

Listen,  
understand,  
respond.

This report expresses UniCredit's approach to banking by telling everyday stories about our interactions with Customers, innovations in products and adaptability in services.

These brief but meaningful stories come directly from our colleagues. They are examples of the tangible benefits and concrete solutions offered by UniCredit, demonstrating how we make a difference in people's lives.

Our clear goal to improve everyday circumstances is rooted in our complete commitment to outcomes that ensure Customer satisfaction.

At UniCredit, listening to our Clients and engaging with them to offer simple, direct results lies at the heart of our commercial banking operations. It is part of our determined effort to contribute to the economic and social well-being of our Customers as well as the communities where we work.

We will continue with this commitment to all of you, every day.

# Accelerate

Response times and problem solving.

Sometimes our Customers may encounter some difficulty, either at a branch or when banking online. These difficulties require quick solutions. To help our Customers quickly, we offer them a questionnaire after every banking transaction.

If they tell us they are not satisfied with the quality of a product or service, their branch manager contacts them directly **within 48 hours, with a solution**. In a six-month period, **15 percent of our Customers** filled out the questionnaires, with **87 percent saying they were satisfied** with our resolution of their issue.

Customer Satisfaction Unit - UniCredit Bank - RUSSIA



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# Financial highlights

(IFRS audited, non-consolidated)

| UniCredit Bank Czech Republic and Slovakia, a.s.                      | 31 Dec 2013<br>MCZK * | 31 Dec 2012<br>MCZK ** |
|---|-----------------------|------------------------|
| <b>Operating results</b>  |                       |                        |
| Net interest and similar income                                       | 7,100                 | 6,184                  |
| Net fee and commission income   | 2,836                 | 2,056                  |
| Administrative expenses   | (5,865)               | (4,627)                |
| Profit before income tax  | 3,956                 | 3,694                  |
| Net profit for the year   | 3,170                 | 3,157                  |
| <b>Statement of financial position figures</b>                        |                       |                        |
| Total assets  | 464,622               | 318,909                |
| Receivables from clients  | 289,945               | 184,715                |
| Deposits from clients   | 306,298               | 195,120                |
| Issued capital  | 8,755                 | 8,750                  |
| <b>Information about capital and capital adequacy</b>                 |                       |                        |
| Tier 1  | 45,260                | 31,563                 |
| Tier 2  | 1,464                 | 531                    |
| Deductible items  | (148)                 | (57)                   |
| Capital   | 46,576                | 32,037                 |
| Risk-weighted assets  | 262,712               | 177,672                |
| Capital requirement for credit risk under the standardised approach   | 4,255                 | 2,119                  |
| Capital requirement for credit risk under the IRB approach            | 16,762                | 12,095                 |
| Capital requirement for settlement risk                               | –                     | –                      |
| Capital requirement for position, foreign exchange and commodity risk | 1,156                 | 732                    |
| Capital requirement for operational risk                              | 1,963                 | 1,257                  |
| Capital requirement for other instruments in the trading portfolio    | –                     | –                      |
| Capital adequacy ratio  | 15.44%                | 15.82%                 |
| <b>Key ratios</b>   |                       |                        |
| Return on average assets  | 0.8%                  | 1.0%                   |
| Return on original capital  | 8.3%                  | 10.2%                  |
| Assets per employee   | 151.3                 | 163.4                  |
| Administrative expenses per employee                                  | 1.9                   | 2.4                    |
| Profit after tax per employee   | 1.0                   | 1.6                    |
| Number of employees at end of period                                  | 3,062                 | 2,004                  |
| Branch offices  | 175                   | 98                     |

\* merged bank CZ + SK

\*\* only CZ



# Introduction from the Board of Directors



Dear shareholders, ladies and gentlemen,

We have published the first annual report of UniCredit Bank Czech Republic and Slovakia, a. s., which came into existence at the end of 2013 through the merger of the individual Czech and Slovak UniCredit Banks into one, more powerful bank operating in both markets. The aim of this merger was to keep the best of both banks, efficiently manage our financial balance sheet, liquidity, and expenses, as well as to utilise the synergies offered by the very closely connected Czech and Slovak markets.

Complying with the new model of commercial leasing activities of the UniCredit group, we finalised the acquisition of UniCredit Leasing in the Czech Republic and Slovakia in March 2014. All these steps are part of the strategic plan to create a strong financial group operating in the Czech as well as the Slovak market.

Despite the difficult macroeconomic situation and an environment with low interest rates, we managed to achieve very good economic results last year, and this is well illustrated by our net profit of CZK 3.2 billion.

