UniCredit Bank

Meeting real needs with concrete solutions

2011 Annual Report

UniCredit Bank

Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and asks questions requiring clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customized solutions.

You will read stories about how we gave a boost to long-established industrial firms by enabling them to update their machinery and how we worked together to help mothers on maternity leave. You will also learn about how we have financially supported companies conducting business within Central and Eastern Europe and how we have rewarded talented young entrepreneurs.

These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference – day in and day out – for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories – snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships, where our stakeholders can best meet the changing needs of the times.

2011 Annual Report

Supporting programmes that change lives

UniCredit has always sought to be closer to clients through a range of effective social programmes. UniCredit Bank in Slovakia has financed the creation of a magnetic resonance diagnostic program, renovated student dormitories, and enabled development of the Hotel Cassovar where T-Systems employs 2,500 people in the city of Košice. Moreover, it financed construction of a new power plant, thereby supporting liberalization of energy markets and stimulating the development of a free competitive marketplace.
Local communities need concrete answers to build a better future.

Contents

Financial highlights

(IFRS audited, non-consolidated)

UniCredit Bank Czech Republic, a.s.	2011 MCZK	2010 MCZK
Operating performance		
Net interest income	6,486	6,129
Net fee and commission income	2,789	2,634
Net income from financial investments	(2,660)	(124)
General administrative expenses	(4,469)	(3,902)
Profit before income tax	1,334	3,473
Net profit for the year	1,146	3,002
Statement of financial position figures		
Total assets	288,744	270,176
Receivables from clients	181,780	172,070
Deposits from clients	178,734	174,373
Issued capital	8,750	7,325
Information about capital and capital adequacy		
Tier 1	30,425	28,849
Tier 2	285	–
Deductible items	(42)	(44)
Total capital	30,668	28,805
Risk-weighted assets	176,690	187,385
Capital requirement for credit risk under the standardized approach	1,926	14,991
Capital requirement for credit risk under the IRB approach	12,209	–
Capital requirement for settlement risk	–	–
Capital requirement for position, foreign exchange and commodity risk	455	327
Capital requirement for operational risk	1,162	1,007
Capital requirement for other instruments in the trading portfolio	–	–
Capital adequacy ratio	15.58%	14.12%
Key ratios		
Return on average assets	0.4%	1.1%
Return on average equity	3.6%	9.9%
Assets per employee	159.8	160.6
Administrative expenses per employee	2.5	2.3
Profit after tax per employee	0.6	1.8
Number of employees at end of period	1,980	1,796
Branch offices	93	67

Introduction from the Board of Directors

Dear shareholders, ladies and gentlemen,

In a context shaped by pivotal events in the European financial and banking market, UniCredit Bank Czech Republic, a.s. succeeded during 2011 to fulfil its objectives in the financial and developmental areas. The main danger for European banks in the past year related to Greek bonds, which, despite our employees' best efforts, fundamentally affected our Bank's profitability. Without their influence, we would have grown net profit by more than 10%.

During my professional career, I have never encountered a year more demanding than 2011 in terms of the potential scenarios for European banking development. The coming months will undoubtedly be crucial for the future direction not only of the banking sector but of the European economy as a whole. The problems in the euro area occurred due to political decisions, and, once again, only politicians can come up with effective solutions. I am convinced that everyone realizes the gravity of the situation, and therefore I believe a solution will be found that is acceptable for all and so that stability and confidence in Europe's financial sector will be preserved.

In looking at the Czech banking market, I can say that it is very strongly capitalized and is sufficiently prepared for all possible scenarios in the euro zone. This message is absolutely crucial for the Czech economy. I therefore expect no significant changes in the relationships between banks and business clients, and especially in the credit area. Indeed, I believe that interest in export financing and bank guarantees will increase.

External influences aside, UniCredit Bank Czech Republic continued during 2011 in its chosen strategy for growing market share in retail banking. This sends a clear signal to our clients that the Bank is very strongly capitalized and very stable, thus allowing it continuously to execute its medium-term plans. From UniCredit Bank's position, therefore, our strategic intentions remain wholly unchanged. We have continued in actively supporting small and medium-sized enterprises and large corporations and played an important role in export and transaction financing.

Our bank is increasingly visible and active in the regions. Last year, we were the most dynamic bank in terms of branch network expansion. In addition to opening new standard branches, we successfully continued in enlarging our network of franchise points of sale under the "UniCredit Bank Expres" name. Meticulous preparation of this plan and proper timing put us well out ahead of the competition and gave us a solid base for progressively diminishing costs for the branch network.

After a year's hiatus, UniCredit Bank Czech Republic, a.s. once again was named Bank of the Year. This prestigious competition is organized by the leading economic newspaper *Hospodářské noviny*. The Bank took the top prize in consideration of the quality of its products and services offer for clients and due to the financial results it achieved. Our innovative retail products – and in particular the Presto Loan, Ground-breaking Mortgage and Splátkomat loan consolidation tool – received much acclaim in surveys and competitions. The quality and portfolio of the products and services offered in the area of transaction and export financing allow us to provide clients the best solutions in financing their supply chains. Thus, we were also awarded the title Best Trade Finance Bank. UniCredit Bank's private banking services, too, recorded a great achievement, as the trade journal *Euromoney* declared the Bank the best in the Czech Republic in this area. The jury especially appreciated our lending and financing solutions, commodities investing, and the "Art Banking" service which is unique in the Czech market.

Once again in 2011, UniCredit Bank Czech Republic confirmed its position as a socially responsible company through its active involvement in a number of important projects. In the charity area, we have long cooperated with the Barriers Account (part of the Charter 77 Foundation) and the Endowment Fund of Livie and Václav Klaus. Our employees participated in charity projects by supporting the Archdiocesan Charity Prague, Wakitaka Primary School project, Czech Committee for UNICEF and CEREBRUM Association (which helps people suffering from brain injuries) within the Gift Matching Programme.

We also reaffirmed our stable partnerships in the arts area, where we again supported the National Gallery in Prague, The Moravian Gallery in Brno, Galerie Rudolfinum, and the art fairs "Art Prague" and "Prague Photo". As has become tradition, we again were active partners in the Karlovy Vary International Film Festival, and for the first time we also participated in the Czech Lion Awards ceremony. The UniCredit Group as a whole is the official partner of the UEFA Champions League, while in the area of Czech sports sponsorship the UniCredit CzechOpen tennis tournament in Prostějov was organized under our patronage.

While 2011 was a successful year for UniCredit Bank Czech Republic, a.s. in corporate and retail banking, it was also a year that made us think about what new challenges we will need to face in the coming years. When I look at our clients' confidence in us, the support from our shareholder and our professional team of employees, I am convinced that we will continue to build our success into the future.

April 2012

Ing. Jiří Kunert
Chairman of the Board of Directors

Macroeconomic environment in 2011

As in most EU countries, the Czech Republic's economic output in 2011 did not continue on the upward course of the previous year. Year-on-year GDP growth gradually weakened during 2011, achieving a rate of 1.7% for the year as a whole. Although these dynamics were comparable to those of the euro zone as a whole, in comparison with other Central European countries the Czech Republic was at the very end of the list along with Hungary. Growth was driven mainly by exports. While at the start of the year exports were assisted by capital formation, thereafter foreign trade alone was driving the economy. A high comparison basis in relation to the sharp rise in investments into solar power plants in 2010 had a negative impact on business investments in the second half of the year. Private and government consumption remained below the 2010 level year on year due to government austerity measures. In terms of growth's sectoral distribution, the situation has not changed much since 2010. Expansion was driven by manufacturing, while the financial and insurance sectors also reported above-average results. Economic activity in construction, on the other hand, again declined significantly.

The Czech National Bank (CNB) held interest rates at a record low level through the entire year. The CNB was not troubled even by the sharper rise in inflation above its 2% target in the last quarter of the year or by expectations for further acceleration in price growth above 3% in 2012. The reason for the central bank's inactivity was the fact that inflation was being driven by factors not related to demand, i.e. especially by the increase in indirect taxes and adjustments to regulated prices. Yields of longer-term bonds showed a predominantly decreasing trend during the year, reflecting investors' positive view of the Czech economy and public finances. The Czech koruna's exchange rate against the euro moved within a narrow range for most of the year, but in the final quarter the koruna faced more marked weakening common to all Central European currencies.

The government managed to fulfil its consolidation targets for the 2011 budget. The public finances deficit decreased from 4.8% of GDP in 2010 to 3.7%, especially as a result of savings in the public administration wage bill and favourable development in the costs for state debt administration. The government was also successful in embarking on long-neglected reforms, and in particular changes in financing of pensions and health care, as well as in taxation and the labour market. However, these reforms will bring their positive effects primarily over the medium-term horizon.

Corporate, investment and private banking

The year 2011 was a successful one for the Corporate, Investment and Private Banking Division. We continued in reinforcing our traditionally strong position in the corporate banking area, where we will remain concentrated on providing comprehensive services adapted to our clients' individual needs. In the year, we focused on fulfilling our medium-term strategy directed to strengthening our market position in the small and medium-sized businesses segment. We expanded our network of business teams oriented toward small and medium-sized enterprises in order to achieve better geographic accessibility for our clients. We are developing new activities in the agricultural sector, and we will continue our significant participation in financing investment within the power industry.

We achieved growth of 2.7% in the corporate loans volume during 2011. In absolute terms, UniCredit Bank's corporate loans portfolio grew year on year by nearly CZK 3.9 billion. The average volume of deposits from corporate clients rose year to year by 0.5%.

For Global Transaction Banking products, as well, 2011 was successful. The volume of export loans with EGAP insurance grew by nearly 69% year on year, while UniCredit Bank contributed to a greater extent in financing a number of projects in clubs or syndicates along with other Czech banks. After Russia, which holds a dominant position in the territorial structure of export projects financed by UniCredit Bank, Ukraine, Belarus and Turkey were most prominent. The volume of guarantees provided rose by more than 16% year on year. In the area of payment card acceptance, the turnover through our terminals grew by more than 32%, owing especially to successful acquisitions of petrol stations and pharmacies.

In 2011, UniCredit Bank Czech Republic, a.s. intermediated the payment of subsidies from government budget resources (EU funds and national sources) in the amount of CZK 21.2 billion. The volume of subsidies so distributed was thus 16% greater than in the previous year. Funds in 2011 were delivered to a total of 3,152 successful applicants for the realization of 5,458 projects. The number of projects implemented and financed thus increased by 6.15% compared to the previous year. UniCredit Bank Expres branches were also integrated into the subsidies distribution process for the first time in 2011. It is now 5 years that UniCredit Bank has been dispensing subsidies for all competent ministries on the basis of a contract with the Ministry of Finance. In the years 2007–2011, UniCredit Bank distributed more than CZK 102 billion in total.

In addition to subsidy payments, in the sphere of public support UniCredit Bank also provides its clients with comprehensive subsidy advisory. This involves in particular advisory regarding European funds in the Czech Republic, but it also concerns other national subsidies at state and regional levels. The main areas in demand for subsidies and advisory, especially among corporate clients, are industry and innovation, environment, science, and research. In 2011, the Bank recorded a series of significant successes when a large number of subsidy applications from individual clients were approved.
The year 2012 is significant for the Bank and its clients in that it is the penultimate year in which applications for the 2007–2013 programming period will be accepted.

In 2011, the commercial real estate market saw a significant increase in transaction activity across all market segments. International investors (UK, Austria) continue to dominate the investment market, but the activity of local investors has grown visibly in recent years. The latter have partly made up for investors from Ireland and Germany active between 2005 and 2007. The strongest investor activity in 2011 was recorded in the retail segment. Several regionally significant shopping centres have been sold in the Czech Republic with financing provided by the Bank. Likewise, the sphere of financing new development projects (primarily residential and office space) underwent a slight recovery, mainly in the first half of the year. Nevertheless, the market for new site development recorded only moderate growth overall and continued to be affected by the uncertainty as to the sustainability of the general economic recovery in Europe, not to mention the rest of world. 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 its very high quality and performance. We expect the market to stagnate during 2012 in accordance with the expected minimal growth in the Czech economy.

In the area of structured finance and syndicated lending, the Bank confirmed its position during 2011as one of the market leaders, especially in the area of complex transactions in acquisitions and project financing. Although transaction activity in this market segment was significantly lower in 2011 than in the previous year, UniCredit Bank (on the basis of client mandates) structured several large transactions which were thereafter successfully placed in the market. The most significant of these was renewal of the syndicated guarantee line in favour of EIB for the client Letiště Praha a.s. in a value of approximately CZK 7 billion. We expect to see relatively strong growth in transaction activities within this segment during 2012, and hence also in business opportunities for the Bank.

Private Banking

UniCredit continued to hold its position within the top four of the private banking segment in the Czech market, owing to its team of leading private bankers and development of its client service model.
A distinctive role was played by certain services unique to the Czech market, such as Art Banking. The high quality of services offered was also confirmed by independent evaluations. For example, the Bank took 3rd place in Fincentrum's Private Bank of 2011 award. The relocation of UniCredit Bank's Private Banking headquarters from their traditional home on Na Příkopě Street in Prague to the modern client premises of the Banking House at Náměstí Republiky was a great undertaking. The main goals for Private Banking in 2012 include to expand Private Banking service points both in Prague and in other regions of the Czech Republic, further improve the service model, and expand the offering of unique products and services.

Retail banking

The year 2011 was successful for the Retail Banking Division, as it achieved good results and strengthened its branch network in accordance with the medium-term strategy defined in 2010. Despite a difficult market situation, the revenue and lending volumes increased by 20% year on year due to the successful opening of new branches which grew more rapidly in their performance compared to original expectations.

The Bank retained its position as a market innovator and significantly boosted awareness of the brand as a strong player in the retail banking field. It also achieved significant successes in terms of client satisfaction, aided not only by improvements and innovations in products and services, but also by an increase in the number of points of sale and a strong focus on the quality of service provided to clients.

Starting in the autumn of 2010, UniCredit Bank had commenced implementation of its medium-term business strategy aimed at strengthening its market share in the retail banking segment. A main step in making this new model reality was to expand our branch network and develop new distribution channels. The year 2011 was truly extraordinary with regard to implementing the strategy, as we managed to expand our branch network by more than 50%. UniCredit Bank opened 25 new branches and 21 franchise points of sale under the "UniCredit Bank Expres" brand. This sales channel combines the entrepreneurship of the business partner with the name and capacities of our Bank.

In successfully implementing this unique business model based on the franchise principle, UniCredit Bank stands among the market's leading innovators. All new branches and franchises feature state-of-the-art facilities and are equipped with so-called smart ATMs – the next generation of ATMs. In addition to the usual services, these ATMs make it possible to deposit cash 24 hours a day. Deposits are credited immediately upon their being made and can be instantly verified by means of an account statement directly from the ATM. Clients also have access to secure, innovative direct banking products for both mobile phones and the internet. Significant expansion of the sales network will continue in 2012.

Loans

A key innovation in 2011 was launch of the PRESTO refinancing product. Throughout April, UniCredit used a television campaign to introduce its Splátkomat concept – a simple and accommodating solution to refinance loans held by the client at other institutions. The motto for Splátkomat is: "Pay less, borrow more." This solution affords clients the possibility to optimize their credit obligations and thereby save on monthly instalments. Another version makes it possible to obtain additional funds while maintaining the same monthly instalment. Clients may also choose a combination of the two variants. In combination with the standard PRESTO Loan launched in 2010, PRESTO refinancing has enabled the Bank to double the volume of consumer loans provided, despite a weakening market. In mortgage lending, the Bank maintained its position as a strong challenger in the existing market. In spring 2011, UniCredit Bank surpassed its historically lowest interest rate for mortgage loans with the GROUND-BREAKING Mortgage. It features a floating interest rate starting from as low as 2.5% p.a.

Investments and deposits

The issuance of structured bonds is traditionally among UniCredit Bank's key activities in this product area. During 2011, the Top Commodities 2014 structured bond (offering a yield tied to the 10 most important commodities from the energy, agriculture, and precious and industrial metals sectors) was successfully issued. The TelcoPharm 2013 bond was later issued in CZK and EUR variants (the yield of which is tied to the development of five equity titles from the telecommunications and pharmaceutical industries).

UniCredit Bank responded to the intensive discussions regarding pension reform by introducing the Dignified Pension programme. The aim of this initiative is to help clients maintain their standards of living after retirement using regular investment and/or savings products. Combinations of regular long-term savings offer solutions for clients of any age group while taking into account their individual needs.

Pioneer Funds presented additional substantial innovations, and in particular the new Pioneer Guaranteed 2018 – Emerging Markets fund. This fund is especially suitable for investors who seek appealing returns offered by developing markets but who are at the same time concerned about their risks. Another new product introduced in 2011 was the Pioneer Emerging Market Corporate Bond 2016 fund, presenting a unique opportunity to invest in corporate bonds of developing countries. The offer of Pioneer funds was further expanded with the currency-backed CZK class of the successful Pioneer Funds – Strategic Income fund. At the close of the year, clients were offered the possibility to invest in the currency-backed EUR class of the same fund.

In cooperation with Allianz, UniCredit introduced to the market a new investment life insurance product – Clean Energy 2016. In addition to insurance in case of death, this product also offers clients the possibility to earn above-average returns on their funds while maintaining 100% capital protection through the potential of the so-called clean energy market. At the end of 2011, the UniCredit Bank's bonds offer was supplemented with securities having 3- and 5-year maturities and offering exceptional guaranteed returns.

Direct banking

UniCredit Bank confirmed its leading position during 2011 in this very dynamically developing area of banking. The first of the innovations introduced was the possibility to search through archived client documents, such as PDF statements and confirmations, within the Online Banking application. These documents are accessible going back to 2008.

A key and indeed fundamental step for UniCredit Bank with regard to direct banking channels was launch of the so-called Bank in a Mobile – Smart Banking product. This innovation provided clients access to many banking services in a modern, convenient and secure way using a mobile phone. A very wide range of mobile phone types is supported. Smart Banking can be very easily obtained through the Online Banking application without having to visit a branch. UniCredit Bank offers Smart Banking with every service package. Clients thus receive an effective tool for managing their finances as well as the opportunity to save money (by paying lower fees as compared to submitting payment orders at a bank branch).

Payment cards

During 2011, the Bank successfully sold more than 9,000 cards issued to clients at a branch upon opening an account. Our cards are available for immediate use, thus distinguishing our Bank from the competition and adding to their popularity. The new IQ ATMs further promote the possibility to make cash deposits, which become available immediately on the current account. A number of companies have begun to a greater extent using so-called deposit cards, which identify the cash depositor but do not enable drawing of funds from the current account.

Treasury

In these turbulent times when the euro zone is fighting for its very existence, financial markets are finding their new face – textbooks are being re-written and theory does not often coincide with practice. These circumstances have also markedly influenced trading itself. On the one hand, volatility has increased. On the other hand, the liquidity of many products has decreased. Entities on the market are more cautious, they meticulously monitor with whom they are trading, and the product range has focused in on simpler, more transparent products. This occurred at the initiative of both the regulators as well as the market participants themselves.

