approved by the Remuneration Committee of the Supervisory Board on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group. The target variable annual bonus of each executive manager is determined individually and comprises 30–70% of his or her annual contractual salary.

2. Evaluation of the so-called **"Performance Matrix"** – tables of the executive managers' individual performance objectives set each year by the Remuneration Committee of the Supervisory Board. The performance objectives are closely related to the Bank's strategic plan. The Remuneration Committee of the Supervisory Board 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 Matrix" table is divided into two parts: the "Operational Matrix" and the "Sustainability Matrix". The "Operational Matrix" contributes 30–50% to the evaluation of the individual performance objectives within the "Performance Matrix" while the contribution of the "Sustainability Matrix" can be set between 50–70%. The direct superior also assesses whether the executive manager acted during the evaluated period in accordance with UniCredit Group's rules and UniCredit Bank's internal regulations, whether he or she complied with the principles of the Integrity Charter, and whether any disciplinary hearings were conducted with the executive manager.

3. **Accrued variable bonus payment:** Payment of the variable bonus is spread out over 3 consecutive years and is conditioned on yearly fulfilment of the UniCredit "GSP Condition" indicators. Payment of variable annual bonuses exceeding EUR 100,000 according to the CNB's exchange rate valid as of the day on which the Remuneration Committee of the Supervisory Board announced the variable annual bonuses may be postponed to the following 2 years to be distributed at a 50:50 ratio. The Remuneration Committee of the Supervisory Board approves the annual fulfilment of the "GSP Condition" and the release of a postponed variable bonus on the basis of a proposal from UniCredit Group's Board of Directors.

Any potential variable annual bonus for an executive manager is the result of the evaluation of each of the three aforementioned pillars of executive managers' variable remuneration. The overall assessment on a scale of 0–150% of the adjusted bonus opportunity is proposed by the executive manager's direct superior and approved by the Remuneration Committee of the Supervisory Board.

"Performance Matrix" parameters approved by the Remuneration Committee of the Supervisory Board for executive managers for 2010

<u>"Operational Matrix"</u> – 50% weight

The "Operational Matrix" parameters were the same for all executive managers. These included:

– economic profit on the principle of the Economic Value Added (EVA) indicator, and
– the ratio of income to the average number of the Bank's employees.

<u>"Sustainability Matrix"</u> – 50% weight

The "Sustainability Matrix" parameters 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. These included, for example:

– the ratio of loans to the total deposits volume,
– the TRIM*Index, which indicates the satisfaction of the Bank's clients in the segment for which the executive manager is responsible,
– implementation of initiatives for developing the quality of the Bank's risk management,
– balance in approach to accepting risk and application of risk management standards including regulatory limits, LAC, AFR and liquidity ratios,
– improvements in effectiveness and management of the transformation process in the areas of the Bank for which the particular executive manager is responsible, early and effective implementation of IT platforms and processes to support business projects.

The "Sustainability Matrix" parameters have been clearly defined, and a reference source of data/information according to which they will be evaluated has been determined.

The "Value2you" programme

The programme rewards selected executive managers of UniCredit Group on the basis of achieving the Group's strategic objectives over the long term in the two following ways:

1. <u>Options on UniCredit Group shares:</u> Following a 4-year waiting period, the manager is granted the right to purchase shares of the parent group for a pre-determined price.

2. <u>Performance shares:</u> If the Group and the CEE division fulfil the given performance parameters (EVA, EPS, cost-income ratio, total revenues, net profit and risk costs) for 3 consecutive years in the pre-defined tolerance range from the budget, the manager will receive UniCredit Group shares with a 100% discount.

UniCredit Group's Board of Directors makes decisions regarding fulfilment of the performance parameters.
The right to the number of UniCredit Group share options and to the number of performance shares is approved by the Remuneration Committee of the Supervisory Board in the year in which the Programme starts on the basis of the supporting materials submitted

by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group. The value of performance shares, if granted in a given year, is included in the section "Information on all monetary and in-kind incomes accepted by the managers and members of the Supervisory Board and the Audit Committee from the issuer" under "Remuneration for management positions – Non-monetary remuneration".

Benefits of the Bank's executive managers

Benefits are defined in accordance with the priorities of UniCredit Group's human resource strategy and the classification of the manager's position into a pre-defined employee benefits category.