Thanks to the strong demand for mortgages and consumer loans in both countries and for structured financing, where we participated in the biggest transactions in both markets, we managed to increase the number of loans granted to clients in the Czech market by 10% and in Slovakia by 9%. At the same time, client deposits grew thanks to a substantial increase in the number of new clients.

Growth in loans provided confirms that we support Czech and Slovak companies and households despite these less favourable times. Moreover, as our recent analyses show, there is nothing that would hinder moderate growth of the Czech economy; it is structurally healthy, exporters are competitive, the debt-equity rate is still relatively low, and domestic banks have enough funds to continue financing even the very ambitious investment projects and business plans of Czech companies.

We want to confirm our position as a key player in the segment of large supranational and domestic companies, including the expansion of our activities in the segment of small and medium-sized enterprises. We will also work on our expert role in retail banking in the Czech Republic and Slovakia, including the provision of innovative products and services and the further expansion of branches.

To be able to attain these goals with success, we need to maintain the strong confidence and satisfaction of our clients. We have been successful in this, confirmed by the awards we have won recently; these awards were granted thanks to the votes of experts as well as particular clients.

UniCredit Bank got Global Finance's highest Central and Eastern European award in the area of business financing while at the same time receiving Euromoney's best bank award in the area of Cash Management. Apart from this, our Bank continues to be traditionally recognised with a prize in the Zlatá koruna competition.

As in preceding years, we maintained our standing of a socially responsible company in 2013; the support of art, cultural heritage, and sports activities remains our key priority.

For example, we have for many years been supporting the Art Prague and Prague Photo festivals, where we grant the UniCredit Prague Photo Award and Art Prague Young Award to the best young photographers and artists under 35. In music we have great cooperation with the Dvořák Festival, which connects artists of various genres and presents Dvořák's music in unexpected arrangements and styles. Newly supported by UniCredit Bank are the Czech Culture Festivities, a series of festivals aimed at the maintenance and systematic support of key spiritual values of the Czech nation.

In the area of philanthropy, we continued our cooperation in Slovakia with MAGNA Children at Risk, which helps children from developing countries. Besides direct financial support, the Bank supported the activities of this association by way of charitable MAGNA credit and debit payment cards. Further, the Bank actively supports the project MAGNA Saviour, through which clients as well as employees of the Bank can regularly help children at risk in crisis regions starting at EUR 3.00.

Also, employees of our Bank took part in charitable projects and through the Gift Matching Program supported the non-profit organisations of their choice. By the end of the year, we had provided substantial funds via the UniCredit Foundation for the development of social business in the Czech Republic and Slovakia.

In the area of sponsorship, our cooperation with the International Film Festival Karlovy Vary plays a key role. Moreover, we have supported big tennis events for many years, with the UniCredit Czech Open tournament in the foreground. The UniCredit Group is the official bank of UEFA Champions League – the most prestigious football league of the world – for the whole period from July 2009 to June 2015.

Looking back upon 2013, I have to say that it was a truly difficult period. We handled it with success and without any loss to the quality of our services, and this was particularly thanks to the support of the UniCredit Group and the efforts of all the Bank's employees. I would therefore like to express my gratitude and appreciation to all our employees.

30 April 2014



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



# Macroeconomic environment in 2013

The year 2013 brought a second decrease in GDP by 0.9%. The bottom of the recession was reached as early as in the first quarter and subsequent growth in GDP from quarter to quarter resulted in the fourth quarter's y/y economic performance returning to black numbers. The beginning of the year was characterised by a y/y slump in export caused particularly by the loss of demand for transport means in European markets. In the next quarters, the export dynamics again strengthened. Household consumption in the first quarter followed the preceding y/y decreases; however, its dynamics started growing from the second quarter. Investment activity showed a substantial drop throughout the entire year caused by cuts in the state's infrastructural spending, but in the fourth quarter it turned to y/y growth thanks to the recovery of private investments. The final months of 2013 were characterised by solid growth in industrial production, industrial job-orders, and the improvement of the consumer sentiment, which together created a good basis for longer-lasting economic recovery.

The Czech National Bank maintained its repo rate at "technical zero" during the whole year, i.e. at the level of 0.05%. The need to further liberalise foreign exchange conditions under the zero-repo-rate situation led the CNB to weaken the Czech crown in November through intervention in the foreign exchange market and to make a commitment not to allow the crown to strengthen again until at least the beginning of 2015. By the end of the year, the Czech crown was weaker compared to the euro by 9% on a y/y basis. The intervention caused a moderate drop in the crown and an increase in the euro rates in the local inter-bank market. On the contrary, the weaker crown was not reflected in noticeable increases in consumer prices by the end of the year. On a y/y basis, inflation reached 1.4% in December; this was also the average rate of inflation for the whole year.