As in previous years, 2011 presented significant challenges for trading in treasury products on the Bank's own account. The result achieved, however, exceeded all expectations. Trading with end consumers was marked by an increasing trend of so-called natural hedging, whereby clients' turnovers are realized in a single currency and therefore without the need for exchange trades. Thanks to the direction International Markets has taken over the long term that is characterized by an innovative approach focused on derivative trades and encompassing all corporate client segments, the Bank managed to fulfil its business plan.

Development of new products – especially in the area of structured bonds, which are successfully sold to retail and private banking clients – is a very strong side of the International Markets Department. It was precisely investments into securities which largely helped the Retail Banking Division to fulfil its business objectives.

Sponsoring and charity

As in previous years, UniCredit Bank Czech Republic, a.s. continued in its role as a socially responsible organization by participating actively in a number of significant projects during 2011.

The Bank continued its successful cooperation with leading Czech cultural institutions from previous years, and in particular with the National Gallery in Prague and The Moravian Gallery in Brno. It also became general partner of Galerie Rudolfinum for the whole of 2011 and contributed, for example, to the exhibition "Thus spoke LaChapelle", which presented a cross section of the work of world-renowned American photographer David LaChapelle.

In 2011, the Bank supported the "Art Prague" contemporary art fair as well as the "Prague Photo" festival at Mánes Exhibition Hall, at which it presented the "UniCredit Prague Photo Award" for the best photographer under 35 years of age to Jan Přibylský and the "ART PRAGUE Young Award", intended for talented young artists under 35 years of age, to Jan Vytiska.

UniCredit Bank also established active support in the area of cinema. It confirmed its stable partnership 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.

Also in 2011, the Bank for the first time sponsored the Czech Lion Awards – film prizes that have been presented since 1993 by the Czech Film and Television Academy.

Support for education

The Bank's main initiative in education in the past year was the collective education project "Learn, More". UniCredit Bank Czech Republic participated in this project together with the UniCredit Foundation and the organization People in Need. The project, which runs from January 2011 until December 2012, aims to support children who grow up in environments of social exclusion to obtain a secondary education that will enable them successfully to obtain long-term employment.

We also supported the non-profit organization Magna Children at Risk, whose mission is to help children and their families in crisis-stricken parts of the world and to implement humanitarian and developmental projects worldwide intended for people in need, whether due to poverty, disease, war or environmental devastation.

In the past year, we also became a partner of Debt Advisory Centre – Counselling in Stringency, offering support in preventing difficult financial situations and problems with consumer loan repayments. The advisory centre provides free counselling for people in difficult financial situations and, in case of need, can also help prepare proposals for debt relief. The Bank also supports various organizations that hold educational seminars, including, for example, the Euronisa Foundation, the company Rogus and the Evangelical Church of Czech Brethren.

Sponsoring and charity

Sports sponsorship

UniCredit Group is an official partner of the UEFA Champions League for the whole period July 2009–June 2012. Sponsoring the UEFA Champions League has helped UniCredit to strengthen its position as one of Europe's leading banks. Through our sponsorship, awareness of the UniCredit brand and its value has grown significantly during the first two seasons since its launch.

In the field of sports sponsorship, UniCredit Czech Republic, a.s. has continued its support for tennis events, and in particular the annual UniCredit Czech Open tennis tournament in Prostějov. The Bank also became the main partner of the TK Sparta Praha tennis club and tennis team and supported the Junior Tennis Championship in Pardubice. The Bank's commitment to supporting Czech tennis was one of the reasons for choosing leading Czech tennis player and Wimbledon champion Petra Kvitová as the face of UniCredit Bank Czech Republic.

Charity

A special project of UniCredit Bank and UniCredit Foundation is the so-called Gift Matching Programme, which enables the Bank's employees to support a non-profit organization of their own choosing. UniCredit Foundation subsequently provides that non-profit organization with an amount matching that donated by the employee. This year – already the programme's fourth – four non-profit organizations were supported. Our employees supported the Archdiocesan Charity Prague, Wakitaka Primary School project, Czech Committee for UNICEF and the CEREBRUM Association (which helps people who have suffered brain injury).

We have been cooperating for many years 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, such as the Archdiocesan Charity Prague, the Diocesan Charity in Ostrava and a charity in Most.

In cooperation with Czech Radio Brno, UniCredit Bank supported blood donation with the "Give Blood" concert, the goal of which was especially to thank all blood donors and familiarize the public with the project of donating blood. The Bank also contributed to the purchase of new state-of-the-art equipment for a hospital in Prostějov and provided aid to people affected by natural disasters and other misfortunes. For example, the Bank provided support to the families of those injured in an explosion at the Explosia factory in Pardubice.

Report of the Board of Directors

The Bank's financial results for 2011

UniCredit Bank's net profit after taxes decreased from CZK 3,002 billion (as at 31 December 2010) to CZK 1,146 billion (as at 31 December 2011). The decline reflects the impact from writing down Greek government bonds in the amount of CZK 2,723 million. If this write-down were excluded, the Bank's net profit would have grown by 11.6%.

Statement of comprehensive income

Net interest income rose by 5.8% year on year to CZK 6,486 billion, as both the interest expense and interest income components grew year on year.

Net fee and commission income increased by 5.9% to CZK 2,789 billion.

The decline in net income from financial investments was attributable to the loss from writing down Greek government bonds in the amount of CZK 2,723 million.

The Bank's other operating income grew to CZK 663 million, while other operating expenses rose as well to CZK 667 million.

These movements were caused by 2011's greater creation and release of provisions for off-balance sheet items.

Other operating income was also influenced by profit from sale of the Bank's own real estate.

General administrative expenses rose in comparison to 2010 by 14.5% to CZK 4,469 billion. The rise was especially evident in the rent and services cost areas, as well as in payroll expenses relating to development of the Bank's branch network.

Impairments for loans and receivables fell year on year by 21.1%, especially due to the improved economic situation in the business sphere and measures adopted in the credit risk management area.

Income tax also decreased year on year, falling by 60.1% overall.

Statement of financial position

At the close of 2011, the Bank's assets totalled CZK 289 billion, which represents an increase of 6.9% in comparison with the end of 2010.

Receivables from banks fell year on year by 27.7%. This decrease was recorded especially in term deposits at other banks.

In 2011, receivables from clients grew by 5.6% to total CZK 182 billion. This development confirms the positive market signals, as credit risk is improving even while there is no decline in loan volume.

The proportion of classified loans in total loans was 8.7% at the end of 2011 (a decline of 1.7 percentage points), while the proportion of loans in default was 5.6% (an increase of 0.3 percentage points for 2011).

Financial investments rose by 20.4% compared with the end of 2010. This gain was caused primarily by an increase in securities within the portfolio of available-for-sale securities.

Deposits from banks grew by 3.4% year on year. There was a change in the structure of deposits from banks, as liabilities from repo operations increased but this was nearly compensated by a decline in term deposits.

Clients' deposits expanded by 2.5% year on year to total CZK 179 billion, and once again their structure changed. A decline in term deposits was compensated by growth in clients' current account balances and repo operations.

Bonds issued rose by 28.4% in comparison with the close of 2010 to CZK 31 billion. During 2011, the Bank continued successfully in issuing mortgage-backed securities and other bonds intended for individual investors.

As at the end of 2011, shareholder's equity amounted to CZK 33 billion, which represents year-on-year growth of 6%. In 2011, the Bank boosted its issued capital by CZK 1.4 billion and paid a dividend of CZK 2.8 billion to the sole shareholder.

Capital adequacy stood at 15.58% at the end of 2011 (14.12% in 2010).

Although the Bank maintained a conservative approach and, in view of political and market developments surrounding the Greek rescue package, reduced its exposure to Greek bonds (which had a negative influence on profits compared to the previous year), it was still able to generate net profit growth of 11.6%. Thanks to the overall economic recovery as well as to the Bank's business activity, the year saw confirmation of the positive growth trend in many key parameters of UniCredit Bank's business. The Bank achieved convincing results in the business area, increasing its operating income by 7.9% year on year despite the continuing difficult market situation. At present, income is being influenced to a great extent by interest rates being at their lowest level in history and a gradual increase in volume within the banking sector as a whole.

The Bank's good results were also acknowledged by the jury of the prestigious Best Bank 2011 competition. UniCredit Bank took first place for its comprehensive and advantageous offer of products and services for clients and for the financial results it achieved. These positive results confirmed the validity of the strategy for expanding our focus towards individuals and the small and medium-sized companies segment. In the past year, UniCredit Bank also surprised people with its innovative approach. With a view to market penetration, we will continue to expand our distribution network and to develop new products. Maintaining the balance between retail and corporate businesses will remain our constant priority into the future.

Expected economic and financial situation of UniCredit Bank in 2012

UniCredit Bank plans to complete the project of expanding its retail distribution network by opening additional branches and franchises during 2012. Through efficient use of the newly created network, the Bank will focus on generating income, acquiring new clients, and penetrating the existing client base with its products. The priority for growth lies particularly in the segment of retail banking, including entrepreneurs and small and medium-sized companies.
Despite the outlays required to expand the business network, the Bank intends to keep its cost/income ratio at the 2011 level and to raise its gross operating profit above the CZK 5 billion mark. Another element of the strategy is an emphasis on maintaining the Bank's independence from external financing through balanced growth of deposits and loans.

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 implications of the annual report have been withheld.

In Prague on 28 April 2012

Ing. Jiří Kunert
Chairman of the Board of Directors

Mag. Gregor Hofstaetter-Pobst
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 2011 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 2011 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 2011.

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 2011 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 2011 was CZK 198,486,186. The contribution to the Guarantee Fund is 2% of this amount, and thus was CZK 3,969,724.

Keeping careers on track during maternity leave

In Hungary, our Mum's Portal provides mothers with up-to-date information on what's happening at UniCredit. There is an emphasis on conveying important news and recent developments to colleagues who, being on maternity leave, are temporarily away from their usual duties. This is a concrete answer to ensure Hungarian colleagues a rapid and smoother reintegration at work after their leave ends.

Henrietta Kónya-Halászi, HR office, with her daughter Gréta Kónya

Non-consolidated financial statements

Statement of comprehensive income for the period ended 31 December 2011

	Note	2011 MCZK	2010 MCZK
Interest income and similar income	5	8,826	8,409
Interest expense and similar charges	5	(2,340)	(2,280)
Net interest income and similar income		**6,486**	**6,129**
Dividend income	6	61	73
Fee and commission income	7	3,309	3,082
Fee and commission expenses	7	(520)	(448)
Net fee and commission income		**2,789**	**2,634**
Net trading income	8	379	561
Net income from financial investments	11	(2,660)	(124)
Other operating income	10	663	34
General administrative expenses	9	(4,469)	(3,902)
Impairment of loans and receivables	15	(1,248)	(1,581)
Other operating expenses	10	(667)	(351)
Profit before income tax		**1,334**	**3,473**
Current income tax expense	28	(218)	(486)
Deferred income tax expense	28	30	15
Profit for the period		**1,146**	**3,002**
Other comprehensive income			
Cash flow hedges:		858	(29)
Effective portion of changes in fair value		858	(74)
Net amount transferred to profit and loss		–	45
Fair value reserve (AFS financial assets):		1,283	(722)
Net change in fair value		570	(822)
Net amount transferred to profit and loss		713	100
Other comprehensive income for the period, net of income tax		**2,141**	**(751)**
Total comprehensive income for the period		**3,287**	**2,251**

Statement of financial position as at 31 December 2011

	Note	31.12.2011 MCZK	31.12.2010 MCZK
ASSETS			
Cash in hand and balances with central banks	12	5,079	2,853
Financial assets held for trading	13	20,648	14,860
Receivables from banks	14	24,106	33,348
Receivables from clients	15	181,780	172,070
Financial investments	16	51,191	42,519
Property and equipment	17	1,122	1,578
Intangible assets	18	–	1
Deferred tax asset	27	261	374
Other assets	19	4,471	2,573
Non-current assests held for sale	21	86	–
Total assets		**288,744**	**270,176**
LIABILITIES			
Deposits from banks	21	32,436	31,381
Deposits from clients	22	178,734	174,373
Debt securities issued	23	31,395	24,457
Financial liabilities held for trading	24	5,489	4,089
Provisions	25	1,129	708
Deferred tax liability	27	394	–
Other liabilities	26	6,073	3,935
Total liabilities		**255,650**	**238,943**
SHAREHOLDER'S EQUITY			
Issued capital	28	8,750	7,325
Share premium	28	3,481	3,481
Reserve funds	30	2,999	2,849
Reserves from revaluation of financial instruments		1,487	(654)
Retained earnings	30	16,377	18,232
Total shareholder's equity		**33,094**	**31,233**
Total liabilities and shareholder's equity		**288,744**	**270,176**

Statement of cash flows for the period ended 31 December 2011

	Note	2011 MCZK	2010 MCZK
Net profit for the period		**1,146**	**3,002**
Adjustments for non-cash items:			
Impairment of loans and receivables	20	1,248	1,581
Impairment of property, plant and equipment and intangible assets	20	(42)	(16)
Impairment of other assets	20	5	4
Impairment of participation interests	20	–	(8)
Impairment of financial investment	20	2,723	100
Creation and release of other provisions	27	421	165
Depreciation of property, plant and equipment and intangible fixed assets	17,18	128	145
Losses from property, plant and equipment sold		378	172
Deferred tax	28	(30)	(15)
Operating profit before change in operating assets and liabilities		**5,977**	**5,130**
Financial assets held for trading		(5,788)	5,081
Loans and receivables from banks		9,142	(2,028)
Loans and receivables from clients		(11,063)	(5,951)
Other assets		(1,898)	(699)
Deposits from banks		1,055	6,233
Deposits from clients		4,361	2,546
Financial liabilities held for trading		1,400	(906)
Other liabilities		2,138	(136)
Net cash flows from operating activities		**5,324**	**9,270**
Changes in financial investments		(8,791)	(3,953)
Gains from sale of property, plant and equipment and intangible assets		883	–
Acquisition of property, plant and equipment and intangible assets	17	(702)	(260)
Net cash flows from investing activities		**(8,610)**	**(4,213)**
Increase of registered capital	29	1,425	2,200
Dividends paid		(2,851)	(2,700)
Debt securities issued		6,938	(4,002)
Subordinated liabilities repaid		–	–
Net cash flows from financial activities		**5,512**	**(4,502)**
Cash and cash equivalents at 1 January	12	**2,853**	**2,298**
Net cash flows from operating activities		5,324	9,270
Net cash flows from investing activities		(8,610)	(4,213)
Net cash flows from financing activities		5,512	(4,502)
Cash and cash equivalents at 31 December	12	**5,079**	**2,853**
Income tax paid		(421)	(430)
Interest received		8,634	8,568
Interest paid		(2,132)	(2,297)
Dividends received		61	73

Statement of changes in equity for the period ended 31 December 2011

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 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**
Total comprehensive income for the period								
Profit for 2011							1,146	1,146
Other comprehensive income								
Effective portion of changes in fair value on available-for-sale financial assets						570		570
Net amount of available-for-sale revaluation transferred to profit or loss						713		713
Effective portion of changes in fair value on cash flow hedge					858			858
Net amount of cash flow hedge transferred to profit or loss					–			–
Total comprehensive income for the period					**858**	**1,283**	**1,146**	**3,287**
Transactions with owners, contribution and distribution to owners								
Dividend paid							(2,851)	(2,851)
Allocation to statutory reserve fund			150				(150)	–
Increase of issued capital	1,425							1,425
Balance at 31 December 2011	**8,750**	**3,481**	**1,175**	**1,824**	**888**	**599**	**16,377**	**33,094**

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 District Court of Prague, in part B, file 3608. The sole shareholder of the Bank is UniCredit Bank Austria AG, Vienna. Ultimate parent of the whole UniCredit Group is UniCredit S.p.A, Milano.

Registered office of the Bank:
Želetavská 1525/1
140 95 Prague 4

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;
- providing loans;
- investing in securities on its own behalf;
- operating a system of payments and clearing;
- issuing payment products;
- providing guarantees;
- opening letters of credit (export financing);
- administering cash collection;
- trading on its own behalf or on behalf of clients:
  1. in foreign exchange currency products,
  2. in forward and option contracts, including foreign currency and interest rate contracts,
  3. in transferable securities;
- participating in share subscriptions and providing related services;
- issuing of mortgage bonds;
- conducting financial brokerage;
- managing securities, including portfolio management on behalf of clients;
- providing depository services and administration of securities;
- providing depository services for investment funds;
- conducting foreign currency exchange activities;
- providing banking information;
- renting of safe-deposit boxes;
- conducting activities directly connected with the activities stated 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 crowns (MCZK), unless stated otherwise. The Czech crown, or "koruna", is the functional currency in these financial statements. Numbers in brackets represent negative amounts.
These financial statements are separate financial statements prepared in accordance with the Act on Accounting No. 563/1991 Coll.
The ultimate parent of the Bank is UniCredit S.p.A, Milano, which carries out the consolidation of the whole group 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 and 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 and loss include instruments classified as held for trading and instruments designated by the Bank as at fair value through profit and 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 and loss are included within "Financial investments".

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

Held-to-maturity assets are financial assets with fixed or 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 and 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 category fair value through profit or loss 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 and 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 and loss) transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit and 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 unquoted equity instruments is determined as the share in the issuer's equity.

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

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

- market quotations are again available;
- the credit spread of a particular bond is adjusted based on 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 and/or external rating; evidence from the market that creditworthiness is worsening);
- the liquidity of the specific securities has deteriorated significantly.

Subsequently the Bank will carry out the valuation comprising new aspects of the market price including assessment of possible impairment losses (see Note 3g(ii)).
Another model is used for Value at Risk (VaR) calculation (see Note 35) 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 financial markets and the development of credit spreads for 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". Interest income from financial assets held for trading is recognized in profit and loss as "Interest and similar income".
Gains and losses arising from a change in the fair value of other financial assets and liabilities designated upon initial recognition at fair value through profit and loss are recognized directly in profit or loss as "Net income from financial investments". Interest income from financial assets designated upon initial recognition at fair value through profit and loss is presented within "Interest and similar income".
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 income statement as "Interest income and similar income".
The accounting for impairment of available-for-sale assets is described in Note 3(g). Gains and losses arising from financial assets and liabilities carried at 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 and 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 statutes without regard to the total size of the participation interest.
Substantial interest means a participation interest where the Bank factually or legally executes direct or indirect substantial interest on governance of the company (that means the Bank's ability to participate in financial and operational guidance of the company but without exercising controlling interest). This participation interest results from a share of the registered capital (greater than 20%) or from contract or statutes without regard to the total size of the participation interest.
Controlling and substantial interests are valued at acquisition price less losses arising from 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 recognizing 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 a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on 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 an 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 becomes the 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 revaluation of the hedging derivative previously recognized in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in other comprehensive income remains in equity and is recognized in accordance with the aforementioned 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

Financial assets 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 result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Bank recognizes a liability to either banks or customers.