- The following employee benefits are provided to executive managers by virtue of their employment with the Bank: employer's contribution to supplementary pension insurance, employer's contribution to capital life insurance, compensation for child's education costs.
- By virtue of their managerial position, executive managers are provided a company car for business as well as private purposes and a contribution toward purchasing employee shares in UniCredit Group.
- 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 draw contractual fulfilment associated with their long-term stays 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 are not entitled to remuneration for executing their offices.

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. 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, 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 Agreement concluded between the Bank and its trade union.

The principles of remuneration to members of the Supervisory Board and the components of their remuneration, which are paid to them by virtue of their employment contracts, are identical to the principles of remuneration to members of the Board of Directors, with the exception of variable remuneration, which is defined by the Bank's Wages 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 "MBO Scorecard", where MBO stands for the "Management by Objectives" system of variable remuneration of the Bank's employees based on an evaluation of individual targets. The performance parameters in the "MBO Scorecard" 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 with the execution of the office of Supervisory Board member. The target annual variable bonus is 12.5–20% of the employee's basic annual salary. 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.

Members of the Audit Committee, 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 with those members of the Audit Committee who at the same time do not hold executive positions within UniCredit Group by virtue of an employment contract. The fixed contractual remuneration is agreed as fixed compensation of travel expenses of the member of the Audit Committee related to the execution of his/her office. The remuneration is valid for the entire period of office of the Audit Committee member, and it is proposed and approved by the sole shareholder, UniCredit Bank Austria AG, Vienna.

In 2010, the aforementioned fixed contractual remuneration was agreed only with one member of the Audit Committee, and the amount thereof is stated in the remuneration summary. The remaining members of the Audit Committee are not remunerated by the issuer.

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

(In CZK 000, including VAT)	On behalf of the issuer Tax advisory	On behalf of the issuer Audit/other attestation	Total
KPMG Česká republika Audit, s.r.o.	0	17,094	17,094
Deloitte Advisory s.r.o.	1,410	0	1,410
PricewaterhouseCoopers Česká republika, s.r.o.	482	0	482
Ernst & Young, s.r.o.	451	0	451
Total	**2,343**	**17,094**	**19,437**

16. Information on all monetary and in-kind incomes accepted by the managers and members of the Supervisory Board and the Audit Committee from the issuer

Members of the Board of Directors				
	Remuneration as member		Remuneration formanagement positions	
Total incomes	of the Board of Directors	Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
50,042,550	8,122,200	29,548,948	9,995,385	2,376,017
Members of the Supervisory Board and the Audit Committee				
	Remuneration as member			
Total incomes	of the Supervisory Board	Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
8,067,841	252,250	5,086,812	2,692,950	35,829

17. Major future investments other than financial investments (planned for 2011)

Other investments (other than financial investments)	CZK 371,025,250

Investments into information technologies (IT) are not reported by the Bank directly. IT services are purchased on an outsourcing basis, and their extent and parameters are specified by contract and included into operating costs. Investments in 2011 will be focused primarily on developing the sales network.

18. Guarantees provided by the issuer

(In CZK 000)	31 December 2010	31 December 2009
Guarantees provided	22,987,519	29,820,239
Guarantees provided under L/Cs	655,441	399,308
Total	**23,642,960**	**30,219,547**

19. Issuer's direct and indirect participation interests exceeding 10%

Company:	CBCB – Czech Banking Credit Bureau, a.s.
Registered office:	Na Vítězné pláni 1719/4, Prague 4
Company identification no.:	26199696
Subject of business:	– Provision of software – Consultancy regarding hardware and software – Automatic data processing – Database services – Administration of computer networks
Subscribed share capital:	CZK 1,200,000
Amounts and types of provisions as at 31 Dec 2010:	Other provisions of CZK 4,800,000
Net profit for 2010:	CZK 3,026,000
UCB's ownership in the company's share capital:	20% (fully paid up)
Income in 2010 from the ownership interest:	CZK 614,000

20. Internal audit policy and procedures and rules for the issuer's approach to risks connected with the financial reporting process

All processes in the Bank that influence or may influence the Bank's financial reporting have been described, 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 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 Bank has prepared internal regulations relating to particular areas of its activities that influence the Bank's accounting. The procedures for valuing statement of financial position and statement of comprehensive income items are described in the Notes to the financial statements, which form a part of this annual report. The Bank shall submit the financial statements to the auditor for review and, twice per year (mid-year and at the end of the given year), financial data intended for consolidation of the parent company for the auditor's verification.

21. Risk factors

Risk factors are described in detail in the notes to the nonconsolidated financial statements.

22. Licences and trademarks

UniCredit Bank makes use of several dozen trademarks for designating and protecting its products in the banking market. These have been registered as owned by the Bank at the Industrial Property Office of the Czech Republic.