The summer government crisis, the calling of premature elections in October, and the caretaker government in the second half of the year meant that the year 2013 went without substantial changes in economic policy. However, the coalition treaty after the elections revealed that economic policy would see a noticeable turnabout and that a series of formerly taken measures would be cancelled or modified. Health-care financing is an area where a process of changes was begun by the end of the year; these changes should lead to higher demands on the state budget. The only consequence of the political climate in 2013 was the fact that the government had not withdrawn the planned expenses and also the local self-governments restricted their expenses. The state budget deficit thus dropped more compared to forecasts, to the level of 1.5% of GDP.

The growth of the Slovak economy slowed down at the turn of 2012 and 2013 due to a worsened external environment and continued weak domestic demand. The weak beginning of the year could be seen in the whole-year growth of the economy, which reached no more than 0.9% and marked the worst result since the crisis year 2009. This result was also affected by fiscal consolidation – the government pushed the public finance deficit in the past year under the threshold of 3% of GDP. However, signs of economic recovery started showing as early as in the second quarter; this recovery came predominantly from the external environment as the eurozone was coming out of recession. At the end of the year, domestic demand also hit the bottom and turned around, reacting to the strong growth of industry, industrial job-orders, and consumer confidence. The recovery of domestic demand led to a gradual decrease in the surplus in foreign trade despite the higher rate of export growth. More significant inflation pressures were not obvious in the economy, so the y/y inflation reached only 1.4% on average and hit the absolute minimum of 0.4% by the end of the year.

The ECB continued in its efforts to support the economies of the eurozone through a relaxed monetary policy. The space for such policy setting was also created by low inflation in the entire eurozone. Throughout the year, the ECB decreased the key rate in two steps to its historically lowest level of 0.25%.

# Corporate, investment and private banking

The year 2013 was a very successful year for the division of corporate, investment, and private banking. We continued in the consolidation of our traditional strong position in the area of corporate banking, where we continue to focus on the provision of complex services tailored to the individual needs of our clients. This year we continued in fulfilling our medium-term strategy with the aim to strengthen our market position in the segment of small and medium enterprises, and maintain an excellent position in the segment of large corporations. We are also developing new activities in the agricultural sector and in the municipality sector.

In 2013, there was a significant milestone in the history of the UniCredit Group, namely the merger of the Czech and Slovak UniCredit Banks to form one UniCredit Bank Czech Republic and Slovakia, a.s. The new model will allow us to better serve corporate clients in the segment of corporate banking operating in both markets.

We managed to significantly increase the volume of deposits in 2013 by nearly CZK 15 billion in the area of primary sources in the Czech market; this corresponds to a 9.9% growth compared to 2012. In the loan area, we increased the volume of loans by CZK 12 billion compared to 8.2% in 2012 despite stagnating corporate demand for loans connected with the adverse macroeconomic situation. We were particularly successful in the support of small and medium enterprises, where we increased the volume of loans provided by 30% on a y/y basis. Growth in this segment was also supported by cooperation with external entities such as Českomoravská záruční a rozvojová banka (ČMZRB) and the European Investment Bank (EIB), which give small enterprises bank guarantees or provide the Bank with cheaper funding sources, and thus make financing available to a large range of clients.

In the Slovak market, we also managed to significantly increase the volume of deposits in 2013 by nearly EUR 112 million in the area of primary sources; this corresponds to 8.4% growth compared to 2012. Moreover, we increased the volume of loans in the loan area by EUR 40 million, which is 1.9% compared to 2012.

We were also successful in the acquisition of new clients. In 2013, we won 671 new clients in the Slovak market, in the Czech market this number was 1,923.

The economic situation in the Czech Republic made initial growth conditions in 2013 worse; despite that, we continued positive development in the area of Global Transaction Banking products. In the area of Cash Management, we won Euromoney Magazine's award for the best Cash Management bank in the Czech Republic for the second time. The numbers of processed transactions grew by 6.9% on a y/y basis for the domestic payment system and by 7.2% for the foreign payment system. The volume of loans of Export and Commercial Financing grew by 14.4%, and we also noticed significant growth in the volume of documentary deals and

warranties. In January 2014, Global Finance Magazine named us the "Best Trade Finance Bank in Czech Republic".