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 result of the cash collateral provided in respect of securities borrowed/purchased under resale agreements, the Bank recognizes loans and advances to either banks or customers. The receivables are recorded 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 reported 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 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 steps have been taken 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 loan written off 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.
For equity instruments, the impairment criteria are met once the decline in fair value exceeds 20% compared to the acquisition cost or the decline in fair value lasts longer than 9 months. For debt instruments the Bank performs comparison of the carrying amount and present value of future cash flows.

(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 of longer than 1 year.
Property and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.
Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over 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 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 into other operating income or expenses. The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalized.
Property and equipment which the Bank intends to sell within 12 months is classified as "Non-current assets held for sale". Such property and equipment is reclassified at the lower of its carrying amount or its fair value less disposal costs.

(i) Leasing
The Bank concluded mainly operational leasing contracts. Total payments related to these contracts are booked to "General administrative expenses" evenly over the period of the leasing contract. In the case of contract cancellation before the end of the leasing contract, all required penalty payments are booked as a period cost at the time of cancelling the lease.

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

(k) 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 a management decision is made to the contrary, 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.

(l) 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.

(m) Dividend income

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

(n) 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 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.

(o) Segment reporting

IFRS 8 Operating segments states that presentation and reporting of operating segments shall be in accordance with performance criteria monitored by the chief operating decision-maker who is responsible for operational decisions. At the Bank, that decision-maker is the Board of Directors.

The Bank's primary segment reporting is broken out by types of clients, which correspond to the Bank's various operations: retail banking, including small and medium-sized businesses; private, corporate and investment banking; and other. The performance of all the segments is monitored monthly by the Board of Directors and other members of the Bank's management. The reporting segments generate income primarily from the provision of loans and other banking products.

Retail banking, including small and medium-sized businesses encompasses in particular providing loans, mortgages, payment services (including payment cards), term and saving deposits.

Private, corporate and investment banking takes in especially the following products and services: providing banking services to private clients, companies and public institutions, including loans, bank guarantees, account maintenance, payment services, opening documentary letters of credit, term deposits, derivative and foreign currency operations, and capital market activities inclusive of securities underwriting for clients, investment advisory, and consulting on mergers and acquisitions.

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

(p) Impact of standards that are not yet effective

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

Amendments to *IFRS 7 Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011) require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities, as well as to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets.

Amendments to *IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The Bank's management regards the effect of these standards to be immaterial.

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 35).

(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 the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral.

Collectively assessed impairment covers credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations of credit risk, and other economic factors.

In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based upon historical experience and current economic conditions. The accuracy in quantifying the impairment depends upon how well the Bank is able to estimate these future cash flows for specific counterparties and the quality in establishing the models' parameters.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy 3(b)(iv). For financial instruments that trade infrequently and have low price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

(i) Financial asset and liability classification

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

- 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 a hedge to be highly effective over the life of the hedging instrument.
In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

(iii) Change in accounting policy

There were no changes in accounting policies during the years 2011 and 2010.

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

In 2011 and 2010 the Bank did not identify any changes of financial reporting standards that would significantly affect the Bank's financial statements.
Despite the fact that in both years significant changes occurred on the financial markets, the Bank has been able to obtain relevant sources for the financial investments revaluation to market value (quoted market prices). Therefore the Bank has not transferred financial investments between categories based on the quality of the input data for revaluation (see Note 37).

5. Net interest income and similar income

MCZK	2011	2010
Interest income and similar income		
Balances with central banks	33	54
Receivables from banks	204	230
Loans and receivables from clients	7,016	6,698
Financial investments	1,573	1,427
Interest income and similar income	**8,826**	**8,409**
Interest expense and similar charges		
Repo loans with central banks	(26)	(1)
Deposits from banks	(265)	(169)
Deposits from clients	(1,147)	(1,168)
Debt securities issued	(902)	(942)
Interest expense and similar charges	**(2,340)**	**(2,280)**
Net interest income and similar income	**6,486**	**6,129**

6. Dividend income

MCZK	2011	2010
Dividend income		
From investment certificates classified as securities designated at fair value upon initial recognition through profit and loss	61	73
Total dividend income	**61**	**73**

7. Net fee and commission income

MCZK	2011	2010
Fee and commissions income from		
Securities transactions	36	24
Management, administration, deposit and custody services	210	208
Loans	375	429
Payment services	894	830
Foreign exchange (FX) transactions	1,011	1,061
Payment cards	564	484
Other	219	46
Fee and commission income	**3,309**	**3,082**
Fee and commission expense from		
Securities transactions	(15)	(19)
Management, administration, deposit and custody services	(51)	(39)
Loans	(17)	(8)
Payment services	(8)	(16)
Payment cards	(361)	(289)
Other	(68)	(77)
Fee and commission expense	**(520)**	**(448)**
Net fee and commission income	**2,789**	**2,634**

Net fee and commission income from payment services includes FX commissions from flat 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 and sell FX rates 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 payment and currency exchange transactions with clients of the Bank.

8. Net trading income

MCZK	2011	2010
Net realized and unrealized gain/(loss) from securities held for trading	(6)	64
Net realized and unrealized gain/(loss) from derivatives held for trading	394	1,128
Net realized and unrealized gain/(loss) from spot FX transactions and from revaluation of receivables and liabilities denominated in FX	(9)	(631)
Net trading income	**379**	**561**

9. General administrative expenses

MCZK	2011	2010
Personnel expenses		
Wages and salaries paid to employees	(1,421)	(1,252)
Social and health insurance	(632)	(546)
	(2,053)	**(1,798)**
Including wages and salaries paid to:		
Members of the Board of Directors	(52)	(46)
Other executives	(105)	(113)
	(157)	**(159)**
Other administrative expenses		
Rent and building maintenance	(404)	(300)
Information technologies	(742)	(730)
Promotion and marketing	(328)	(309)
Consumables used	(51)	(37)
Audit, legal and advisory services	(117)	(77)
Payments services	(251)	(238)
Services	(370)	(277)
Other	(13)	(7)
	(2,276)	**(1,975)**
Depreciation of property and equipment	(127)	(144)
Amortization of intangible fixed assets	(1)	(1)
Impairment loss from property, equipment and intangibles	(26)	–
Release of impairment loss from tangible and intangible assets	14	16
	(140)	**(129)**
Total general administrative expenses	**(4,469)**	**(3,902)**

"Social and health insurance" includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 10 (for 2010: MCZK 10).

In 2011, the Bank moved headquarters from its own buildings into a new, rented building. The rental contract was treated as an operating lease. The contract obliges the Bank to make the following lease payments:

MCZK	Paid in 2011	Payable up to 1 year	Payable in 1–5 years	Payable after 5 years
Rent	8	13	381	1,096

Information about bonuses tied to equity is included in Note 30.

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

MCZK	2011	2010
Employees	1,807	1,682
Members of the Board of Directors	5	5
Members of the Supervisory Board	3	3
Other executives	25	30

10. Other operating income and expenses

MCZK	2011	2010
Income from written-off and ceded receivables	12	4
Income from rent	14	9
Release of impairment losses on other assets	1	–
Release of other provisions	–	2
Release of provisions for off-balance sheet items (see note 26(a))	238	–
Use of other provisions	2	2
Income from sale of property and equipment	378	–
Other	18	15
Total other operating income	**663**	**34**
Deposits and transactions insurance	(199)	(163)
Other receivables written off	(6)	(14)
Creation of impairment losses on other assets	(5)	(4)
Creation of other provisions (see note 26(b))	(110)	(25)
Loss on disposal of fixed assets	–	–
Creation of provisions for off-balance sheet items (see note 26(a))	(316)	(138)
Other	(31)	(7)
Total other operating expenses	**(667)**	**(351)**

"Income from sale of property and equipment" in 2011 represents the gain from sale of buildings which were reclassified during 2011 as held for sale and subsequently sold.
"Creation of other provisions" in 2011 includes creation of provisions related to relocation of the headquarters.

11. Net income from financial investments

MCZK	2011	2010
Net gain/(loss) from available-for-sale and held-to-maturity securities	(2,643)	(87)
Net gain/(loss) from hedging against risk of changes in fair value of available-for-sale securities	2	(22)
Net gain/(loss) from securities designated upon initial recognition at fair value through profit and loss	(19)	(15)
Net income from financial investments	**(2,660)**	**(124)**

In 2011, "Net loss from available-for-sale securities and held-to-maturity securities" includes an impairment loss from bonds issued by the Greek government of MCZK 2,723. In 2010, the item "Net loss from available-for-sale securities and held-to-maturity securities" includes an impairment loss of 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	31.12.2011	31.12.2010
Cash in hand	2,352	1,864
Obligatory minimum reserves	2,651	985
Other balances at central banks	76	4
Total cash in hand and balances with central banks	**5,079**	**2,853**

"Obligatory minimum reserves" comprise deposits whose average monthly value is determined in accordance with Czech National Bank (CNB) regulations and which are not available for ordinary operations. CNB provides 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 purposes of the statement of cash flows.

13. Financial assets held for trading

MCZK	31.12.2011	31.12.2010
Bonds and other securities with a fixed rate of return held for trading	15,641	10,832
Shares and other securities with a variable rate of return held for trading	27	16
Fair value of financial derivatives held for trading	4,980	4,012
Total financial assets held for trading	**20,648**	**14,860**

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

MCZK	31.12.2011	31.12.2010
Issued by financial institutions	171	–
Issued by government sector	15,470	10,832
Total	**15,641**	**10,832**

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

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

MCZK	31.12.2011	31.12.2010
Issued by financial institutions	2	7
Issued by non-financial institutions	25	9
Total	**27**	**16**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31.12.2011	31.12.2010
Interest rate contracts	3,265	2,326
Currency contracts	1,572	1,566
Equity contracts	45	36
Commodity contracts	98	84
Total	**4,980**	**4,012**

14. Receivables from banks

(a) Analysis of receivables from banks, by type

MCZK	31.12.2011	31.12.2010
Current accounts at other banks	1,733	537
Loans provided to banks	13,153	16,965
Term deposits	9,220	15,846
Total receivables from banks	**24,106**	**33,348**
Impairment of receivables from banks	–	–
Net receivables from banks	**24,106**	**33,348**

(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 2011 was MCZK 194 (as at 31 December 2010: MCZK 188). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, the interest rate is based on the relevant EURIBOR rate.

(c) Analysis of receivables from banks, by geographical sector

MCZK	31.12.2011	31.12.2010
Czech Republic	14,587	18,298
Other countries of European Union	8,933	14,412
Others	586	638
Total receivables from banks	**24,106**	**33,348**

15. Receivables from clients

(a) Analysis of receivables from clients, by type

MCZK	31.12.2011	31.12.2010
Loans to clients	188,099	178,300
Total receivables from clients	**188,099**	**178,300**
Impairment of receivables from clients	(6,319)	(6,230)
Net receivables from clients	**181,780**	**172,070**

The gross amounts shown above include unpaid interest from low-rated loans which are more than 90 days past due in the amount of MCZK 66 (as at 31 December 2010: MCZK 88) and loans that have not been adjusted for interest accruals in the amount of MCZK 1,535 (as at 31 December 2010: MCZK 1,197). Had the accrual principle been applied for interest income on these loans, the Bank would have recognized MCZK 57 as interest income for the year 2011 (for 2010: MCZK 44).

(b) Classification of receivables from clients

MCZK	31.12.2011	31.12.2010
Receivables not impaired		
Standard	171,652	159,432
Internal rating 1	*2,007*	*47*
Internal rating 2	*18,425*	*12,280*
Internal rating 3	*15,410*	*14,563*
Internal rating 4	*41,984*	*35,708*
Internal rating 5	*41,264*	*36,822*
Internal rating 6	*41,794*	*49,789*
Other internal ratings	*8,305*	*6,939*
Receivables without internal rating	*2,463*	*3,284*
Receivables impaired		
Watched	5,928	9,442
Substandard	4,346	4,201
Doubtful	1,494	561
Loss	4,680	4,664
Total receivables from clients	**188,099**	**178,300**

The Bank regularly classifies its receivables from clients. The categories used for classification consider the Bank's analysis as to the probability of repayment and analysis of the borrower's behaviour (number of days payments are past due, financial performance, payment discipline, 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 number of days past due. These standard receivables may also include receivables past due, as the Bank only classifies receivables past due having reached the amount of TCZK 1 per client.

MCZK	31.12.2011	31.12.2010
Receivables not impaired		
Due receivables	171,652	159,428
30–60 days past due	–	1
60–90 days past due	–	1
90–180 days past due	–	1
More than 180 days past due	–	1
Total receivables not impaired	**171,652**	**159,432**

(c) Analysis of receivables from clients, by sector

MCZK	31.12.2011	31.12.2010
Financial institutions	18,984	19,398
Non-financial institutions	125,518	121,254
Government sector	643	1,445
Non-profit organizations	293	348
Self-employed	1,238	1,300
Resident individuals	29,069	24,027
Non-resident	12,354	10,528
Total receivables from clients	**188,099**	**178,300**

(d) Analysis of receivables from clients, by type of collateral provided and classification

MCZK	Standard	Watched	Substandard	Doubtful	Loss	Total
As at 31 December 2011						
Bank and similar guarantee	12,098	150	–	–	–	12,248
Mortgage	36,746	470	443	61	374	38,094
Corporate guarantee	2,096	4	–	–	–	2,100
Other security	5,295	18	1	18	9	5,341
Unsecured	115,416	5,286	3,902	1,415	4,297	130,316
Total receivables from clients	**171,651**	**5,928**	**4,346**	**1,494**	**4,680**	**188,099**
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**

(e) Analysis of receivables from clients, by business activity

MCZK	31.12.2011	31.12.2010
Real estate services	52,812	52,710
Financial services	21,205	21,921
Wholesale	15,367	15,447
Household services	30,278	25,102
Retail	4,584	5,172
Leasing	632	391
Others	63,221	57,557
Total receivables from clients	**188,099**	**178,300**

(f) Analysis of receivables from clients, by region

MCZK	31.12.2011	31.12.2010
Czech Republic	175,745	167,772
Other countries of European Union	7,011	6,582
Other	5,343	3,946
Total receivables from clients	**188,099**	**178,300**

(g) Impairment of receivables from clients

MCZK	31.12.2011	31.12.2010
Impairment of individual receivables from clients	(5,524)	(5,158)
Watched	(277)	(544)
Substandard	(478)	(483)
Doubtful	(746)	(268)
Loss	(4,023)	(3,863)
Impairment of portfolios of standard receivables from clients	(795)	(1,072)
Total impairment of receivables from clients	**(6,319)**	**(6,230)**

MCZK		
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)**
Balance as at 1 January 2011		(6,230)
Creation during the current year	(2,835)	
Release during the current year	1,587	
Net effect on profit or loss		(1,248)
Receivables written off – use		1,183
FX differences		(24)
Balance of impairment of receivables from clients as at 31 December 2011		**(6,319)**

16. Financial investments

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

MCZK	31.12.2011	31.12.2010
Available-for-sale securities	50,022	40,350
Financial assets at fair value through profit and loss not held for trading	1,169	2,169
Total financial investments	**51,191**	**42,519**

Financial investments include bonds with a market value of MCZK 1,236 (as at 31 December 2010: MCZK 1,239) that were provided as collateral to the holder of a particular mortgage bonds issue.

The Bank holds Greek state bonds in its available-for-sale portfolio in nominal value of MEUR 120. The Bank has recorded an impairment loss of MCZK 2,723 in net profit from financial investments (see section 11).

(b) Analysis of available-for-sale securities

MCZK	31.12.2011	31.12.2010
Bonds and other securities with a fixed rate of return, by type of issuer		
Financial institutions	12,413	8,975
Government sector	30,005	26,101
Power industry	–	1,039
Other	5,392	2,215
Total	**47,810**	**38,330**
Shares and other securities with a variable rate of return, by type of issuer		
Financial institutions	2,199	2,006
Other	13	14
Total	**2,212**	**2,020**
Total available-for-sale securities	**50,022**	**40,350**
Thereof:		
Listed	47,788	38,304
Unlisted	2,234	2,046

(c) Analysis of securities designated at fair value through profit and loss at initial recognition not held for trading

MCZK	31.12.2011	31.12.2010
Bonds and other securities with a fixed rate of return, by type of issuer		
Financial institutions	878	1,352
Government sector	108	120
Other	183	697
Total	**1,169**	**2,169**
Total of securities designated at fair value through profit and loss at initial recognition not held for trading	**1,169**	**2,169**
Thereof:		
Listed	1,147	2,144
Unlisted	22	25

(d) Analysis of participation interests

Name	Registered office	Date of Acquisition	Acquisition price	Net book value 2011	Net book value 2010	Share of the Bank 31.12.2011	Share of the Bank 31.12.2010
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10.10.2001	0.24	0.24	0.24	20%	20%
Total			**0.24**	**0.24**	**0.24**	**–**	**–**

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 2010	3,256	751	320	2	43	4,372
Additions	64	30	8	–	158	260
Disposals	(32)	(46)	(13)	–	(169)	(260)
At 31 December 2010	3,288	735	315	2	32	4,372
At 1 January 2011	3,288	735	315	2	32	4,372
Additions	156	53	21	–	472	702
Disposals	(1,236)	(208)	(44)	(2)	(458)	(1,948)
At 31 December 2011	2,208	580	292	–	46	3,126
Depreciation						
At 1 January 2010	(1,508)	(630)	(258)	(2)	–	(2,398)
Charge for the year	(91)	(44)	(9)	–	–	(144)
Disposals	31	45	12	–	–	88
At 31 December 2010	(1,568)	(629)	(255)	(2)	–	(2,454)
At 1 January 2011	(1,568)	(629)	(255)	(2)	–	(2,454)
Charge for the year	(82)	(37)	(8)	–	–	(127)
Disposals	643	190	40	2	–	875
At 31 December 2011	(1,007)	(476)	(223)	–	–	(1,706)
Impairment						
At 1 January 2010	(356)	–	–	–	–	(356)
Release	16	–	–	–	–	16
At 31 December 2010	(340)	–	–	–	–	(340)
At 1 January 2011	(340)	–	–	–	–	(340)
Creation	(26)	–	–	–	–	(26)
Release	14	–	–	–	–	14
Other	54	–	–	–	–	54
At 31 December 2011	(298)	–	–	–	–	(298)
Net book value						
At 1 January 2010	**1,392**	**121**	**62**	**–**	**43**	**1,618**
At 31 December 2010	**1,380**	**106**	**60**	**–**	**32**	**1,578**
At 31 December 2011	**903**	**104**	**69**	**–**	**46**	**1,122**

The release of impairment losses is included in profit or loss in “General Administrative Expenses”.
The item “Disposals” consists mainly of the sale of buildings which were left by the Bank on moving to the new headquarters. Part of these buildings was sold during 2011 and the remaining part as at 31 December 2011 was reclassified to the portfolio of “Non-current assets held for sale”.