23. Statement on the accuracy of the data in the annual report

The Board of Directors hereby declares, according to its best knowledge, that the annual report presents a true and honest view of the issuer's financial situation, business activities and financial results for the past accounting period and of the outlooks for the future development of the financial situation, business activities and financial results.


Come in We're
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Sorry We're
CLOSED

Report on relations

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

In accordance with Section 66a, para. 9 of Act No. 513/1991 Coll., the Commercial Code, as subsequently amended, the Board of Directors of **UniCredit Bank Czech Republic, a.s.**, having its registered address at Prague 1, Na Příkopě 858/20, company identification no. 64948242, entered into the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608 ("UniCredit Bank"), has compiled this **Report on Relations** for the **accounting period from 1 January 2010 to 31 December 2010** (hereinafter the "period").

Throughout the aforementioned accounting period, UniCredit Bank was controlled directly by its sole shareholder, **UniCredit Bank Austria AG**, having its registered address at Schottengasse 6–8, 1010 Vienna, Republic of Austria.

Throughout the aforementioned accounting period, UniCredit Bank was controlled indirectly by **UniCredit, S.p.A.**, having its registered address at Via Specchi 16, Rome, Italy.

Given the fact that the Controlling Entity is the sole shareholder of the Controlled Entity, no review of this Report has been performed by the Supervisory Board of the Company in accordance with Section 66a, para. 16 of the Commercial Code.

During the period, UniCredit Bank controlled CAE Praha a.s. in liquidation, company identification no. 43004580, having its registered address at Prague 5, Nám. Kinských 602, Postal Code 15000.

The Board of Directors of UniCredit Bank declares that UniCredit Bank and the connected entities known to the Bank concluded the below listed contractual relationships during the accounting period from 1 January 2010 to 31 December 2010.

1.1. The following contracts were concluded between UniCredit Bank and **UniCredit Business Partner s.r.o.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Service Level Agreement – Amendment no. 4	Update of annexes to card services: 1. Description of provided services 2. Amendment on prices 3. List of reports 4. List of contacts	1 Jan 2010	None
Service Level Agreement – Amendment no. 4	Update of annexes to GPP services: 1. Description of provided services 2. Emergency plan 3. Amendment on prices 4. Data handover process 5. Specifications of applications	1 Jan 2010	None
Service Level Agreement – Amendment no. 4	Update of annexes to Treasury services: 1. Description of provided services 2. List of reports 3. Amendment on prices	1 Jan 2010	None
Service Level Agreement – Amendment no. 5	Update of annexes to Core Banking and Payments services: 1. Description of provided services 2. List of reports 3. Amendment on prices	1 Jan 2010	None
Service Level Agreement – Amendment no. 6	Update of annexes to Core Banking services (newly provided Partners Account product): 1. Description of provided services 2. Amendment on prices	1 Aug 2010	None
Coordination Agreement – Amendment no. 3	1. Replaced Annex 2 – New regulation rules 2. Replaced Annex 3 – Specimen signatures and seals of individuals authorized to act on behalf of the Bank	1 Aug 2010	None
Agreement on Subcontracting of Activities as Appendix to the Service Level Agreement – Amendment no. 1	Agreement on transfer of activities from UCBP Vienna back to Czech Republic	18 Oct 2010	None
Service Level Agreement UCBP 2010-009	SLA on newly provided Miles&More service	1 Nov 2010	None

1.2. The following contracts were concluded between UniCredit Bank and **Diners Club CS, s.r.o., organizační složka** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Current account contract no. 3849034 – Amendment 1	Account holder's change of legal form from s.r.o. (Czech type of LLC) to branch	10 Dec 2010	None
Current account contract no. 3849050 – Amendment 1	Account holder's change of legal form from s.r.o. (Czech type of LLC) to branch	10 Dec 2010	None
Current account contract no. 3849018 – Amendment 2	Account holder's change of legal form from s.r.o.	10 Dec 2010	None
Agreement on loan and other banking services reg. no. R1 07 02 05 – Amendment 8	Change of conditions for drawing loan	28 May 2010	None
Agreement on loan and other banking services reg. no. R1 07 02 05 – Amendment 9	Change in loan's maturity date	25 Jun 2010	None
Agreement on loan and other banking services reg. no. R1 07 02 05 – Amendment 10	Change in loan's maturity date	24 Aug 2010	None