UniCredit Bank Czech Republic and Slovakia, a.s., continues to be active in the provision of high-quality service to clients from specific sectors. Of particular concern are agriculture, power engineering, public administration, health care, and European subsidies. In 2013, the organisational structure was changed and an independent department, Agrobusiness, was established; its main activities consist of supporting a distribution network in business in the area of agriculture, including biogas-station financing. A joint Czech and Slovak agricultural team is following up on long-term successful activity in Slovakia, where UniCredit Bank is a leading bank in the agricultural sector when talking about the number of clients as well as the volume of provided loans. The goal of the joint team is to maintain Slovakia's leading position and use historical experience and assets to also strengthen the position in agriculture in the Czech market.

Further special units are the Energy-Public and Subsidy Consulting Units. The Energy-Public Unit has been successfully providing support to the business network in trade in the area of energy, including renewable resources, the public sector (municipalities, health care, education), and churches for several years. Thanks to the experience gained so far, the bank is ready to offer clients comprehensive financing for their projects, taking into consideration individual needs and requirements.

In the area of public support, UniCredit Bank has provided its clients with complex subsidy consulting services for many years. Of particular concern is the consulting service for European funds in the Czech Republic as well as in Slovakia, which also includes further national subsidies at the level of the state and regions. There still was great interest in 2013 in subsidy consulting and advisory in the area of support for industry and innovations, the environment, science and research, and human resource development. As in the preceding 6 years, in 2013 UniCredit Bank mediated payment in the Czech Republic of subsidies from the state budget – EU funds and national sources. In the last year of the contract with the Czech Republic (Ministry of Finance), CZK 21.8 billion was paid out in total to successful subsidy applicants.

Despite forecasts of lower transaction activity, the Bank achieved record-breaking results in the area of structured financing and syndicated loans and confirmed its leading position in the market. Particularly in the financing of the energy and network sectors, the Bank managed to win a dominant position. Among the most significant transactions in which UniCredit Bank took a leading role in 2013 are the financing of the acquisitions of SPP, Net4Gas, and Telefónica.

Half way through the year, the bank strengthened its structured financing team with special focus on smaller loans in amounts from

CZK 30 million to better use the growth of the Bank's activities in this segment as well. Despite growing competitive pressures in 2014, we expect further growth in structured financing revenues.

Even in the highly competitive and demanding market of the Slovak Republic, we have noticed a significant year-on-year growth in revenues in the area of structured financing and confirmed our significant standing in the market. Traditionally, a large part of activities was devoted to the energy sector, and in 2013, these were mainly smaller renewable energy resources projects. Of the larger transactions in Slovakia in which the bank participated, the most significant is the provision of a syndicated loan of EUR 520 million to the Emergency Oil Stocks Agency (EOSA). UniCredit Bank is one of the main arrangers (so-called Mandated Lead Arranger) and also holds the role of the so-called Security Agent.

In the area of commercial property financing, the bank continued in the tracks of the past years' strategy. There were a series of new deals and their common denominator was a focus on quality – project, location, client, lessees, and, finally, the entire portfolio. The majority of significant transactions were made with existent clients of the UniCredit Group. Examples are the Florentinum and Quadrio polyfunctional projects in Prague, the Bory Mall shopping and fun centre in Bratislava, the CTP Bor logistic projects, and the DC4 building in the PointPark Prague D1 park.

Despite the continuing negative economic trend, we could notice higher bank activity in the area of commercial property financing throughout 2013, however, still with a great preference for completed projects with high-quality lessees and long-term lease contracts. Higher-scale projects were financed by way of clubs of several banks.

## Private banking

The year 2013 was very successful for UniCredit Bank Private Banking despite the adverse impact of low interest rates. UniCredit Bank Private Banking enjoyed a two-digit growth in revenues last year.

In the course of the year, the UniCredit Private Banking team was active in preparing for the merger of UniCredit Bank Czech Republic and Slovakia. The matching of products and services started yielding results as early as in the second quarter in the form of greater issuance of "cross-border" investment certificates of UniCredit Bank AG Munich. Moreover, we began offering certificates in foreign currencies and the first local issuance of the Czech UniCredit Bank was also successful.

Experienced private bankers hired for the private banking team in 2011 and 2012 also contributed to the increase in TFA (Total Financial Assets).

We also continued to develop our offer of services in the area of GIS investments (Global Investment Strategy), particularly within the open architecture of best-in-class products.

Within our complex offer of services to clients, we successfully cooperated with the traditional Austrian private bank Schoellerbank AG, a member of the UniCredit Group.