18. Intangible assets

Movements in intangible fixed assets

MCZK	Software	Software acquisition	Other	Total
Cost				
At 1 January 2010	6	–	9	15
Additions	–	–	–	–
Disposals	(1)	–	(4)	(5)
At 31 December 2010	5	–	5	10
At 1 January 2011	5	–	5	10
Additions	–	–	–	–
Disposals	–	–	–	–
At 31 December 2011	5	–	5	10
Amortization				
At 1 January 2010	(6)	–	(8)	(14)
Charge for the year	–	–	(1)	(1)
Disposals	1	–	5	6
At 31 December 2010	(5)	–	(4)	(9)
At 1 January 2011	(5)	–	(4)	(9)
Charge for the year	–	–	(1)	(1)
Disposals	–	–	–	–
At 31 December 2011	(5)	–	(5)	(10)
Net book value				
At 1 January 2010	**–**	**–**	**1**	**1**
At 31 December 2010	**–**	**–**	**1**	**1**
At 31 December 2011	**–**	**–**	**–**	**–**

19. Other assets

MCZK	31.12.2011	31.12.2010
Prepaid expense and accrued income	211	133
Trade receivables	394	350
Positive fair value of hedging derivatives	20	21
Receivables from securities	3,313	1,892
Suspense accounts	328	180
Overpayment from advances for income tax and other tax receivable	213	–
Other	4	4
Total other assets	**4,483**	**2,580**
Impairment of other assets	(12)	(7)
Net other assets	**4,471**	**2,573**

Impairment of other assets

MCZK	
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)**
Balance as at 1 January 2011	(7)
Creation during the current year	(6)
Release during the current year	–
Write-offs covered by impairment provisions and others	1
Balance of impairment of other assets as at 31 December 2011	**(12)**

The impairment is presented in profit or loss under “Other operating expenses”.

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 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)**
Balance as at 1 January 2011	(6,230)	(100)	(340)	(7)	(6,677)
Creation during the current year	(2,835)	(2,723)	(26)	(6)	(5,590)
Release during the current year	1,587	–	14	–	1,601
Write-offs and others	1,159	100	54	1	1,314
Impairment loss as at 31 December 2011	**(6,319)**	**(2,723)**	**(298)**	**(12)**	**(9,352)**

21. Non-current assets held for sale

The Bank decided to leave its headquarters buildings and subsequently to sell them. A part of the buildings was sold in 2011, and sale of the remaining part shall occur in 2012. The net gain from sale of the buildings is presented within “Other operating income”.

22. Deposits from banks

Analysis of deposits from banks, by type

MCZK	31.12.2011	31.12.2010
Current accounts	3,636	3,118
Bank loans	15,915	5,053
Term deposits	12,885	23,210
Total deposits from banks	**32,436**	**31,381**

23. Deposits from clients

(a) Analysis of deposits from clients, by type

MCZK	31.12.2011	31.12.2010
Current accounts	111,085	101,238
Loans	16,828	12,283
Term deposits	31,192	40,093
Issued depository notes	16,291	15,619
Saving deposits	3,338	5,140
Total deposits from clients	**178,734**	**174,373**

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

(b) Analysis of deposits from clients, by sector

MCZK	31.12.2011	31.12.2010
Financial institutions	11,040	15,138
Non-financial institutions	77,736	75,147
Government sector	22,036	15,870
Non-profit organizations	1,359	1,177
Self-employed	13,506	11,405
Resident individuals	41,054	43,522
Non-residents	12,003	12,114
Total deposits from clients	**178,734**	**174,373**

24. Debt securities issued

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

MCZK	31.12.2011	31.12.2010
Mortgage bonds	21,809	18,992
Structured bonds	4,506	3,104
Zero coupon bonds	4,767	2,219
Other issued bonds	313	142
Net book value	**31,395**	**24,457**

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Interest rate	31.12.2011 MCZK	31.12.2010 MCZK
19 August 2004	19 August 2012	CZK	6.00%	1,341	1,361
29 September 2005	29 September 2015	CZK	4.00%	1,038	1,045
5 October 2005	5 October 2015	CZK	4.50%	6,249	6,078
23 November 2005	15 November 2025	CZK	5.00%	165	166
15 June 2007	15 June 2012	CZK	5.00%	1,017	1,023
12 December 2007	15 March 2011	CZK	–*	–	622
12 December 2007	15 June 2011	CZK	–*	–	694
12 December 2007	15 September 2011	CZK	–*	–	409
12 December 2007	15 December 2011	CZK	–*	–	468
12 December 2007	15 March 2012	CZK	–*	3,825	560
12 December 2007	15 December 2017	CZK	6.00%	791	188
12 December 2007	21 December 2017	CZK	6.60%	7,383	6,378
Total of mortgage bonds issued				**21,809**	**18,992**

* discounted mortgage bonds

25. Financial liabilities held for trading

MCZK	31.12.2011	31.12.2010
Negative fair values of financial derivatives held for trading		
Interest rate contracts	2,976	2,107
Currency contracts	982	896
Equity contracts	43	36
Commodity contracts	96	84
Liabilities from short sales of securities	1,392	966
Total financial liabilities held for trading	**5,489**	**4,089**

26. Provisions

Provisions include the following items:

MCZK	31.12.2011	31.12.2010
Provisions for off-balance sheet credit items	641	563
Other provisions	488	145
Claims and litigations	88	85
Unclaimed vacation and bonuses	293	60
Other	107	–
Total provisions	**1,129**	**708**

(a) Provisions for off-balance sheet credit items

MCZK	
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**
Balance at 1 January 2011	563
Creation during the current year	316
Release during the current year	(238)
Balance of provisions for off-balance sheet credit items at 31 December 2011	**641**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation and bonuses	Other	Total
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**
Balance at 1 January 2011	85	60	–	145
Creation during the current year	3	293	107	403
Use during the current year	–	–	–	–
Release of provisions	–	(60)	–	(60)
Balance of provisions at 31 December 2011	**88**	**293**	**107**	**488**

In 2010, the Bank presented an estimated payable for bonuses; in 2011 the item was presented as a provision. Creation of provisions for unclaimed vacation and bonuses is presented in “General administrative expense” in the row “Wages and salaries paid to employees”. The creation of other provisions in 2011 includes provisions for expenses related to moving the headquarters and preparing the buildings for sale.

27. Other liabilities

MCZK	31.12.2011	31.12.2010
Deferred income and accrued expenses	138	72
Trade payables	45	50
Negative fair value of hedging derivatives	2,513	2,035
Income taxes payable	–	32
Other taxes payable	33	8
Estimated payables	331	482
Unsettled securities transactions	1	–
Suspense accounts	2,973	1,243
Other	39	13
Total other liabilities	**6,073**	**3,935**

28. Income tax

(a) Tax in profit or loss

MCZK	31.12.2011	31.12.2010
Current year income tax	(184)	(597)
Income tax for previous period (adjustment of estimate)	(34)	111
Total current income tax	**(218)**	**(486)**
Deferred tax	30	15
Total income tax	**(188)**	**(471)**

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

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	31.12.2011	31.12.2010
Current year profit (loss) before tax	1,334	3,473
Income tax calculated using tax rate 19%	(253)	(660)
Effect of the difference between Czech Accounting Standards used for calculating the tax base and IFRS	–	(1)
Effect of previous years	15	138
Foreign income tax effect	19	19
Non-taxable income	223	155
Tax non-deductible expenses	(222)	(139)
Change in deferred tax	30	15
Other	–	2
Total income tax	**(188)**	**(471)**

The effective tax rate of the Bank is 14.1% (for 2010: 13.6%).

(b) Tax in statement of financial position

The Bank made advance payments for income tax of MCZK 421 (for 2010: MCZK 565). When offsetting with the income tax receivable, the Bank presents for the accounting period net tax receivable of MCZK 213 in the item "Other assets" (as at 31 December 2010: net tax payable of MCZK 32 included in "Other liabilities").

(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	31.12.2011		31.12.2010	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	84	–	16	–
Social and health insurance from bonuses	14	–	14	–
Impairment of loans	151	–	204	–
Fixed assets net book value differences	12	–	–	(11)
Other	–	–	9	–
Deferred tax liability/asset	261	–	243	(11)
Net deferred tax liability/asset recognized in profit or loss	**261**	**–**	**232**	**–**
Cash flow hedge revaluation reserves	–	(208)	–	(7)
Revaluation reserve for available-for-sale assets	–	(186)	149	–
Deferred tax liability/asset recognized in other comprehensive income	–	(394)	149	(7)
Net deferred tax liability/asset recognized in other comprehensive income	**–**	**(394)**	**142**	**–**
Total deferred tax liability/asset	**(133)**	**–**	**373**	**–**

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 it highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2011 based on the Bank's current and expected future level of taxable profits.
Due to the application of the prudence principle, the Bank does not recognize deferred tax asset attributable to fixed assets net book value differences in the amount of MCZK 86 (as at 31 December 2010: MCZK 34).

29. Issued capital and share premium

The issued capital (registered, subscribed and paid-up) as at 31 December 2011 totalled MCZK 8,750 (as at 31 December 2010: MCZK 7,325). In 2011, the Bank raised the issued capital by MCZK 1,425 and this increase was recorded in the Commercial Register on 31 May 2011. The Bank raised the issued capital in 2010 by MCZK 2,200 and this 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 2011				
UniCredit Bank Austria AG, Vienna	Austria	8,750	3,481	100
Total		**8,750**	**3,481**	**100**
As at 31 December 2010				
UniCredit Bank Austria AG, Vienna	Austria	7,325	3,481	100
Total		**7,325**	**3,481**	**100**

(b) Issued capital analysis

	31.12.2011 Number of shares	31.12.2011 MCZK	31.12.2010 Number of shares	31.12.2010 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	436,500	4,365	294,000	2,940
Common share at CZK 7,771,600	10	78	10	78
Total of issued capital		**8,750**		**7,325**

Shares are transferable with the approval of the General Meeting. 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 2011 and 31 December 2010.

30. Bonuses tied to equity

The Bank has not implemented any incentive bonus schemes or motivation programme for employees to purchase the Bank's shares or paid any remuneration in the form of options to purchase such shares.

31. Reserve funds and retained earnings

Reserve funds are as follows:

MCZK	31.12.2011	31.12.2010
Statutory reserve fund	1,175	1,025
Other reserve funds	1,824	1,824
Reserve funds total	**2,999**	**2,849**
Retained earnings	**16,377**	**18,232**

The Bank creates, in accordance with the law, a statutory reserve fund (part of the item "Reserve funds"). The statutory reserve fund is created from net profit as at the date of preparing 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 annually by 5% of the net profit up to 20% of the registered capital. The statutory reserve fund can only be used to cover incurred losses and use of the statutory 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 2011 of MCZK 1,146 as follows:
- allocation to statutory reserve fund of MCZK 57
- the remaining part totalling MCZK 1,089 will be transferred to retained earnings

The Bank does not intend to pay dividends.

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

(a) Resale commitments

MCZK	31.12.2011	31.12.2010
Receivables from banks	12,782	16,610
Fair value of securities received	12,578	16,306
Receivables from clients	7	379
Fair value of securities received	8	377

(b) Repurchase commitments

MCZK	31.12.2011	31.12.2010
Deposits from banks	7,786	–
Fair value of securities given (Financial assets held for trading)	5,414	–
Fair value of securities given (Financial investments)	2,484	–
Deposits from clients	16,828	12,283
Fair value of securities given (Financial assets held for trading)	11,829	4,015
Fair value of securities given (Financial investments)	5,013	8,267

33. Contingent liabilities, contingent assets and derivatives

During regular business operations the Bank enters into various financial operations which are not recognized in the balance sheet. These are called off-balance sheet operations. Unless stated otherwise, the following off-balance sheet operations are stated in their nominal amounts.

(a) Contingent liabilities

Litigation and claims

The Bank reviewed all legal disputes affecting the Bank as at 31 December 2011 and created appropriate provisions for litigation and claims (see Note 26). 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 not certain which interpretation the tax authority will choose. The results of this uncertainty cannot be quantified and their resolution may only be possible after legislation will become operational or official interpretation will become available.

Liabilities from guarantees and credit commitments and other contingent liabilities

Unused credit commitments comprise one of the most significant parts 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 obligation to provide loans or guarantees and the fulfilment of such obligation 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 realize 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 35).

Letters of credit represent the Bank's written irrevocable obligation to provide funds to a third party or to its order (beneficiary, commissioned) if the letter of credit's conditions are fulfilled in a defined period. It is issued on the basis of the customer's (applicant's) request. The Bank creates reserves for these financial instruments using a similar algorithm as that used when creating loan loss provisions (see Note 35).

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 2011, the total amount of these provisions was MCZK 641 (as at 31 December 2010: MCZK 563) (see Note 26 (a)).

MCZK	31.12.2011	31.12.2010
Letters of credit and financial guarantees	28,931	23,642
Other contingent liabilities (unused credit commitments)	75,788	68,833
Total	**104,719**	**92,475**

Values taken into administration and management

MCZK	31.12.2011	31.12.2010
Bonds	202,571	189,109
Shares	180,789	191,922
Depository notes	31,317	25,155
Total values taken into administration and management	414,677	406,186

(b) Contingent assets

As at 31 December 2011, the Bank had an option to draw a credit line provided by the European Investment Bank (EIB) amounting to MCZK 1,590 (MEUR 50) with the latest maturity of 8 years from the time of drawing. This line item is specifically for the refinancing of credits that fulfil the conditions of the EIB and it will be drawn during 2012.

As at 31 December 2010, the Bank did not have an option to draw any loans.

(c) Financial derivatives

Financial derivatives from the interbank market (OTC derivatives)

MCZK	Contractual amounts 31.12.2011	Contractual amounts 31.12.2010	Fair value 31.12.2011	Fair value 31.12.2010
Hedging instruments				
Interest rate swap contracts	82,457	70,768	1,159	194
Cross currency swap contracts	35,646	27,042	(359)	(337)
Trading instruments				
Forward rate agreements (FRA)	–	2,139	–	–
Interest rate swap contracts	124,285	108,867	279	196
Forward foreign exchange contracts			217	6
Purchase	8,211	46,038		
Sale	7,970	46,045		
Option contracts			36	23
Purchase	53,909	59,026		
Sale	53,909	59,026		
Cross currency swap contracts	33,741	12,637	340	640

Listed financial derivatives

MCZK	Contractual amounts 31.12.2011	Contractual amounts 31.12.2010	Fair value 31.12.2011	Fair value 31.12.2010
Trading instruments				
Interest rate futures	1,226	1,291	9	22
Commodity instruments	2,283	935	2	1

Residual maturity of financial derivatives

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

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 2011									
Hedging instruments									
Interest rate swap contracts	532	668	12,928	15,187	8,366	7,764	8,841	28,171	82,457
Cross currency swap contracts	1,539	327	861	5,853	5,860	1,660	2,007	17,539	35,646
Trading instruments									
Interest rate swap contracts	800	2,034	12,886	23,857	21,912	21,804	9,722	31,270	124,285
Foreign exchange contracts (Purchase)	763	2,506	3,243	1,589	103	7	–	–	8,211
Foreign exchange contracts (Sale)	756	2,410	3,144	1,551	102	7	–	–	7,970
Option contracts (Purchase)	2,392	9,557	17,410	10,154	3,106	2,834	2,458	5,998	53,909
Option contracts (Sale)	2,392	9,557	17,410	10,154	3,106	2,834	2,458	5,998	53,909
Interest rate futures	1,226	–	–	–	–	–	–	–	1,226
Commodity instruments	40	90	1,148	2	1,003	–	–	–	2,283
Cross currency swap contracts	23,097	6,946	206	507	800	131	–	2,054	33,741
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

34. Segment reporting

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

(a) Information on segments based on client categories

MCZK	Retail banking, including small and medium-sized firms	Private, corporate and investment banking	Other	Total
As at 31 December 2011				
Net interest and dividend income	1,657	4,263	627	6,547
Other net income	995	2,233	(2,724)	504
Depreciation of property and equipment and amortization of intangible assets	(90)	(3)	(47)	(140)
Impairment and provisions	(8)	(1,314)	74	(1,248)
Segment expenses	(2,375)	(1,834)	370	(4,579)
Profit before tax	179	3,345	(2,190)	1,334
Income tax	–	–	(188)	(188)
Result of segment	179	3,345	(2,378)	1,146
Segment assets	35,145	195,450	58,149	288,744
Segment liabilities	64,566	171,598	19,486	255,650

MCZK	Retail banking, including small and medium-sized firms	Private, corporate and investment banking	Other	Total
As at 31 December 2010				
Net interest and dividend income	1,385	3,974	843	6,202
Other net income	745	2,303	(294)	2,754
Depreciation of property and equipment and amortization of intangible assets	(87)	(4)	(38)	(129)
Impairment and provisions	(498)	(1,232)	149	(1,581)
Segment expenses	(1,972)	(1,623)	(984)	(4,579)
Profit before tax	(427)	3,418	482	3,473
Income tax	–	–	(471)	(471)
Result of segment	(427)	3,418	11	3,002
Segment assets	29,721	193,482	46,973	270,176
Segment liabilities	63,469	157,503	17,971	238,943

35. 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 Underwriting, Credit Models & Reporting, and Credit Operations departments are directly responsible for credit risk management. All are organizationally independent of the business divisions and directly accountable to the 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 & Reporting

Department 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 analysing 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, quality of reporting, production equipment, account-use history and behaviour, 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 borrower prepared by a reputable rating agency is available, those rating results also are taken into account in assessing the borrower. However, this rating does not take the place of the Bank's internal rating system.
For receivables from individuals, the ability of the client to fulfil his or her obligations 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. A client's final rating combines the application and behavioural components.
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 has created a system of internal limits for certain countries, branches and economically connected groups of debtors and regularly monitors its involvement in different segments.
The Bank assesses the concentration risk of a loan portfolio on a regular basis and determines concentration limits when necessary in relation to specific industries, countries, or 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 account receivable or portfolio of receivables, respectively, in accordance with IFRS.

<u>Impairment of individual loans</u>

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; that is, 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 does not expect any income from that receivable or from realizing collateral related to such receivable.
The Bank calculates an individual impairment in the amount of the 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 acceptable value of collateral) and the discounted value of estimated future cash flows from the unsecured part of the loan.

<u>Impairment of loan portfolios</u>

The Bank recognizes impairment losses of the standard loans portfolio if it identifies a decrease in the portfolio's carrying amount as a result of events indicating a decrease of expected future cash flows from this portfolio.
Provisions are assigned to individual portfolios, not to individual loan cases.
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 the receivable is excluded from the portfolio of standard receivables and the decrease in the value is considered in accordance with the common practice used for individual receivables; that is, a provision for the concrete 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 is currently recorded a particular balance sheet receivable fulfilling the conditions for ranking into the watched loan category or a loan with debtor's default category and the Bank creates the provisions for such loans.
Note: The Bank does not create such provisions for undrawn credit lines for credit cards issued.

(ii) Provisions for selected off-balance sheet items at the Bank's clients for whom the Bank records no balance sheet receivable in a given period, even though, in a case that such receivable would exist the conditions for ranking it into watched loan or loan with debtor's default category 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 used in creating impairment of loan portfolios.