1.3. The following contracts were concluded between UniCredit Bank and **Pioneer Investiční společnost, a.s.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Securities Custody and Administration Agreement of 15 Sep 2008 – Amendment 2	Arrangement on change to Securities Custody and Administration Agreement of 15 Sep 2008	4 Jan 2010	None
Agreement on performing depository activities for Pioneer – Premium fond 2, Pioneer investiční společnost, a.s., open-end mutual fund – Amendment 1	Agreement on performing depository activities for Pioneer – Premium fond 2, Pioneer investiční společnost, a.s., open-end mutual fund, of 23 Nov 2009	5 Jan 2010	None
Agreement on performing depository activities of 15 Sep 2008 – Amendment 1	Arrangement on change to agreement on performing depository activities of 15 Sep 2008	29 Apr 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining CZK current account no. 2104568230 for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining CZK current account no. 2104568249 for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining CZK current account no. 2104568222 for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining EUR account for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining USD current account for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining HUF current account for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining PLN current account for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	21 Jun 2010	None
Securities Custody and Administration Agreement of 15 Sep 2008 – Amendment 3	Arrangement on change to Securities Custody and Administration Agreement of 15 Sep 2008	23 Jun 2010	None
Agency Agreement on Settlement of Securities Transactions of 15 Sep 2008 – Amendment 2	Arrangement on change to Agency Agreement on Settlement of Securities Transactions entered into by the parties on 15 Sep 2008	23 Jun 2010	None
Contract for use of electronic banking products	Terms and conditions for use of direct banking products and provision of banking services through them, for Pioneer – obligační plus, Pioneer investiční společnost, a.s., open-end mutual fund	24 Jun 2010	None
Agency Agreement on Settlement of Securities Transactions of 15 Sep 2008 – Amendment 3	Arrangement on change to Agency Agreement on Settlement of Securities Transactions entered into by the parties on 15 Sep 2008	16 Jul 2010	None
Securities Custody and Administration Agreement of 15 Sep 2008 – Amendment 4	Arrangement on change to Securities Custody and Administration Agreement of 15 Sep 2008	16 Jul 2010	None

Current account contract – amendment	Arrangement on change to current account contract no. 2104589445	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2104589429	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2104589437	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2104589453	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2171710014	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2171710022	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2141810006	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2141810022	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1017477037	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1017477002	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2054610030	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1002045979	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1002060124	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1002175845	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 1002175853	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 4099110012	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2109810022	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2109810014	30 Jul 2010	None
Current account contract – amendment	Arrangement on change to current account contract no. 2102549132	30 Jul 2010	None
Agency Agreement on Settlement of Securities Transactions of 15 Sep 2008 – Amendment 4	Arrangement on change to Agency Agreement on Settlement of Securities Transactions entered into by the parties on 15 Sep 2008	24 Aug 2010	None
Current account contract	Modification of terms and conditions for establishing and maintaining CAD current account for Pioneer – stock fund, Pioneer investiční společnost, a.s., open-end mutual fund	6 Sep 2010	None
Agreement on performing depository activities of 15 Sep 2008 – Amendment 2	Arrangement on change to agreement on performing depository activities of 15 Sep 2008	23 Sep 2010	None
Agreement for provision of direct banking services – Amendment	Changes regarding provision of Internet banking service	26 Nov 2010	None
Agreement on performing depository activities for Pioneer – Premium fond 2, Pioneer investiční společnost, a.s., open-end mutual fund – Amendment 2	Amendment to agreement on performing depository activities for Pioneer – Premium fond 2, Pioneer investiční společnost, a.s., open-end mutual fund, of 23 Nov 2009	1 Dec 2010	None

1.4. The following contracts were concluded between UniCredit Bank and **Pioneer Asset Management, a.s.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Agreement for use of direct banking products	Arrangement on provision of Internet banking service	7 Jul 2010	None
Agreement for provision of direct banking services – Amendment	Changes regarding provision of Internet banking service	26 Nov 2010	None