# Retail banking

Despite the very difficult situation prevailing in both markets, the retail division of UniCredit Bank Czech Republic and Slovakia managed to attain significant success in the year over year increase in revenues, volume of deposits, and loans. The number of new clients exceeded 90,000.

The retail division also achieved substantial success in the area of client satisfaction, and this was achieved thanks to improvements and innovations in products and services offered as well as a higher number of branches and a strong focus on the quality of service provided to clients. More than 30,000 new clients who switched to UniCredit Bank through the acquisition of AXA bank could learn about our quality of service.

We continued in the implementation of the medium-term business strategy that was launched in autumn 2010 and aims to strengthen the market share in the retail banking segment. Main steps include the building of new distribution channels and innovation of the service model that bring clients from freelance professions, corporate clients, or affluent clientele an improvement of services and more purposeful focus.

In 2013, an additional 3 branches of UniCredit Bank, 7 franchise points of sale named UniCredit Bank Expres, and 13 points of sale based on cooperation with the financial company Partners were opened.

The successful continuation of the implementation of the unique franchise business model confirmed that UniCredit Bank is moving in the right direction. This channel of sales unites the phenomena of the business partner's spirit of enterprise on one hand and, on the other, the reputation and background of our bank.

All new branches and franchises have modern premises and are equipped with new generation "intelligent ATMs" which, besides normal services, enable cash to be deposited 24 hours a day. Such deposits are credited forthwith after the amount is deposited, which can be immediately checked via the account statement generated directly by the ATM. When withdrawing money from these ATMs, clients can select combinations of banknotes by value. Clients also have at their disposal innovative and secure products in the field of direct mobile phone and internet banking. Expansion of the business network will continue in 2014 with primary focus on franchise-based branches.

In 2013, we laid emphasis on improving the client's impressions of visits to UniCredit Bank branches. We changed the external appearance of all our branches and implemented a new internal navigation system for 22 branches. In the biggest branches, we presented the Premium concept, which provides a higher-quality level of service and more privacy for personal contact between the client and bankers specially trained in the Premium concept.

This concept focuses on more demanding clients as to the quantity and quality of services.

Our goal for 2014 remains the acquisition of new clients. However, we would also like to strengthen long-term relations with our existent clients and become their main bank.

## Loans

In 2013, the retail division continued strengthening its position in the field of consumer financing. We introduced several improvements to our main product, the PRESTO Loan, in order to be able to offer clients even more benefits and thus make this product, which has enjoyed clients' growing interest despite the adverse situation in the market, even more competitive.

At the beginning of the year, UniCredit Bank offered clients an opportunity to get this loan under better conditions and, moreover, with the option to get a credit card in addition to the loan within a single approval process. This special campaign was connected with post-Christmas discounts.

The Loan-Optimisation Project followed – this was a new concept of the consolidation of liabilities. The optimisation offered families not only significant savings on monthly instalments, but also the opportunity to get some additional funds. When trying to acquire new clients, we focused on better pricing for the product and a simpler process for consumer loans and overdraft loans.

In March 2013, a Mortgage Hibernation project was introduced – this project allowed for the freezing of the actual interest rate of a mortgage for clients who re-fixed their mortgages in 2013. The rate that they wanted to "freeze" "waited" for them until they had re-fixed their loans.

Throughout the third quarter, we enabled clients with a pre-approved limit to apply for the PRESTO Loan via Online Banking and get the loan without ever visiting a branch.

## Pension products

UniCredit Bank reacted to the launching of pension reforms by extending its product portfolio to include pension savings (second pillar) and supplementary pension savings (third pillar). The aim of this initiative was to help clients maintain their standard of living after retirement by saving regularly. A combination of long-term regular saving and investments offered a solution to clients of any age which took into consideration their individual needs.

## Investments and deposits

Clients were offered new opportunities to appreciate their funds in the area of investments in share funds. The Pioneer Investments group introduced currency-hedged CZK classes of funds with various investment strategies. Clients of the bank could thus invest e.g. in the Multi Asset Real Return fund aimed at bringing higher revenue than inflation in the USA in each phase of the economic cycle.

The offer of CZK-hedged share funds was also extended by such funds as Pioneer Funds – Emerging Markets Bond or Pioneer Funds – Global High Yield. In the first quarter, the CZK- and EUR-hedged closed-end fund Pioneer S.F. – Euro Financials Recovery 2018 was successfully established.