(iv) Recovery of receivables

The Bank has established a Credit Workout and Restructuring Unit to deal with the recovery of loans in respect of receivables considered to be at risk. This unit 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, sale of receivable with a discount, etc.);
d) prevention of further losses from the loan (comparison of future income versus expenses).

(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 its 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, or "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 negotiated on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(ii) Market risk management

Below are described selected risks to which the Bank is exposed through its trading activities, 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 flow 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 observing 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 to meet the accounting criteria for the application of hedge accounting.

Value at Risk

Value at Risk represents 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 the 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 upon 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 the 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 Department, Market Risk Department, Assets & Liabilities Management Unit, and the MARS of the parent bank and sub-holding).

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

Following are the Bank's Values at Risk:

MCZK	As at 31.12.2011	Average 1.1.2011 – 31.12.2011	As at 31.12.2010	Average 1.1.2010 – 31.12.2010
VaR of interest rate instruments	178.1	142.3	154.3	192.0
VaR of currency instruments	2.0	1.7	2.0	2.1
VaR of equity instruments	0.57	0.96	0.3	0.7

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 assets side in comparison with the liabilities. This is seen in the negative 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 rise in market valuation. The Bank's interest rate position is diversified into individual time bands and 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 managing the assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional incongruity between the interest rate sensitive assets and liabilities.
The Bank applies a "Basis Point Value (BPV)" approach for measuring interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. it represents the sensitivity of instruments to interest rate risks.
The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the "BPV limit").

Stress testing of interest rate risk
The Bank carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on 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 whole 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 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve for major currencies (CZK, EUR, USD), with a maturity of up to 2 years, by 250 basis points.
The following table shows the impact on the Bank's profit from a parallel shift of the yield curve. The Bank uses the euro as the base currency for stress testing. The values as at year ends and maximum and minimum values are translated to CZK by the CNB FX rate as at 31 December of the particular year (2011: 25.80 CZK/EUR; 2010: 25.06 CZK/EUR). Average values are translated to CZK by the average value of daily FX rates for the particular year (average 2011: 24.586 CZK/EUR; average 2010: 25.2878 CZK/EUR):

MEUR	Basic stress test −200bp	+200bp	MM stress test +250bp
Value as at 31 December 2011	54	(124)	(254)
Average for the year	(115)	124	(43)
Maximum value	452	539	103
Minimum value	(364)	(333)	(254)
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)

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

MCZK	% EIR 1	Up to months	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 2011											
Cash in hand and balances with central banks	–	2,727	–	–	–	–	–	–	–	2,352	5,079
Financial assets held for trading	3.67	–	153	15,496	–	–	–	–	–	4,999	20,648
Receivables from banks	0.98	19,262	4,224	620	–	–	–	–	–	–	24,106
Receivables from clients	3.72	45,520	61,130	45,984	11,002	7,664	3,991	2,601	3,888	–	181,780
Financial investments	4.07	4,371	3,989	40,619	–	–	–	–	–	2,212	51,191
Deposits from banks	1.19	19,237	11,529	1,670	–	–	–	–	–	–	32,436
Deposits from clients	0.87	162,873	4,759	6,399	3,171	1,017	225	266	24	–	178,734
Debt securities issued	5.34	495	5,708	25,026	119	47	–	–	–	–	31,395
Financial liabilities held for trading	–	–	–	–	–	–	–	–	–	5,489	5,489

MCZK	% EIR 1	Up to months	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

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.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc.) the amounts 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	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Interest rate swaps	14,364	11,597	(144)	21
Hedged instruments				
Available-for-sale securities			443	99
Receivables from clients			(201)	(226)
Debt securities issued			493	366
The remaining part of formerly hedged financial instruments				
Available-for-sale securities			–	(7)
Receivables from clients			–	–

In line with a change in group strategy in the area of hedge accounting, the Bank discontinued 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 until 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 in market interest rates. Future anticipated transactions ensue from contracts actually concluded as well as from future transactions established on the basis of replication models. The hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).
The effectiveness of a cash flow hedge is determined in accordance with 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 (established on the basis of refinancing the “funding” rate) may be considered as variable are identified for specific currencies (hedged cash flows). Second, for these same currencies the nominal interest cash flows of variable hedging instruments 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 hedging derivatives. The time periods are defined as follows: 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.

	Contractual amount		Fair value	
MCZK	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Interest rate swaps	68,093	59,172	1,303	176
Cross currency swaps	35,646	27,042	(359)	(337)

Currency risk

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

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The 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 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 2011							
Cash in hand and balances with central banks	4,206	572	189	39	–	73	5,079
Financial assets held for trading	20,227	421	–	–	–	–	20,648
Receivables from banks	13,824	9,819	4	140	12	307	24,106
Receivables from clients	127,601	51,763	1,603	735	13	65	181,780
Financial investments	37,273	13,867	–	–	51	–	51,191
Property and equipment	1,122	–	–	–	–	–	1,122
Intangible assets	–	–	–	–	–	–	–
Deferred tax asset	261	–	–	–	–	–	261
Other assets	4,125	249	96	–	–	1	4,471
Non-current assets for sale	86	–	–	–	–	–	86
Deposits from banks	13,096	17,961	1,143	–	–	236	32,436
Deposits from clients	145,154	27,751	4,749	412	19	649	178,734
Debt securities issued	30,313	843	239	–	–	–	31,395
Financial liabilities held for trading	5,458	31	–	–	–	–	4,489
Provisions	1,037	92	–	–	–	–	1,129
Deferred tax liability	394	–	–	–	–	–	394
Other liabilities	5,187	652	222	4	–	8	6,073
Equity	33,308	(216)	–	2	–	–	33,094
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

Equity risk

Equity risk is the risk of movement in the prices of equity instruments held in the Bank's portfolio and of financial derivatives derived from these instruments. The main source of this risk is trading in equity instruments, although some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity risk

Liquidity risk arises as a result of the manner of financing the Bank's activities and managing its positions. It includes both the risk that the Bank would be unable to finance its assets using instruments with appropriate maturity and the risk that the Bank would be unable to dispose of its assets for an appropriate price within the necessary time period.

The Bank has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans accepted (including subordinated loans) and its equity. This diversification makes the Bank flexible and limits its dependency on any single funding source.

The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Board of Directors. The Bank also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Bank using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach the Bank daily monitors in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If the limits are breached, the Bank takes action to reduce the liquidity risk. In the long-term perspective, the Bank monitors the difference between the maturity of assets and liabilities in periods longer than a year. For products with a non-specified maturity (i.e. current accounts) the Bank has developed a model for their expected residual maturity. The Bank again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing).

For the case of a liquidity crisis, the Bank has drawn up a contingency plan. 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 systemic interruption of the interbank money market, a decrease in the Bank's credit rating, IT systems breakdowns and reputation risk to the Bank. The stress scenarios' results are presented to the ALCO.

Residual maturity of the Bank's assets and liabilities:

MCZK	Up to 1 month	1-3 months	3 months – 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspecified	Total
As at 31 December 2011										
Cash in hand and balances with central banks	2,727	–	–	–	–	–	–	–	2,352	5,079
Financial assets held for trading	212	736	13,228	1,487	1,081	899	291	2,613	41	20,648
Receivables from banks	15,908	4,224	1,523	645	645	645	516	–	–	24,106
Receivables from clients	15,718	9,496	28,705	21,544	16,297	12,012	28,557	49,451	–	181,780
Financial investments	3,204	1,471	7,828	2,469	1,283	13,595	3,523	17,818	–	51,191
Property and equipment	–	–	–	–	–	–	–	–	1,122	1,122
Intangible assets	–	–	–	–	–	–	–	–	–	–
Deferred tax asset	–	–	–	–	–	–	–	–	261	261
Other assets	40	19	103	316	173	356	388	1,923	1,153	4,471
Non-current assets held for sale	–	86	–	–	–	–	–	–	–	86
Total	**37,809**	**16,032**	**51,447**	**26,461**	**19,479**	**27,507**	**33,275**	**71,805**	**4,929**	**288,744**
Deposits from banks	18,149	6,111	169	3	10	7	1,432	6,555	–	32,436
Deposits from clients	151,107	12,353	8,594	3,232	1,027	225	266	29	1,904	178,737
Debt securities issued	–	3,943	5,045	3,851	1,265	8,007	446	8,393	445	31,395
Financial liabilities held for trading	257	206	468	704	613	690	300	2,251	–	5,489
Provisions	–	–	–	–	–	–	–	–	1,129	1,129
Deferred tax liability	–	–	–	–	–	–	–	–	394	394
Other liabilities	51	–	124	252	280	222	219	1,408	3,517	6,073
Equity	–	–	–	–	–	–	–	–	33,094	33,094
Total	**169,561**	**22,613**	**14,400**	**8,042**	**3,195**	**9,151**	**2,663**	**18,636**	**40,483**	**288,744**
Gap	**(131,752)**	**(6,851)**	**37,047**	**18,419**	**16,284**	**18,356**	**30,612**	**53,169**	**(35,554)**	**–**
Cumulative gap	**(131,752)**	**(138,333)**	**(101,286)**	**(82,867)**	**(66,583)**	**(48,227)**	**(17,615)**	**35,554**	**–**	

MCZK	Up to 1 month	1-3 months	3 months – 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**	**–**	

The following table shows the undiscounted cash flows for the Bank's non-derivative financial liabilities, including issued guarantees and unused loan commitments. These financial instruments are split into time baskets on the basis of residual maturity of loan commitments. The Bank's expected cash flows for the stated instruments differ 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 inflows / (outflows) in the following table represent the contractual undiscounted cash flows relating to derivative financial liabilities. The values represent actually known nominal cash flows and also future nominal cash flows determined on the basis of FRA rates calculated from yield curves as at 31 December 2011.

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 – 1 year	1-5 years	Over 5 years.	Unspe-cified
As at 31 December 2011								
Deposits from banks	32,436	(34,373)	(14,519)	(6,105)	(172)	(2,002)	(7,939)	(3,636)
Deposits from clients	178,734	(179,035)	(44,419)	(10,040)	(8,502)	(4,957)	(40)	(111,077)
Debt securities issued	31,395	(36,462)	–	(4,480)	(4,656)	(15,075)	(12,251)	–
Financial liabilities held for trading	1,392	(1,392)	(1,392)	–	–	–	–	–
Total	**243,960**	**(251,262)**	**(60,330)**	**(20,625)**	**(13,330)**	**(22,034)**	**(20,230)**	**(114,713)**
Unused credit commitments	75,788	(75,789)	(4,227)	(4,812)	(24,185)	(22,345)	(20,220)	–
Letters of credits and bank guarantees	28,931	(28,931)	(1,086)	(1,903)	(9,386)	(14,314)	(2,242)	–
As at 31 December 2010								
Deposits from banks	31,381	(32,333)	(22,177)	(1,508)	(491)	(82)	(4,957)	(3,118)
Deposits from clients	174,373	(174,594)	(49,160)	(14,468)	(7,539)	(2,197)	(7)	(101,223)
Debt securities issued	24,457	(28,907)	–	(752)	(2,960)	(15,250)	(9,945)	–
Financial liabilities 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)	–

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. – 1 year	1-5 years	Over 5 years	Unspe-cified
As at 31 December 2011								
Trading derivatives	4,097	–	–	–	–	–	–	–
Inflows	–	26,946	14,373	7,924	588	2,007	2,054	–
Outflows	–	(25,879)	(14,150)	(7,062)	(565)	(2,019)	(2,083)	–
Derivatives used for hedging	2,513	–	–	–	–	–	–	–
Inflows	–	46,892	1,551	330	634	27,093	17,284	–
Outflows	–	(47,285)	(1,727)	(330)	(643)	(27,219)	(17,366)	–
Total	**6,610**	**674**	**47**	**862**	**14**	**(138)**	**(111)**	**–**
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)**	**–**

(d) Operational risk

Operational risk constitutes the risk of a loss due to the absence or violation of, 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 Department is an independent body, which directly reports to the Board of Directors' member responsible for finance and operational risk management.

The Operational Risk Department is entrusted with securing unified and coordinated operational risk management, in accordance with the applicable regulations and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the individual departments.

The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and it assesses the control and management system's functionality.

In 2011, the Bank continued developing and setting up a comprehensive system for identifying, monitoring and managing operational risk.

To ensure effective collection of operational risk events and data, the Bank uses an online information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management, in accordance with the new Basel II regulation. The data acquired through the system form 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 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 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 necessary. The data is regularly reconciled with the accounting and other sources in order to ensure its completeness and accuracy.

In 2011, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) constitutes another important part of operational risk management. In 2011, the Bank updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness in the current conditions of the Bank. The Operational Risk Department also is increasing the overall awareness of operational risk within the Bank and is training the Bank's staff by means of e-learning, among other training methods.

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

(e) Capital management

The banking market regulator, the Czech National Bank (CNB), establishes 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. These 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	31.12.2011	31.12.2010
Tier 1 capital		
Paid up registered capital	8,750	7,325
Share premium	3,481	3,481
Reserve funds	2,999	2,849
Retained earnings	16,340	18,195
Planned dividends	–	(3,000)
Intangible assets	–	(1)
Total Tier 1	31,570	28,849
Tier 2		
IRB provision excess over expected loss	285	–
Total Tier 2	285	–
Deductible items		
Subordinated debt – granted	–	–
Significant prudential adjustments	(42)	(44)
Total deductible items	(42)	(44)
Total regulatory capital	**31,813**	**28,805**

Capital funds amounting to MCZK 37 are not included in Tier 1.

Management monitors development of the Bank's capital adequacy and its capital position. The Bank's capital adequacy fulfils the minimum requirement of 8% set by the CNB and Basel II. Management believes that potentially stricter capital adequacy rules that could become effective in 2012 – although that is uncertain as at the date of these financial statements – will not materially affect the Bank's situation.

(f) Market development in 2011

The year 2011 was marked by great distress on the markets in relation to worries about the possibility of a repeated recession and the growing debt crisis in Europe. In the first quarter of 2011, there was unexpected recovery in the global economy that was accompanied by rising interest rates. In the second quarter of 2011, however, a negative outlook began to prevail, based upon worries about future developments and uncertainty over the European debt crisis. This was mostly related to the situation in Greece, but also to such other European countries as Spain, Portugal, Ireland and Italy. Starting with the second quarter, therefore, interest rates began a gradual decline, reaching their lowest point at the beginning of September. Despite this negative development, the Bank recorded only a slight decrease in net interest revenues compared to plan.

The Bank has invested excess liquidity into Czech state bonds, whose credit risk margins have, in the context of the negative development in other European countries, remained at acceptable levels. Investments into other bonds were very carefully analysed in terms of their issuers' credit ratings and the ability to use those bonds as collateral for repo operations with central banks in order to ensure a high level of liquidity and other sources of financing in case of sudden need.

During 2011, the Bank continued improving its systems and processes of financial risk management in the following ways:

(i) In the credit risk area

– correction of specific credit policies for clients in selected sectors (financing of commercial properties, power supply, automotive industry, construction industry, machinery, chemical industry and transportation)
– change of selected product parameters for credit products in retail banking
– improvement of the credit fraud identification process in retail banking

– strengthening the credit portfolio monitoring process (timely identification of warning signals) and the credit receivables recovery process
– continuous improvement in the area of credit risk stress testing
– preparation for usage of an advance (A-IRB) approach to calculate capital requirements on credit risk for the entire banking portfolio (primarily introducing into internal processes of the Bank's own estimation of LGD and EAD)
– continuous improvement of the Bank's rating models (primarily by introducing a behavioural component into the model for standard corporate clients and introducing retail rating models which combine the application and behavioural components).

(ii) In the market risk area
– During 2011, the Bank worked on preparations for internal VaR model implementation to calculate capital requirements on the market risk of the trading portfolio, together with improving the control procedure in the market risk process.

(iii) In the liquidity area
– The Bank improved measurement and analysis of its short-term liquidity with a view to creating sufficient reserves of highly liquid assets. The status of short-term liquidity is regularly examined by stress tests. By using stress scenarios, the Bank regularly tests its ability to successfully face unexpected developments on the financial markets. Scenarios are presented at each ALCO meeting.

36. 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 normal trade conditions and at normal market prices so that there is no injury to any of the contracting parties.
As related parties there were identified namely affiliated companies within the UCI/HVB/BACA Group, subsidiaries and associated companies, Board members and other executives of the Bank.

MCZK	31.12.2011	31.12.2010
Assets		
Receivables from banks	6,745	11,860
thereof:		
UniCredit Bank Austria AG	6,062	10,872
Bank Pekao SA	117	1
UniCredit Bank AG	315	660
UniCredit Bank Serbia Jsc	195	188
UniCredit S.p.A.	6	114
Receivables from clients	4,250	4,397
thereof:		
UniCredit Leasing GmbH	4,163	4,331
Board of Directors	6	7
Other executives	81	59
Financial investments	2,643	515
UniCredit Bank Austria AG	2,592	75
UniCredit Jelzalogbank Zrt	51	440
Total	**13,638**	**16,772**

MCZK	31.12.2011	31.12.2010
Liabilities		
Deposits from banks	8,251	15,718
thereof:		
UniCredit Bank Austria AG	6,154	5,745
UniCredit Luxembourg S.A.	28	3
UniCredit Bank AG	1,841	9,813
UniCredit Bank Slovakia a.s.	1	97
UniCredit S.p.A.	220	32
Deposits from clients	1,135	1,336
thereof:		
UniCredit Leasing GmbH	232	177
Pioneer Asset Management	318	538
Pioneer Investment Company	139	210
UniCredit Business Partner s.r.o.	92	50
Board of Directors	40	43
Other executives	68	68
Total	**9,386**	**17,054**

MCZK	2011	2010
Revenues		
Interest income and similar income	371	432
thereof:		
UniCredit Bank Austria AG	195	136
UniCredit Bank AG	–	96
UniCredit Leasing GmbH	131	152
UniCredit Jelzagobank Zrt.	24	–
Fee and commission income	10	8
thereof:		
UniCredit Bank AG	2	2
UniCredit Bank Austria AG	3	2
UniCredit Leasing GmbH	3	3
Total	**381**	**440**

MCZK	2011	2010
Expenses		
Interest expenses and similar charges	68	36
thereof:		
UniCredit S.p.A.	1	1
UniCredit Bank Slovakia a.s.	5	–
UniCredit Bank Austria AG	46	22
UniCredit Bank Hungary Zrt.	1	1
UniCredit Bank AG	11	6
Fee and commission expense	1	27
thereof:		
UniCredit Bank Austria AG	–	26
UniCredit S.p.A.	1	–
General administrative expenses	862	917
thereof:		
UniCredit Business Partner s.r.o.	236	198
UniCredit Servizi Informativi S.P.	585	648
Total	**931**	**980**

37. 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 certain financial instrument. Changes of initial assumptions used for establishing fair value could have significant impact on this value determination.