1.5. The following contracts were concluded between UniCredit Bank and **UniCredit Global Information Services S.C.p.A.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Agreement for outsourcing of the information system for provision of IT services – Czech Republic	SLA defining terms, conditions and rules of ITC services provision to the Bank by UGIS, Czech Republic branch	28 Jun 2010	None
Agreement for outsourcing Czech Republic – Annex A	Amendment to SLA with UGIS Czech Republic, defining supported systems, their availability and other provided services	28 Jun 2010	None
Agreement for outsourcing Czech Republic – Annex B	Amendment to SLA with UGIS Czech Republic, defining method and amounts of consideration for ICT services provision	28 Jun 2010	None
Agreement for outsourcing Czech Republic – Appendix A	Amendment to SLA with UGIS Czech Republic, defining personal data protection	28 Jun 2010	None
Agreement for outsourcing of the information system for provision of IT services – Italy	SLA defining terms, conditions and rules of ITC services provision to the Bank by UGIS Italy	28 Jun 2010	None
Agreement for outsourcing ITA – Annex A	Amendment to SLA with UGIS ITA, defining supported systems, their availability and other provided services	28 Jun 2010	None
Agreement for outsourcing ITA – Annex B	Amendment to SLA with UGIS ITA, defining method and amounts of consideration for ICT services provision	28 Jun 2010	None
Agreement for outsourcing ITA – Appendix A	Amendment to SLA with UGIS ITA, defining personal data protection	28 Jun 2010	None

1.6. The following contracts were concluded between UniCredit Bank and **UniCredit Leasing a.s.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Business cooperation agreement	Definition of business cooperation terms and conditions	1 Jul 2010	None
Business cooperation agreement of 1 Jul 2010 – Amendment 1	Update of business cooperation terms and conditions	30 Dec 2010	None

1.7. The following lease contracts for hire purchase of automobiles were concluded consistent with the arm's length principle between UniCredit Bank and **UniCredit Fleet Management, s.r.o.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Business cooperation agreement	Definition of business cooperation terms and conditions	1 Jul 2010	None
Business cooperation agreement of 1 Jul 2010 – Amendment 1	Update of business cooperation terms and conditions	30 Dec 2010	None

1.8. The following contracts were concluded between UniCredit Bank and **UniCredit Bank AG** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Service Agreement Related to Bond Issuance by a Client	Cooperation between banks in relation to a client's Eurobond issue	10 Jun 2010	None
ISDA Master Agreement	Master agreement on financial market transactions relating to financial derivatives	3 Mar 2010	None

1.9. The following contracts were concluded between UniCredit Bank and **UniCredit pojišťovací makléřská spol.s r.o.** in the accounting period from 1 January 2010 to 31 December 2010:

Contract title	Subject of contract	Date of conclusion	Detriment
Business cooperation agreement	Definition of business cooperation terms and conditions	4 Jan 2010	None
Business cooperation agreement of 4 Jan 10 – Amendment 1	Update of business cooperation terms and conditions	30 Dec 2010	None

1.10. In the accounting period from 1 January 2010 to 31 December 2010, in addition to the aforementioned contracts, UniCredit Bank concluded interbank, derivative and other transactions with the connected entities consistent with the arm's length principle.

1.11. Under banking relationships in the normal course of business, certain lending transactions are collateralized using bank guarantees provided by UniCredit Bank Austria AG and UniCredit Bank AG.

2. Performance in supplying goods or services in the accounting period from 1 January 2010 to 31 December 2010 by UniCredit Bank to connected entities and **consideration received for these**: The Board of Directors of UniCredit Bank declares that, in the accounting period from 1 January 2010 to 31 December 2010, all performance in supplying goods or services and consideration received for these between UniCredit Bank and its connected entities were provided in the normal course of business or otherwise consistent with the arm's length principle and no detriment arose from any such performance.

3. Other legal acts undertaken by UniCredit Bank in the interest of connected entities: The Board of Directors of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 January 2010 to 31 December 2010, undertake other legal acts in the interest of connected entities outside the usual legal acts carried out in the normal course of business, or, as the case may be, outside the normal legal acts effected by UniCredit Bank within the usual exercise of the rights of UniCredit Bank Austria AG as the sole shareholder of UniCredit Bank.

4. Other measures that were adopted or executed by UniCredit Bank in the interest or at the instigation of connected entities, and the benefits and disadvantages of such measures: The Board of Directors of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 January 2010 to 31 December 2010, adopt or execute any measure in the interest or at the instigation of connected entities outside the normal course of business or, as the case may be, outside the usual exercise of the rights of the sole shareholder of UniCredit Bank.

5. Detriment to UniCredit Bank ensuing from the contracts concluded and other measures: The Board of Directors of UniCredit Bank declares that no detriment resulted for UniCredit Bank from the contracts concluded and other measures.

In Prague on 29 March 2011
On behalf of the Board of Directors of UniCredit Bank

Ing. Jiří Kunert
Chairman of the Board of Directors

Ing. Aleš Barabas
Member of the Board of Directors

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