Insurance and investments were dominated by individual tranches of investment life insurance. In February 2013, we were the first to offer clients TOP 20 investment life insurance, with 102% capital protection as at the expiry date of insurance. In September 2013, we introduced the investment life insurance GIGANTI, which was based on a basket of shares of 10 of the biggest companies in the world where independent analysts expect a high probability of growth in the years to come. Both these products enjoyed great selling success.

## Individual accounts

In the area of accounts for natural persons, we prepared an attractive savings account called MULTI account with a payment card, internet banking, and interesting appreciation for the clients of AXA Bank. In late 2013, we launched the sale of a new personal account for seniors – SENIOR account.

## Direct banking

UniCredit Bank clearly confirmed that the bank belongs among the forefront innovators in the market in this area by launching its innovative Smart Banking for mobile phones. During 2013, UniCredit Bank improved the operation of the first banking e-shop in the Czech market, UniCreditShop.cz. Work has been started on redesigning the Online Banking system, aimed at improving users' perception of the application.

In the first half of 2013, we launched, as the first bank not only in Slovakia but also in the UniCredit Group, a pilot project for modern and innovative service entitled You@Bank, which represents an innovation in the way clients communicate with the bank and thus creates space for the sale of banking products and services to clients who do not visit branches. You@Bank brings to the Slovak market advantages providing the greatest possible comfort to the client – whether in the comfort of their homes or at a café, office or beach. With You@Bank users will enjoy the extra care of a personal banker 24 hours a day. During its trial run, the service is being provided from 9.00 am to 8.00 pm.

In the area of electronic banking, we extended our mobile banking application, BankAir, to include the option of payments using bar codes, or QR codes, read from post-office orders or invoices. We are the first bank in Slovakia that allows for the automatic generation of payments in Mobile Banking out of such a great number of post-office orders.

## Payment cards

In early September 2013, we launched 3Dsecure, a security system for payment cards to protect against misuse that is currently the most secure method for online card payments. Each card payment is confirmed by a 3Dsecure authorisation code sent to the card holder's mobile phone as an SMS message.

## Small Business

Half way through 2013, we implemented the concept of Small Business hubs that comprises in total 5 commercial centres, four in Prague and one in Ostrava. Further, we put in operation the Small Business Remove Services. We also successfully launched the project of so-called Freelancer bankers focusing on the provision of services for freelance professions.

# Treasury

In 2014, the International Markets section continued its successful strategy from previous years. The year 2014 can definitely be defined as very successful. We have significantly surpassed the year-long plan in the area of deals with end clients as well as in the area of trading in treasury products on the bank's own account.

In the area of trading with corporate clients, we have increased the volume as well as the profitability of deals focused on daily cash-flow management and insurance against all market risks (of foreign currency, interest, and commodity) thanks to acquisition initiatives.

The International Markets section has been focusing on a long term basis on the development of new products that are successfully sold to corporate clients and financial institutions as well as to our own bank's retail and private banking clients. Structured bonds are particularly popular.



# Sponsorship and charity

UniCredit Bank Czech Republic has for many years been conceptually strengthening its role as a socially responsible organisation through its active participation in a number of important projects. As in previous years, it focused on various areas of art and cultural heritage during 2013, while also supporting sporting activities and educational programmes.

## Support for culture and the arts

UniCredit Bank lends support in a number of spheres, but foremost in culture. Through a long-time partnership, the Bank is associated with the Karlovy Vary International Film Festival, the most prominent international film festival in Central and Eastern Europe. The festival ranks among such other prestigious international film festivals as those in Cannes, Berlin and Venice. Deserved international attention is devoted each year to new films from Central and Eastern Europe, which means to films from the region where UniCredit Group concentrates its operations.

The Bank has long been deepening its successful cooperation with the contemporary art fair “Art Prague” or the “Prague Photo Festival”, where the Bank gives awards to the best photographers under 35 years of age – “UniCredit Prague Photo Award” and “ART PRAGUE Young Award”, designated for talented young artists under 35.

The Bank also lent a hand to the Strahov Monastery in Prague, helping to reconstruct the famous Strahov library.

## Charity and education

Within charitable activities of the Bank, special attention is paid to projects displaying the solidarity and activity of our employees. The most significant of these is the UniCredit Foundation project called Gift-Matching Program, where employees of the Bank can support a non-profit organisation of their choice. The UniCredit Foundation then matches the amount of the employees' donation. All employees have to do is form a group of eight people and raise at least EUR 150.

In 2013, employees supported 17 non-profit organisations in total and managed to collect a record-breaking CZK 900,000 themselves. The UniCredit Foundation matched the amount and non-profit organisations thus received more than CZK 1.8 million. Aside from the Gift-Matching Program, our employees also participated in activities such as the pre-Christmas collection of articles for shelter homes and mothers in difficult life situations.