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

MCZK	31.12.2011 Carrying amount	31.12.2011 Fair value	31.12.2010 Carrying amount	31.12.2010 Fair value
Financial assets				
Receivables from banks	24,106	24,212	33,348	33,522
Receivables from clients	181,780	182,625	172,070	173,087
Financial liabilities				
Deposits from banks	32,436	34,279	31,381	32,538
Deposits from clients	178,734	178,988	174,373	174,579
Debt securities issued	31,395	31,411	24,457	24,449

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

- Level 1 – prices of same assets or liabilities quoted on active markets (not corrected)
- Level 2 – input data which do not belong to the first level but are objectively available, either directly (from price) or indirectly (derived from price)
- Level 3 – input data which is not visible from objectively available market data (objectively unavailable input data)

MCZK	Level 1	Level 2	Level 3	Total
As at 31 December 2011				
Financial assets				
Financial assets at fair value through profit and loss				
Securities held for trading	3,709	11,959	–	15,668
Derivatives held for trading	9	4,971	–	4,980
Securities not held for trading	86	1,083	–	1,169
Hedging derivatives with positive FV	–	3,313	–	3,313
Available-for-sale securities	14,969	34,461	592	50,022
Financial liabilities				
Financial assets at fair value through profit and loss				
Securities held for trading	1,272	120	–	1,392
Derivatives held for trading	–	4,097	–	4,097
Hedging derivatives with negative FV	–	2,513	–	2,513
As at 31 December 2010				
Financial assets				
Financial assets at fair value through profit and 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 and 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

The following tables state the transfers of financial assets and liabilities reported at fair value between levels 1 and 2.

Financial assets reported at fair value which were transferred between levels 1 and 2:	Financial assets at fair value through profit and loss			Available for sale securities	Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading			
31 December 2011						
Transfers from Level 1 to Level 2	–	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	(2,012)	–	(2,012)
31 December 2010						
Transfers from Level 1 to Level 2	–	–	–	–	–	–
Transfers from Level 2 to Level 1	(1,645)	–	(86)	(6,939)	–	(8,670)

Financial liabilities reported at fair value which were transferred between levels 1 and 2:	Financial liabilities at fair value through profit and loss			Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading		
31 December 2011					
Transfers from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	–	–	–	–	–
31 December 2010					
Transfers from Level 1 to Level 2	–	–	–	–	–
Transfers from Level 2 to Level 1	(825)	–	–	–	(825)

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

Financial assets reported at fair value which were transferred from and to Level 3:	Financial assets at fair value through profit value			Available for sale securities	Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading			
Balance as at 1.1.2010	–	–	–	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 31.12.2010	**–**	**2**	**3**	**629**	**–**	**634**
Total gains or losses included in profit and loss for the period:						–
Thereof: Total gains or losses for the period included in profit or loss for assets held at the end of reporting period						–
Balance as at 1.1.2011	**–**	**2**	**3**	**629**	**–**	**634**
Profit and loss from revaluation						
In profit or loss	–	–	–	–	–	–
In other comprehensive income	–	–	–	–	–	–
Purchases	–	–	–	23	–	23
Sales/ maturity	–	(2)	(3)	(60)	–	(65)
Transfers into Level 3	–	–	–	–	–	–
Transfers out of Level 3 to Level 2	–	–	–	–	–	–
Balance as at 31.12.2011	**–**	**–**	**–**	**592**	**–**	**592**
Total gains or losses included in profit and loss for the period:						–
Thereof: Total gains or losses for the period included in profit or loss for assets held at the end of reporting period						–

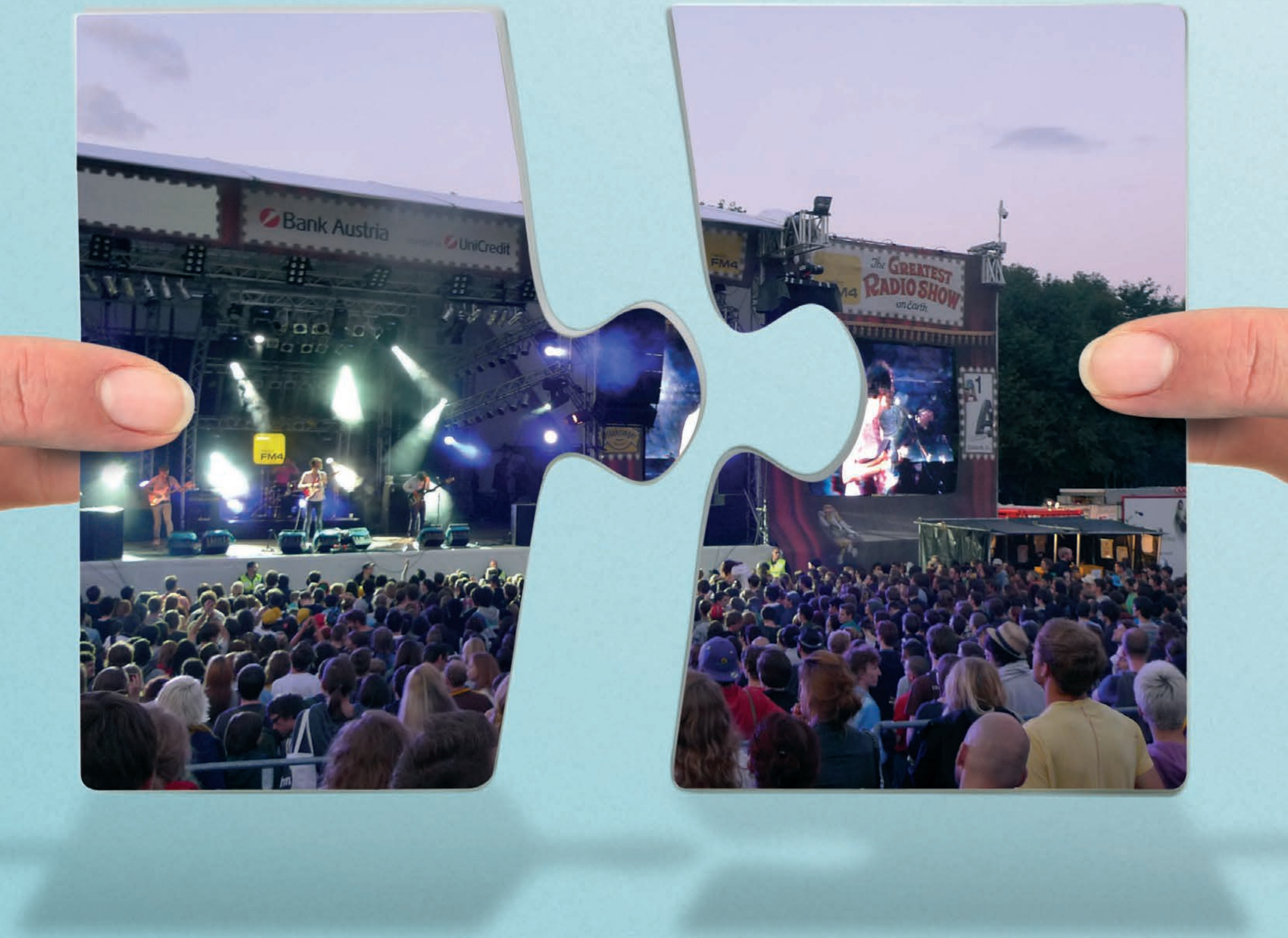
Financial liabilities reported at fair value which were transferred out from Level 3:					
	Financial liabilities at fair value through profit and loss			Hedging derivatives	Total
MCZK	Securities for trading	Derivatives for trading	Securities not for trading		
Balance as at 1.1.2010	**–**	**–**	**–**	**–**	**–**
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 31.12.2010	**–**	**2**	**–**	**–**	**2**
Total gains or losses included in profit and loss for the period:					–
Thereof: Total gains or losses for the period included in profit or loss for liabilities held at the end of reporting period					–
Balance as at 1.1.2011	**–**	**2**	**–**	**–**	**2**
Profit and loss from revaluation					
In profit or loss	–	–	–	–	–
In equity	–	–	–	–	–
Purchases	–	1	–	–	1
Sales/ maturity	–	(3)	–	–	(3)
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–
Balance as at 31.12.2011	**–**	**–**	**–**	**–**	**–**
Total gains or losses included in profit and loss for the period:					–
Thereof: Total gains or losses for the period included in profit or loss for liabilities held at the end of reporting period					–

38. Subsequent events

The Bank's Management is aware of no events that have occurred since the balance sheet date that would have a significant impact on the Bank's financial statements.

Date of approval:	Stamp and signature of the Bank's statutory body:	Person responsible for the accounting (name, signature):	Person responsible for the financial statements (name, signature):
5 March 2012		Ing. Jiří Kupec	Mgr. Michaela Mrštíková

Celebrating with three million young Europeans



Bank Austria is one of the main sponsors of the Donauinselfest, or Danube Island Festival, one of the largest open-air events in Europe. The 29th annual celebration of Donauinselfest will take place from 22 to 24 June, 2012 in Vienna. Each year, this free public festival attracts as many as three million young people from all over Europe. To appreciate the scale of this event, last year's festival featured 18 "festival islands" and 11 stages spread across 4.5 km and involved more than 2,000 artists. The bank's significant sponsorship of Donauinselfest underscores Bank Austria's strong support for the social and cultural development of young people from across Europe.

Donauinselfest, Vienna, Danube Island

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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 5 March 2012 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 2011, 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.

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 2011, and of its expenses, revenues and net result 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 2011. 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 2011 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.

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

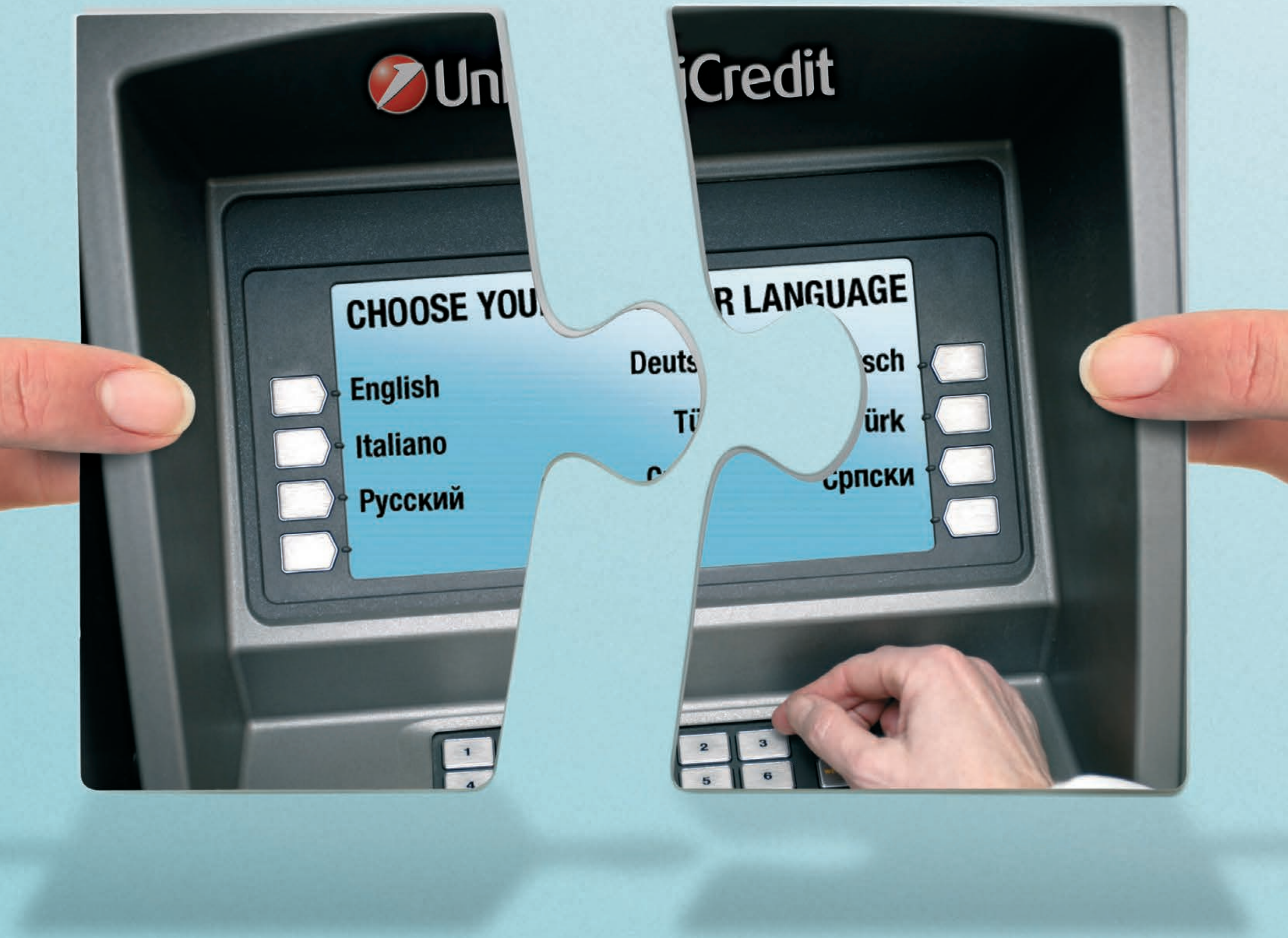
Prague
26 April 2012

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Licence number 2059

Speaking the language of our clients



As a result of expanded international mobility, many citizens who work in Austria do not speak German. These are citizens of other nationalities and cultures, who need to communicate in their own languages when discussing delicate subjects such as banking transactions. Bank Austria's Banking Without Borders programme guarantees that such customers, on any given day, will have access to an employee who speaks his or her own language. Additionally, in Vienna, five branches provide documentation and product literature in several languages other than German. An effective answer to a multicultural society.

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 Prague 4, Želetavská 1525/1, Postcode: 140 95, Czech Republic, company identification number 64948242,

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

Resolution

1) The Bank reported the following main non-consolidated financial results for the year 2011:

Total assets:	288,744 MCZK
Profit before tax:	1,334 MCZK
Profit after tax:	1,146 MCZK

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

In Vienna on 26 April 2012

UniCredit Bank Austria AG

Mag. Josef Duregger

Mag. Karl Gössler

An umbrella covering countries in Central and Eastern Europe

Many Austrian companies have subsidiaries in other European countries that do not always engage in cross-border treasury operations. When new funding is needed, especially during the start-up phase of a business, local regulations that must be addressed can often present major obstacles to success. UniCredit has created the Umbrella Facility, a flexible and user-friendly credit facility based on the parent company's credit rating, that can be accessed in most Central and Eastern European countries. Bank Austria coordinates every phase of negotiation, acting as the single point of contact between the client and UniCredit's banks across the region. A simple way to help companies focus on their business, leaving the bank to manage their finances.

Michelangelo Pistoletto – Embrace Differences – Serigraphy on Thermodeth Mirror 2005 – 2006
UniCredit Art Collection – © Michelangelo Pistoletto – Courtesy of Cittadellarte – Pistoletto Foundation – Details

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:	Želetavská 1525/1, 140 95 Prague 4, 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.

UniCredit Bank 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, UniCredit Bank is governed by Czech legal regulations, in particular the Banking Act, Commercial Code and regulations governing operations on the banking and capital markets.

2. Person and entity responsible for the audit of the financial statements

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 HypoVereinsbank CZ a.s. and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s. were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the 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 93 branches and 157 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. New branches are being prepared for opening in towns where the Bank is currently not represented. The first phase will focus especially on larger towns, while subsequent phases will be aimed at smaller towns.

The Bank holds a more than 6% share of the market with total assets of approximately CZK 290 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

The Bank has share capital of CZK 8,749,716,000 divided as follows:

(a) 100 registered shares, each with a nominal value of CZK 16,320,000;
(b) 200 registered shares, each with a nominal value of CZK 13,375,000;
(c) 436,500 registered shares, each with a nominal value of CZK 10,000; and
(d) 10 registered shares, each with a nominal value of CZK 7,771,600.

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

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

In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank 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 99.996% 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
- Comprehensive offer of banking products for private clients
- Comprehensive management of client assets, including portfolio management
- Global Investment Strategy – strategic advisory for capital market investments
- Providing investment products on open architecture basis
- Art Banking

Retail banking

- Personal accounts and packages – EXPRES 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 partner cards)
- Deposit, savings and investment products (the Bank's own or in co-operation with Pioneer Investments)
- Internet, telephone and mobile banking
- Cash and money changing operations and supporting services

Launching new products or activities

Cash management

UniCredit Bank continues to extend the range of functions of its BusinessNet internet banking application for corporate clients with high added value for the customer. In 2011, BusinessNet users obtained access to the documents, providing clients greater convenience and enabling them to save on costs for handling printed account statements. Another important innovation in 2011 was the optimization of BusinesssNet for use in smartphones, which allows, for example, convenient and prompt signing of payment orders. BusinessNet also fully supports SEPA payments, including the possibility of importing from the accounting system. BusinessNet thus confirms its position as the first-choice eBanking tool for companies of all sizes.

Loans

In April 2011, UniCredit Bank presented a brand new concept of loan refinancing/consolidation using a modern consumer loan platform: the PRESTO Loan.

This consolidation/refinancing product is designed for all clients who wish to optimize their credit exposure by consolidating their current loans into a single loan and thereby obtain significantly more advantageous conditions, and in particular savings on the monthly instalment. An alternative scenario is such situation when the client obtains additional funds through refinancing or consolidation while maintaining the existing monthly instalment amount. Another variant is a combination of the two, i.e. decreasing the instalment and concurrently acquiring additional funds. Using the Splatkomat.cz internet application, the applicant can instantly determine whether and under what conditions his or her loans can be consolidated. The product parameters are identical to those of the PRESTO Loan, which is characterized especially by its flexibility (e.g. possibility to postpone payments) and processing speed with a minimum of required documentation. With consolidation/refinancing, UniCredit Bank's clients are able to optimize their designated-purpose and general-purpose personal loans, authorized debits and credit cards.

Deposits and investments

In 2011, the Top Commodities 2014 structured bond (offering a yield tied to the 10 most important commodities from the energy, agriculture, and precious and industrial metals sectors) was successfully issued. The TelcoPharm 2013 bond was later issued in CZK and EUR variants (the yield of this bond is tied to the development of 5 equities from the telecommunications and pharmaceutical industries). Pioneer Funds also introduced significant innovations, and in particular the new Pioneer Guaranteed 2018 – Emerging Markets fund (suitable especially for investors who seek appealing returns offered by developing markets but who are at the same time concerned about their risks). Another new product introduced in 2011 was the Pioneer Emerging Market Corporate Bond 2016 bond fund (presenting the unique opportunity to invest in corporate bonds of developing countries). The offer of Pioneer funds was further expanded with the currency-backed CZK class of the long successful Pioneer Funds – Strategic Income fund. At the close of the year, clients were offered the possibility to invest in the currency-backed EUR class of the same fund. In cooperation with Allianz, UniCredit Bank introduced to the market a new investment life insurance product – Clean Energy 2016. In addition to insurance in case of death, this product also offers clients the possibility of an above-average return on funds while maintaining 100% capital protection through the potential of the so-called clean energy market. At the end of 2011, UniCredit Bank's bonds offer was supplemented with securities with 3- and 5-year maturities offering exceptional guaranteed returns.