In the area of charity, the Bank has been cooperating with the Konto BARIÉRY Foundation, the Livia and Václav Klaus Foundation, and the auction of artists' houses, which has been organised since 1993. These are interesting for artists as well as the public. In cooperation with Czech Radio - Brno, UniCredit Bank supported a blood drive through a “Give Blood” concert, aimed particularly at expressing thanks to all donors and informing the public about the free donation project.

Last year, we also continued in our partnership with the Debt Advisory Centre – Counselling in Stringency, whereby we are helping to prevent difficult financial situations and problems with consumer borrowing. The Centre provides free counselling to people in pressing financial situations and, in cases of need, can help prepare plans for debt relief. The Bank also supports organisations arranging educational seminars and various non-profit projects.

## Side by side with the UEFA Champions League

UniCredit Group is the official bank of the UEFA Champions League, the most prestigious football league in the world, for the whole period from July 2009 to June 2015. Sponsoring the UEFA Champions League has helped UniCredit strengthen its position as one of Europe's leading banks. Since the launch of our sponsorship, awareness of the UniCredit brand and its value has grown significantly.

The UniCredit Bank Czech Republic and Slovakia sports sponsorship program has long supported tennis events, and in particular the annual UniCredit Czech Open tennis tournament in Prostějov. It is a partner, too, of the Junior Tennis Championship in Pardubice.

## Environment

Sustainability is an everyday commitment of UniCredit Bank. We believe that sustainable banking requires us to make our day-to-day decisions and implement our long-term strategy with economic, social, and environmental responsibility. Our new headquarters Filadelfie in Prague 4, which won the prestigious BREEAM in Use certificate awarded to ecological buildings, is a good example of this. The BREEAM certification method comes from Great Britain and includes the evaluation of resource, waste, and energy consumption, environmental load, impact on fauna and flora, and human environmental conditions. A considerate approach to the environment is also demonstrated by our employees, who separate waste in all workplaces, save paper, and use economic light bulbs.

## Labour-law relations

UniCredit Bank belongs among the most attractive employers in the Czech Republic and Slovakia not only because of its offer of responsible and demanding work in the banking sector, but also thanks to its care for employees. Employees are entitled to meal vouchers, water in the workplace, sick days and recovery days, and can also use UniCredit Bank products with special benefits, or use the company cottage in Horní Malá Úpa. They also appreciate an extra week of holiday or the opportunity to purchase employee shares of UniCredit Bank. The area of flexible benefits allowing employees to choose from a large number of various activities that they consider best for them is also wide. Benefit programs grant all employees an equal approach to employee benefits and offer them free choice. The most favoured benefits include contributions for pension or life insurance, language courses, cultural and sporting events, or allowances for holiday. UniCredit Bank respects its employees and strives to support them in all situations and life stages. Therefore, the Bank also offers a series of support programs and system of contributions that include remunerations/allowances for life or work jubilees, an allowance in retirement, in difficult life situations, programs to support parents in their return from maternity/parental leave, mass cultural and sporting events, and events for seniors.

## Bank's 2013 financial results

In 2013, UniCredit Bank Czech Republic, a.s., prepared a cross-border merger project for UniCredit Bank Czech Republic, a.s., and UniCredit Bank Slovakia, a.s. UniCredit Bank Czech Republic, a.s. being the successor company and UniCredit Bank Slovakia, a.s. being the dissolved company. The effective date for the merger was 1 July 2013. Therefore, the statement of comprehensive income covers the data of UniCredit Bank Czech Republic, a.s., for the period from 1 January to 30 June 2013 and the data of UniCredit Bank Czech Republic and Slovakia, a.s., for the period from 1 July 2013 to 31 December 2013. The statement of the financial position as at 31 December 2013 contains the figures of the merged bank UniCredit Bank Czech Republic and Slovakia, a.s. The comparative period for 2012 covers data of the independent UniCredit Bank Czech Republic, a.s., as at 31 December 2012. Therefore, the data in the above statements are not fully comparable to the preceding period.

The net profit of UniCredit Bank Czech Republic and Slovakia for 2013 was CZK 3,170 million, which is unchanged on a year-on-year basis.

## Statement of comprehensive income

The net interest income of UniCredit Bank Czech Republic and Slovakia reached CZK 7,100 million (2012: CZK 6,184 million), which is nearly the same level after adjustments for the impact of the merger.