Direct banking

The introduction of the so-called Bank in a Mobile – Smart Banking product was a break-through event in 2011 in the area of direct banking. This innovation presented clients with a modern, secure and effective tool for managing their finances using a mobile phone application. The very extensive range of supported types of mobile phones has ensured this product's accessibility for owners of smartphones as well as standard phones with internet access.

The high level of security, which is one of the main advantages of this product, is ensured using the state-of-the-art method of a built-in security key. Smart Banking is available to clients free of charge in association with all accounts and offers clients convenient access to a wide range of banking services.

Branch network

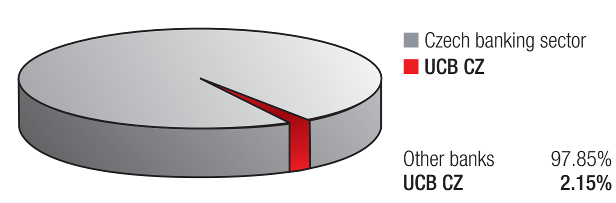
Starting in autumn 2010, UniCredit Bank began implementing its medium-term business strategy which endeavours to strengthen the Bank's market share in the retail banking segment. The main step in rolling out this new model was to expand the branch network and build new distribution channels. The year 2011 was an exceptional one in this respect, as we managed to more than double our business network. Twenty-five new UniCredit Bank branches and 21 franchise points of sale under the name "UniCredit Bank Expres" were opened. Significant expansion of the franchise sales network will also continue in 2012.

All new branches and franchises have state-of-the-art facilities at their disposal and are equipped with the next generation of so-called smart ATMs, which in addition to the usual services also enable depositing of cash 24 hours a day. Such deposit is credited to the account immediately after the amount is deposited, which can be immediately verified by means of an account statement directly from the ATM.

4.3 Competitive position of the issuer

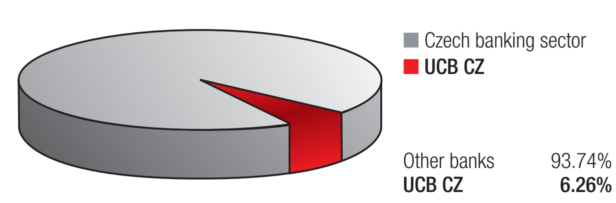
i. Profit after tax

Profit after tax (in CZK millions)	**For the year ending 31 December 2011**
Czech banking sector	53,299
UCB CZ	1,146



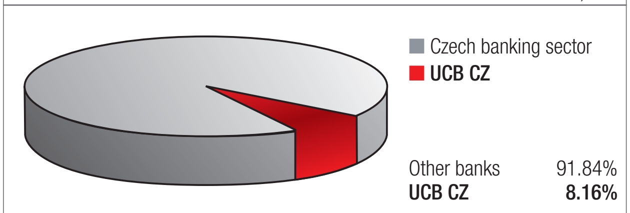
ii. Total gross assets

Total assets (in CZK millions)	**As at 31 December 2011**
Czech banking sector	4,611,176
UCB CZ	288,744



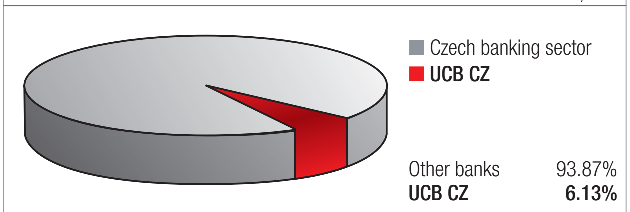
iii. Gross receivables from clients

Receivables from clients (in CZK millions)	**As at 31 December 2011**
Czech banking sector	2,304,471
UCB CZ	188,099



iv. Deposits from clients

Deposits from clients (in CZK millions)	**As at 31 December 2011**
Czech banking sector	2,917,954
UCB CZ	178,734



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 co-ordinate 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 € 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.	99.996%

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 at 31 December 2011 had six 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 presiding member of the meeting 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: Želetavská 1521/1, Prague 4
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 co-ordinating the activities of the Bank's other departments so that they contribute to achieving the Bank's business results to as great an extent as possible, whether directly or indirectly.
Work address: Želetavská 1521/1, Prague 4
Domicile: 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: Želetavská 1521/1, Prague 4
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 optimizing 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: Želetavská 1521/1, Prague 4
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: Želetavská 1521/1, Prague 4
Domicile: K Lukám 702, Šestajovice
Born: 24 February 1955

GREGOR PETER HOFSTAETTER-POBST
Member of the Board of Directors and Director of the Finance Division
Work address: Želetavská 1521/1, Prague 4
Domicile: K Vinicím 698b, Nebušice, Prague 6
Born: 15 April 1972

The number of members was increased in 2011 to six, as Mr Hofstaetter-Pobst was appointed by the Supervisory Board as at 1 December 2011.

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 (Francesco Giordano, Heinz Meidlinger). 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.

FRANCESCO GIORDANO
Chairman of the Supervisory Board
Born: 13 October 1966
Domicile: Vienna, Morzinplatz 1, 1010 Austria

GIORGIO EBREO
Vice-Chairman of the Supervisory Board
Born: 4 November 1948
Domicile: Milan, Via Cervignano 16, Italy

GERHARD DESCHKAN
Born: 20 February 1967
Domicile: Vienna, Matzingerstraße 11/11, A-1140 Austria

GIANFRANCO BISAGNI
Born: 11 September 1958
Domicile: Ilfov, Pipera Tun., Oxford Gard. 5, Romania

TOMICA PUSTISEK
Born: 24 April 1969
Domicile: Vienna, Judengasse 1, A 1010 Austria

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

Ing. MILAN ŘÍHA
Born: 19 May 1966
Domicile: Prague 9, Kyje, Splavná 1489, Postcode 198 00

JUDr. IVANA BUREŠOVÁ
Born: 11 October 1953
Domicile: Prague 1, Staré Město, Dlouhá 714/36, Postcode 110 00

EVA MIKULKOVÁ
Born: 29 January 1957
Domicile: Kladno, Kročehlavy, Dlouhá 512, Postcode 272 01

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.

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.

GIORGIO EBREO
Vice-Chairman of the Supervisory Board
Born: 4 November 1948
Domicile: Milan, Via Cervignano 16, 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, 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 2011 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 2011, no significant change has occurred in the financial situation of the issuer.

10. Loans outstanding and other liabilities

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
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 100,000,000
Interest rate:	3M EURIBOR + 0.561%
Loan origination date:	9 August 2011
Maturity date:	9 August 2023
Collateral:	Collateralized by bonds
Creditor:	**European Investment Bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 50,000,000
Interest rate:	3M EURIBOR + 0.663%
Loan origination date:	30 November 2011
Maturity date:	30 November 2019
Collateral:	Collateralized by bonds
*) The loan is guaranteed by UniCredit Bank Austria AG, Vienna.	
Total amount of loans as at 31 December 2011 (in CZK 000)	**7,853,315**

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 with Decree No. 123/2007 Coll. and consists of the basic salaries policy, the "Group Executive Variable Compensation System", 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 of UniCredit Bank Czech Republic, a.s. (hereinafter the "Remuneration Committee") always approves the remuneration for each calendar year for members of the Board of Directors on the basis of the supporting materials submitted by the Human Resources Department and prepared in co-operation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group. The Remuneration Committee in 2011 consisted of Francesco Giordano and Heinz Meidlinger.

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 Model"), the key abilities of the executive manager, and a market comparison with other entities on the financial and banking markets in the Czech Republic, within UniCredit Group, and in Central and Eastern Europe.

The particular amounts of the contractual salaries of the Bank's individual executive managers are approved by the Remuneration Committee each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the 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

The target variable bonus of the Bank's executive managers is approved by the Remuneration Committee on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group. The target variable bonus of each executive manager is determined individually and comprises 40–100% of his or her annual contractual salary.

UniCredit Group's "Group Executive Variable Compensation System" (hereinafter the "System") was approved by the Supervisory Board

of UniCredit Bank Czech Republic, a.s. as a binding regulation for the variable bonuses of executive managers. It is based on two fundamental pillars:
a) bonus opportunity, and
b) performance stock options.

For executive managers in classification group 6 (executive vice-president) under the Global Job Model system (i.e. CEO and COO), the bonus opportunity accounts for 80% of the total variable bonus and performance stock options for 20%. Other executive managers are classified in group 5 under the Global Job Model system (senior vice-president) and in accordance with the "Group Executive Variable Compensation System" the bonus opportunity comprises 100% of their total variable bonus.

The variable bonus, amount thereof and method of payment are established in accordance with the System using the following conditions:

1. "Performance Screen";
2. "Group Gate" and "Zero Factor";
3. "Performance Conditions";
4. "Compliance Assessment and "Continuous Employment Condition".

Ad 1.

The **"Performance Screen"** is a table of the executive managers' individual performance objectives set each year by the Remuneration Committee. The performance objectives are closely related to the Bank's strategic plan. The Remuneration Committee approves the level of their fulfilment on a scale of 0–150% based on the proposal of the executive managers' direct superiors for each calendar year and each executive manager separately.

The "Performance Screen" 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 Screen", while the contribution of the "Sustainability Matrix" can be set in the range of 50–70%.

"Performance Screen" parameters approved by the Remuneration Committee for executive managers for 2011

<u>"Operational Matrix"</u>

The "Operational Matrix" parameters for management employees in executive positions including CEO and COO were set at 50%. These included:

– economic profit on the principle of the Economic Value Added (EVA) indicator, and
– the ratio of gross operating profit to total risk-weighted assets (GOP/Total RWA).

The "Operational Matrix" parameters for management employees in non-executive positions were set at 30%. These included:

– economic profit on the principle of the Economic Value Added (EVA) indicator,
– the ratio of gross operating profit to total risk-weighted assets (does not apply for the Director of the Risk Management Division), and
– the ratio of net operating profit to the sum of loans and total deposits volume (applies only for the Director of the Risk Management Division).

<u>"Sustainability Matrix"</u>

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. They were set at 50% for executive positions including CEO and COO and at 70% for non-executive positions. 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 (applies only for the Director of the Risk Management Division);
– effectiveness in fulfilling corrective measures based on the plan of the internal audit and regulator's audit (applies only for the Director of the Risk Management Division);
– implementation of key infrastructure projects (applies only for the Director of the GBS Division); and
– identification of key employees and creation of a plan for their development.

Ad 2.

Application of the **"Group Gate"** and **"Zero Factor"** parameters affirms, reduces or entirely terminates an executive manager's bonus payment. Group Gate affects the bonus in the first year, while Zero Factor influences the bonus in the following three years to which the bonus is deferred.

Group Gate and Zero Factor are designed by UniCredit Group's Board of Directors and approved by the Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic, a.s.

In 2011, **Group Gate** was defined using the following parameters:

– return on tangible equity (ROTE);
– cost of capital ;
– capital adequacy indicator (Core Tier 1 Ratio);
– net profit;
– short-term liquidity indicator, i.e. cash horizon.

According to the level of fulfilling these parameters, Group Gate adjusts the bonus payment from 75% (senior vice-presidents) or 60% (executive vice-presidents) to 100%.

Zero Factor is applied in the second to fourth year of the deferred bonus. Zero Factor depends on fulfilment of the so-called **"GSP Condition"** (Group Sustainable Profit Condition). The GSP Condition is defined within the System in 2011 as follows:
– net profit,
– 0 and/or Core Tier 1 Ratio,
– Basel limit (4.5%) and cash horizon, and
– 30 days.

Zero Factor confirms or entirely cancels payment of deferred portions of the bonus. The Remuneration Committee approves the level of fulfilment of the "GSP Condition" each year and the release or cancellation of deferred bonus payment based on a proposal from UniCredit Group's Board of Directors.

Ad 3.
Assessment of the **"Performance Conditions"** influences the allocation of performance stock options (applies only for executive vice-presidents). UniCredit Group's Board of Directors proposes the level of fulfilment for the Performance Conditions, and the Remuneration Committee approves it.

The Performance Conditions are based on 2 target indicators:
– economic profit – profit after tax and after deducting expenditures on allocated capital, and
– rTSR – relative total shareholder return.

The System clearly defines the matrix which, depending on the results of both aforementioned indicators, stipulates that the number of acquired performance stock options may range from 0% to 150% of the reference amount.

Ad 4.
Any payment of the variable component of remuneration for an executive manager is subject to the **"Compliance Assessment"**, which confirms, reduces or entirely cancels the payment to which an employee is entitled in each year of deferred remuneration.

An executive manager's direct superior shall assess whether the executive manager acted during the evaluated period in accordance with the principles of UniCredit Group's Integrity Charter; whether he or she committed serious errors, including errors which could have a tangible impact on banking risk or the balance sheet; as well as whether or not he or she breached legal norms, UniCredit Group's rules or UniCredit Bank's internal regulations, regardless of whether a disciplinary hearing is taking place or other disciplinary sanctions have already been imposed. The Remuneration Committee shall approve this evaluation.

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

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

Bonus Opportunity Plan
Payment of the bonus for the give period (2011) is spread out over a 4-year period (2012–2015):
<u>Senior Vice-Presidents</u>
– The first part (2012) is payable in cash and comprises 40% of the bonus established for the given period. It is adjusted using the Group Gate and Zero Factor parameters (valid for the first year of the accrual period).
– The second part (2013) is payable in cash and comprises 20% of the bonus established for the given period. It is adjusted using the Zero Factor and GSP Condition indicator valid for the second year of the accrual period.
– The third (2014) and fourth (2015) parts will be paid in UniCredit Group shares, and each comprises 20% of the bonus established for the given period. These payments also are adjusted using the Zero Factor and GSP Condition indicator valid for the third and fourth years of the accrual period.

<u>Executive Vice-Presidents</u>
– The first part (2012) is payable in cash and comprises 25% of the bonus established for the given period. It is adjusted using the Group Gate and Zero Factor parameters (valid for the first year of the accrual period).
– The second part (2013) is payable in cash and comprises 25% of the bonus established for the given period. It is adjusted using the Zero Factor and GSP Condition indicator valid for the second year of the accrual period.
– The third (2014) and fourth (2015) parts will be paid in UniCredit Group shares, and each comprises 25% of the bonus established for the given period. These payments also are adjusted using the Zero Factor and GSP Condition indicator valid for the third and fourth years of the accrual period.

In each of the 4 years, payment of the given portion of the bonus is conditioned for both categories of executive managers by completion of the Compliance Assessment, which confirms, reduces or entirely cancels the payment.

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

Performance Stock Options Plan
Only executive managers in the category of executive vice-president are entitled to UniCredit Group's performance stock options. These options comprise 20% of their total variable bonus.

In 2012, a reference value for performance stock options will be given to each executive manager within the System. Each executive manager will acquire the right to these performance stock options on a scale of 0–150% of the allotted reference value until the end of the 4-year "performance period". The two target indicators under the Performance Conditions (see AD 3. above) are monitored during this period. Depending on the level of fulfilment of the Performance Conditions during the Performance Period, UniCredit Group's Board of Directors proposes the final reference value of shares to be awarded and the Remuneration Committee approves it.

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, 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 Supervisory Board who at the same time do not hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire period of office of the Supervisory Board member, and it is proposed and approved by the sole shareholder, UniCredit Bank Austria AG, Vienna.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code and by one foreign member of the Supervisory Board with whom the shareholder agreed fixed contractual remuneration based on the aforementioned regulations. The remaining members of the Supervisory Board are not remunerated by the issuer.
The remuneration policy in the case of Supervisory Board members who are employed with UniCredit Bank Czech Republic, 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 "Goal Card", which is part of the system of variable remuneration of the Bank's employees based on an evaluation of individual and team targets. The performance parameters in the "Goal Card" of Supervisory Board members who are employed with the issuer are dependent on the job positions they perform by virtue of their employment contracts in accordance with the Labour Code, and in no way relate 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.

Fixed contractual remuneration may be agreed for executing the office of Audit Committee member. The remuneration is valid for the entire period of office of the Audit Committee member, and it is proposed and approved by the sole shareholder, UniCredit Bank Austria AG, Vienna.

In 2011, the aforementioned fixed contractual remuneration was agreed with two members of the Audit Committee, and the total amount thereof is stated in the remuneration summary. The remaining member of the Audit Committee is not remunerated by the issuer.

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

(In CZK 000)	Tax advisory	Other advisory/attestation	Audit	Total
KPMG Česká republika Audit, s.r.o.	–	203	17,566	17,769
Deloitte Advisory s.r.o.	594	9,227	–	9,821
PricewaterhouseCoopers Česká republika, s.r.o.	1,275	–	–	1,275
Ernst & Young, s.r.o.	592	–	–	592
Total	**2,461**	**9,430**	**17,566**	**19,128**

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

Members of the Board of Directors				
Total incomes	Remuneration as member of the Board of Directors		Remuneration for management positions	
		Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
51,970,756	8,122,200	33,524,216	6,829,536	3,494,804
Members of the Supervisory Board and the Audit Committee				
Total incomes	Remuneration as member of the Supervisory Board	Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
7,000,686	522,750	4,993,241	1,426,988	57,707

17. Major future investments other than financial investments (planned for 2012)

Other investments (other than financial investments)	CZK 270,796,925

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 2012 will be focused primarily on further developing the sales network and completing the project of relocating the headquarters.

18. Guarantees provided by the issuer

(In CZK 000)	31 December 2011	31 December 2010
Guarantees provided	28,372,591	22,987,519
Guarantees provided under L/Cs	558,561	655,441
Total	**28,931,152**	**23,642,960**

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 2011:	Other provisions of CZK 5,400,000
Net profit for 2011:	CZK 3,046,000
UCB's ownership in the company's share capital:	20% (fully paid up)
Income in 2011 from the ownership interest:	CZK 605,000
Company:	**MOPET CZ a.s.**
Registered office:	Hvězdova 1716/2b, Prague 4 – Nusle
Company identification no.:	24759023
Subject of business:	– Development and operation of a mobile payments system
Subscribed share capital:	CZK 104,000,000
Amounts and types of provisions as at 31 Dec 2011:	Other provisions of CZK 1,619,000
Net profit for 2011:	CZK -23,438,000
UCB's ownership in the company's share capital:	14% (fully paid up)
Income in 2011 from the ownership interest:	CZK 0

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 non-consolidated 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.

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. (hereinafter referred to as the "Bank")**, having its registered address at Prague 4, Želetavská 1525/1, Postcode: 140 95, Czech Republic, 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 2011 to 31 December 2011** (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.

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 2011 to 31 December 2011.

1.1. The following contracts were concluded between UniCredit Bank and **UniCredit Business Partner s.r.o.** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Service Level Agreement – Amendment no. 7	Update of annexes to services in the area of payment operations and account maintenance: 1. Description of provided services 2. Amendment on prices	1 Jan 2011	None
Service Level Agreement – Amendment no. 8	Update of annexes to services in the area of payment operations and account maintenance: 1. Description of provided services 2. Amendment on prices	1 Sep 2011	None
Service Level Agreement – Amendment no. 5	Update of annexes regarding Treasury services: 1. Description of provided services 2. Amendment on prices	1 Jan 2011	None
Service Level Agreement – Amendment no. 5	Update of annexes to services in the area of cards processing: 1. Amendment on prices 2. Contact persons	1 Jan 2011	None
Coordination Agreement – Amendment no. 5	Update of Annex 3 – Specimen signatures and seals of individuals authorized to act on behalf of the Bank	1 May 2011	None
Coordination Agreement – Amendment no. 6	Update of Annex 3 – Specimen signatures and seals of individuals authorized to act on behalf of the Bank	1 Nov 2011	None
Sublease Agreement – Amendment no. 4	Reduction in rented areas in the building at Revoluční 7, Prague 1	1 Aug 2011	None

1.2. The following contracts were concluded between UniCredit Bank and **Pioneer investiční společnost, a.s.** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Contract of 2 Oct 2006 – Amendment no. 4	Agreement on changes to the distribution contract for mutual funds of Pioneer investiční společnost, a.s. between the contracting parties on 2 Oct 2006	1 Mar 2011	None
Contract of 1 Apr 2008 – Amendment no. 1	Agreement on changes to the contract on funds of qualified investors between the contracting parties on 1 Apr 2008	1 Mar 2011	None
Current account contract	Modification of terms and conditions for establishing and maintaining NOK current account for Pioneer – Foundation Balanced Fund, Pioneer investiční společnost, a.s., open-end mutual fund	3 Mar 2011	None
Contract for use of direct banking products	Modification of terms and conditions for using direct banking products for Pioneer – Guaranteed 2018 – Emerging Markets, Pioneer investiční společnost, a.s., open-end mutual fund	1 Apr 2011	None

Contract title	Subject of contract	Date of conclusion	Detriment
Current account contract	Modification of terms and conditions for establishing and maintaining CZK current account for Pioneer – Guaranteed 2018 – Emerging Markets, Pioneer investiční společnost, a.s., open-end mutual fund	1 Apr 2011	None
Current account contract	Modification of terms and conditions for establishing and maintaining CZK current account for Pioneer – Guaranteed 2018 – Emerging Markets, Pioneer investiční společnost, a.s., open-end mutual fund	1 Jun 2011	None
Current account contract	Modification of terms and conditions for establishing and maintaining EUR current account for Pioneer – Guaranteed 2018 – Emerging Markets, Pioneer investiční společnost, a.s., open-end mutual fund	1 Jun 2011	None
Current account contract	Modification of terms and conditions for establishing and maintaining USD current account for Pioneer – Guaranteed 2018 – Emerging Markets, Pioneer investiční společnost, a.s., open-end mutual fund	22 Jun 2011	None
Agreement on performing depository activities	Modification of the mutual rights and obligations under the agreement on performing depository activities	14 Dec 2011	None
Agreement on performing depository activities for Pioneer – Premium fund 1, Pioneer investiční společnost, a.s., open-end mutual fund – Amendment no. 1	Amendment to agreement on performing depository activities for Pioneer – Premium fund, Pioneer investiční společnost, a.s., open-end mutual fund, of 11 Jan 2008	14 Dec 2011	None
Current account contract	Modification of terms and conditions for establishing and maintaining AUD current account for Pioneer – Premium fund 2, Pioneer investiční společnost, a.s., open-end mutual fund	15 Dec 2011	None
Agreement on performing depository activities for Pioneer – Premium fund 2, Pioneer investiční společnost, a.s., open-end mutual fund – Amendment no. 3	Amendment to agreement on performing depository activities for Pioneer – Premium fund 2, Pioneer investiční společnost, a.s., open-end mutual fund, of 23 Nov 2009	16 Dec 2011	None

1.3. The following contracts were concluded between UniCredit Bank and **Pioneer Asset Management, a.s.** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Contract of 10 Mar 2009 – Amendment no. 2	Agreement on changes to the distribution contract for the Rentier Invest regular investment programme between the contracting parties on 10 Mar 2009	1 Mar 2011	None
Contract of 19 Jan 2007 – Amendment no. 4	Agreement on changes to the management contract between the contracting parties on 19 Jan 2007	1 Mar 2011	None
Contract on receiving, conveying and executing instructions related to collective investment securities and their custody	Modification of terms and conditions for receiving, conveying and executing instructions related to collective investment securities and their custody	26 May 2011	None

1.4. The following contracts were concluded between UniCredit Bank and **UniCredit Global Information Services S.C.p.A.** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Agreement for outsourcing Czech Republic – Annex B	Amendment to SLA with UGIS Czech Republic, defining method and amounts of consideration for ICT services provision	15 Jun 2011	None
Agreement for outsourcing ITA – Annex B	Amendment to SLA with UGIS ITA, defining method and amounts of consideration for ICT services provision	15 Jun 2011	None
Agreement on VAT	Agreement defining terms, conditions and rules of operations of the tax group between UCB and UGIS	2 Nov 2011	None
Agreement on termination of the rental contract for commercial premises	Termination of the lease of commercial premises in the building at Na Příkopě 858/20, Prague 1	16 Dec 2011	None

1.5. The following contracts were concluded between UniCredit Bank and **UniCredit Leasing a.s.** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Sublease Agreement – Amendment no. 3	Reduction in rented commercial premises in the building at U Zimního stadionu, České Budějovice	29 Sep 2011	None
Rental contract for commercial premises – Amendment no. 1	Authorization of the tenant to sublet the rental property to a third party and consent to location of the third party's registered office	16 May 2011	None

1.6. The following contracts were concluded between UniCredit Bank and **UniCredit Bank AG** in the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Risk Participation Agreement (PAR)	UniCredit Bank AG assumed risk participation in a loan provided to a client with funding provided by UniCredit Bank Czech Republic, a.s.	3 Aug 2011	None
Letter of instruction	Provision of a counter-guarantee by UniCredit Bank AG for liabilities of UniCredit Bank Czech Republic, a.s. to the European Investment Bank ensuing from a syndicated guarantee facility provided to clients	14 Sep 2011	None
Risk Participation Agreement (IQ Ostrava Office Building)	Participation in client financing	11 Jul 2011	None
Master Agreement – Global Debt Capital Markets	Terms and conditions of cooperation between the two banks in issuing EUR bonds to clients	30 Jun 2011	None
Risk Participation Agreement	Participation in financing client acquisitions	28 Jul 2011	None
ISDA Master Agreement – amendment	Master agreement on financial market transactions relating to financial derivatives	10 Oct 2011	None
Risk Participation Agreement	Participation in financing for clients Olympia Teplice, s.r.o. and Olympia Mladá Boleslav, s.r.o.	29 Jul 2011	None

1.7. The following contracts were concluded between UniCredit Bank and **UniCredit CAIB Czech Republic a.s. in** the accounting period from 1 January 2011 to 31 December 2011:

Contract title	Subject of contract	Date of conclusion	Detriment
Termination of sublease	Termination of sublease and transfer of premises in the building at Italská 24, Prague 1	22 Dec 2011	None

1.8. In the accounting period from 1 January 2011 to 31 December 2011, 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.

1.9. 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 2011 to 31 December 2011 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 2011 to 31 December 2011, 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 2011 to 31 December 2011, 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 2011 to 31 December 2011, 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 2012

On behalf of the Board of Directors of UniCredit Bank

Ing. Jiří Kunert
Chairman of the Board of Directors

Mag. Gregor Hofstaetter-Pobst
Member of the Board of Directors

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OSTRAVA
Smetanovo nám. 1
702 00 Ostrava
ostrava.smetanovo@unicreditgroup.cz
tel.: 955 959 829
fax: 221 154 201

TŘEBÍČ
Komenského nám. 1045/18
674 01 Třebíč
trebic@unicreditgroup.cz
tel.: 955 959 864
fax: 221 154 640

BRNO – SPIELBERK
Holandská 2
639 00 Brno
brno.spielberk@unicreditgroup.cz
tel.: 955 959 813
fax: 221 155 630

KROMĚŘÍŽ
Farní 95
767 01 Kroměříž
kromeriz@unicreditgroup.cz
tel.: 955 959 824
fax: 221 155 780

PROSTĚJOV
náměstí T. G. Masaryka 8
796 01 Prostějov
prostejov@unicreditgroup.cz
tel.: 955 959 859
fax: 221 155 530

ŠUMPERK
Náměstí Svobody 2840
780 01 Šumperk
sumperk@unicreditgroup.cz
tel.: 955 959 861
fax: 221 154 620

OSTRAVA – PORUBA
Hlavní tř. 583/99
708 00 Ostrava–Poruba
ostrava.poruba@unicreditgroup.cz
tel.: 955 959 830
fax: 221 155 770

OPAVA
Ostrožná 18
746 01 Opava 1
opava@unicreditgroup.cz
tel.: 955 959 828
fax: 221 155 790

FRÝDEK – MÍSTEK
Pivovarská 2340
738 01 Frýdek–Místek
frydek–mistek@unicreditgroup.cz
tel.: 955 959 816
fax: 221 154 600

NOVÝ JIČÍN
Ul. 5. května 18
741 01 Nový Jičín
novyjicin@unicreditgroup.cz
tel.: 955 959 870
fax: 221 155 100

ZNOJMO
Horní nám. 139
669 02 Znojmo
znojmo@unicreditgroup.cz
tel.: 955 959 871
fax: 221 155 160

TŘINEC
Nám. Svobody 527
739 61 Třinec
trinec@unicreditgroup.cz
tel.: 955 959 873
fax: 221 155 130

HAVLÍČKUV BROD
Havlíčkovo náměstí 158
580 01 Havlíčkův Brod
havlickuvbrod@unicreditgroup.cz
tel.: 955 959 874
fax: 221 155 035

KARVINÁ
Třída Osvobození 1720/11
735 06 Karviná
karvina@unicreditgroup.cz
tel.: 955 959 887
fax: 221 155 050

ŽĎÁR NAD SÁZAVOU
Náměstí Republiky 145
591 01 Žďár nad Sázavou
zdarnadsazavou@unicreditgroup.cz
tel.: 955 959 880
fax: 221 155 155

BLANSKO
Wanklovo nám. 1436
678 01 Blansko
blansko@unicreditgrop.cz
tel.: 955 959 882
fax: 221 155 015

BŘECLAV
Ul. 17. listopadu 3
690 02 Břeclav
breclav@unicreditgroup.cz
tel.: 955 959 881
fax: 221 155 020

BRNO – KRÁLOVO POLE
Palackého třída 721/78
612 00 Brno
brno.kralovopole@unicreditgroup.cz
tel.: 955 959 900
fax: 221 155 195

PŘEROV
Čechova 37
750 02 Přerov
prerov@unicreditgroup.cz
tel.: 955 959 896
fax: 221 155 120

VYŠKOV
Masarykovo nám. 145/30
685 01 Vyškov
vyskov@unicreditgroup.cz
tel.: 955 959 889
fax: 221 155 150

VALAŠSKÉ MEZIŘÍČÍ
Náměstí 90/23
757 01 Valašské Meziříčí
valasskemezirici@unicreditgroup.cz
tel.: 955 959 892
fax: 221 155 145

HAVÍŘOV
Československé armády 195/1a
736 01 Havířov
havirov@unicreditgroup.cz
tel.: 955 959 901
fax: 221 155 030

OSTRAVA – HRABŮVKA
Horní 1642/55a
700 30 Ostrava–Habůvka
ostrava.hrabuvka@unicreditgroup.cz
tel.: 955 959 907
fax: 221 155 110

UHERSKÉ HRADIŠTĚ
Palackého náměstí 175
686 01 Uherské Hradiště
uherskehradiste@unicreditgroup.cz
tel.: 955 959 908
fax: 221 155 140

Points of sale

OTROKOVICE
tř. Osvobození 154
765 02 Otrokovice
tel.: 955 964 040
fax: 221 154 040

CHRUDIM
Masarykovo náměstí 32
537 01 Chrudim
tel.: 955 964 772
fax: 221 154 770

HLUČÍN
Ostravská 83/39
748 01 Hlučín
tel.: 955 963 570
fax: 221 153 570

TURNOV
Skálova 69
511 01 Turnov
tel.: 955 962 970
fax: 221 154 840

ČESKÝ TĚŠÍN
Nádražní 207
737 01 Český Těšín
tel.: 955 963 275
fax: 221 154 820

BOSKOVICE
Bezručova 2435/14
680 01 Boskovice
tel.: 955 964 885
fax: 221 154 835

DOBŘÍCHOVICE
5. května 348
252 29 Dobřichovice
tel.: 955 964 800
fax: 221 154 800

DVŮR KRÁLOVÉ NAD LABEM
Tylova 503
544 01 Dvůr Králové nad Labem
tel.: 955 964 320
fax: 221 154 825

LOUNY
Osvoboditelů 2649
440 01 Louny
tel.: 955 962 975
fax: 221 154 845

SLANÝ
Masarykovo nám. 142/17
274 01 Slaný
tel.: 955 964 835
fax: 221 154 830

ČESKÝ KRUMLOV
Latrán 76
381 01 Český Krumlov
tel.: 955 962 980
fax: 221 154 850

HRANICE
Třída 1. máje 1260
753 01 Hranice
tel.: 955 964 775
fax: 221 154 775

BRANDÝS NAD LABEM
Petra Jilemnického 15/4
250 01 Brandýs nad Labem
tel.: 955 962 985
fax: 221 154 855

KRALUPY NAD VLTAVOU
Náměstí J. Seiferta 698
278 01 Kralupy nad Vltavou – Lobeček
tel.: 955 962 991
fax: 221 154 880

BOHUMÍN
tř. Dr. E. Beneše 231
735 81 Bohumín
tel.: 955 963 270–274
fax: 221 154 856

ŘÍČANY
Olivova 9
251 01 Říčany
tel.: 955 964 780
fax: 221 154 780

KYJOV
Jungmannova 1310/10
697 01 Kyjov
tel.: 955 964 815
fax: 221 154 860

RUMBURK
Třída 9. května 30
408 01 Rumburk
tel.: 955 964 500
fax: 221 154 870

HODONÍN
Dolní Valy 3
695 01 Hodonín
tel.: 955 964 810
fax: 221 154 810

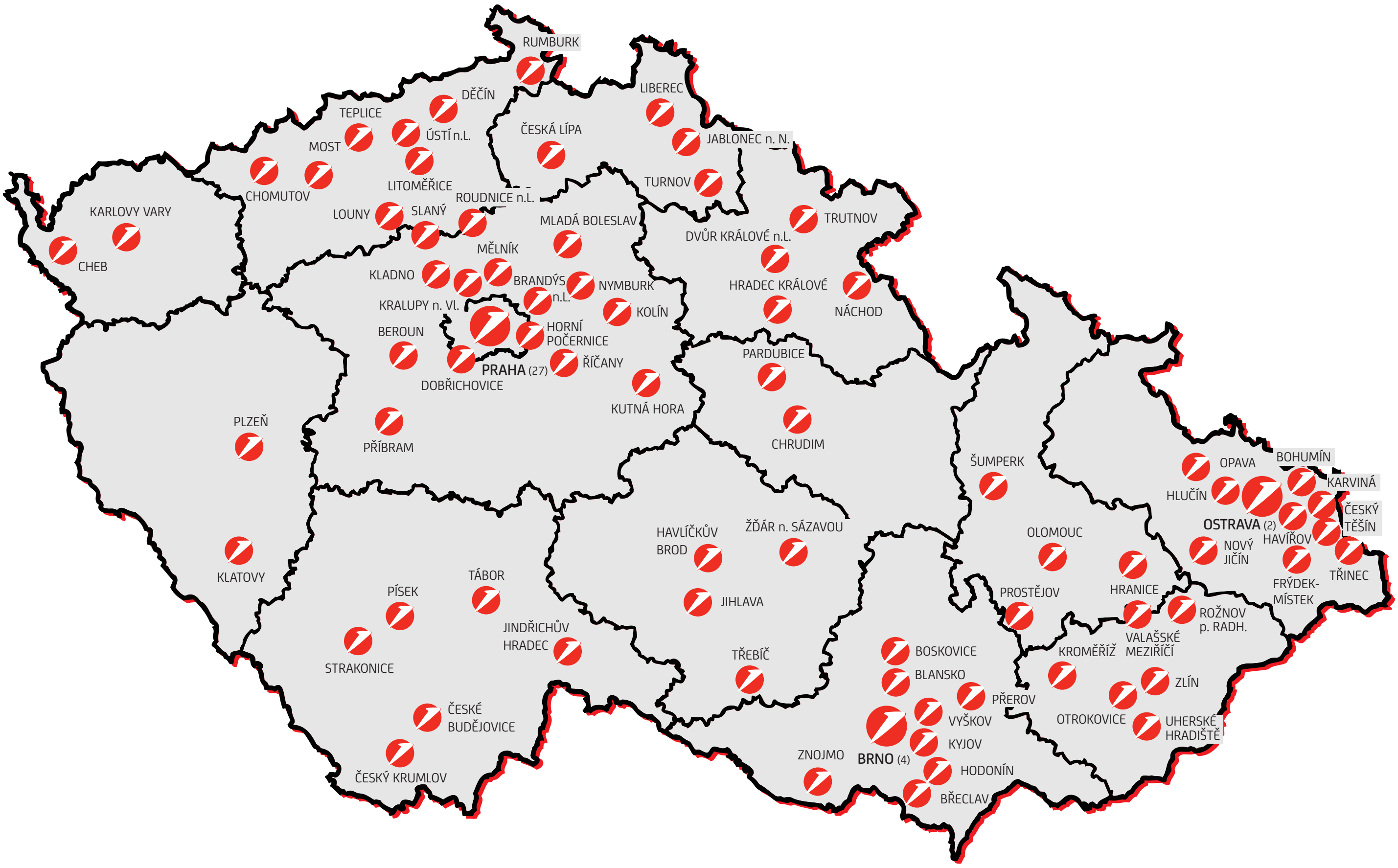
NYMBURK
Palackého Tř. 2553
288 02 Nymburk
tel.: 955 964 790
fax: 221 154 790

ROUDNICE NAD LABEM
Karlovo náměstí 24
413 01 Roudnice nad Labem
tel.: 955 963 885
fax: 221 154 875

HORNÍ POČERNICE
Náchodská 444/145
193 00 Horní Počernice
tel.: 955 962 590
fax: 221 154 895

ROŽNOV POD RADHOŠTĚM
Bayerova 53
756 61 Rožnov pod Radhoštěm
tel.: 955 962 960
fax: 221 154 900

Map of branches and points of sale



Creating initiatives that meet real needs

Together for the Region is an initiative designed to build tighter bonds within regions and communities, particularly with locally based non-profit organizations. For example, in Nuremberg, UniCredit created a new debit card, "My Town – My Bank – My Card." Part of card proceeds are donated to "Lebenshilfe Nürnberg", a charitable organization that helps the disabled. The same model has been adopted by more than 50 UniCredit branches in Germany. Parallel to the donation, the bank's local staff has created a corporate volunteer programme, with employees participating in activities that range from providing volunteer companion services to offering professional training. The project received positive local press attention, demonstrating how simple, concrete actions can serve real needs.
This is the practical demonstration of how the Group is giving concrete answers to facilitate full integration of persons with disabilities.