Net fee and commission income reached CZK 2,836 million (2012: CZK 2,056 million), which is a 13% increase after being adjusted for the impact of the merger.

Operating income reached CZK 12,163 million and grew by 25% compared to CZK 9,760 million in 2012 (without the impact of the merger, they grew by 8%), which reflects the dynamically growing client base and higher volumes of transactions.

General operating expenses were reported in the amount of CZK 6,076 million (2012: CZK 4,747 million). Growth was influenced by the one-time costs of the merger and higher bank taxes in Slovakia.

## Statement of financial position

At the 2013 year-end, the Bank's assets totalled CZK 465 billion (2012: CZK 319 billion). This 46% increase was caused by the merger and strong commercial growth.

Receivables from clients grew by 57% (10% without the impact of the merger) to a total of CZK 290 billion compared to the figures



at the end of 2012 (CZK 185 billion), particularly thanks to strong demand for mortgage and consumer loans.

Compared to the end of 2012, deposits from clients grew by 57% (by 20% without the merger's influence) to a total of CZK 306 billion, owing to the significant increase in the number of new clients.

Compared to the end of 2012, liabilities from the issued debt securities grew by 19% to CZK 43 billion.

The Bank's equity capital totalled CZK 51 billion as at 31 December 2013, which represents a 30% increase from the end of the preceding year.

Capital adequacy as at 31 December 2013 reached 15.44% (at the end of 2012: 15.82%).

The year 2013 was an exceptional year for the merged bank. As at 1 December 2013, the first cross-border merger of banks operating in the Czech Republic and in Slovakia was finished, and the Bank managed to show very good results despite the persisting difficult macroeconomic situation and the environment of low interest rates. The Bank has a strong capital background and an excellent level of liquidity, enabling the Bank to grant attractive loans to clients in both markets.

## Expected economic and financial standing of UniCredit Bank in 2014

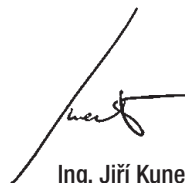
After the successful merger with UniCredit Bank Slovakia at the end of 2013, the merged bank will focus on the implementation of synergistic effects resulting from this merger in 2014. Growth of trade will contribute to an increase in interest income and income from fees. These increases will compensate for the expected decrease in the profit from trading that was extraordinarily high in 2013 and that will be negatively influenced by the new crown exchange-rate regime. Thanks to the savings created as a result of the merger, operating expenses will be stable. Despite the growth of the costs of risk resulting from the growth of trade, the Bank expects year-over-year growth of total net profits. A substantial reserve of free liquid sources gives an opportunity to further growth in lending, particularly in the retail and SME areas.

In March 2014, the Bank will include the leasing companies UniCredit Leasing in the Czech Republic and UniCredit Leasing in Slovakia in its portfolio, which was a strategic decision of the UniCredit Group. This amalgamation will allow the Bank to provide existing and new clients with comprehensive bank and non-bank products and services in the Czech Republic and Slovakia, and will open opportunities for further synergies in terms of income as well as expense.

## Statement of 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 is correct and no facts that could change the implications of the annual report have been withheld.

Prague, 30 April 2014



Ing. Jiří Kunert  
Chairman of the Board of Directors



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

Chapter 34 SHARE CAPITAL AND SHARE PREMIUM of the Financial Statements contains a misprint reading: Shares are transferrable with the consent of the Bank's General Meeting." The correct wording is: "Shares are transferrable without restrictions."

# Report of the Supervisory Board

The Supervisory Board reviewed the statutory financial statements issued as at 31 December 2013 together with the report of the auditor from Deloitte Audit s.r.o., the independent auditor of UniCredit Bank for 2013, and the proposal for profit distribution.

The Supervisory Board confirms the conclusions of the auditor's report that the financial statements prove the financial standing of UniCredit Bank as at 31 December 2013, and its financial performance efficiency for the accounting period of 2013.

The Supervisory Board confirms the conclusions of the auditor's report that the statutory financial statements truly reflect the assets, liabilities and profit of UniCredit Bank for the relevant year in all substantial respects, and that they were prepared in compliance with the relevant laws and legal regulations and statutes of UniCredit Bank.

Subject to Czech laws, provisions of the CNB, and statutes of the Bank, the Supervisory Board supervises over the implementation of the commercial policy of the Bank and over the exercise of rights of the Board of Directors. The Supervisory Board met five times and always requested information from all areas of the Bank's activities that had a relevant impact on the financial standing and financial management of the Bank.

Further, the Supervisory Board represents that the Supervisory Board did not reveal any material misrepresentations or misstatements in the statutory financial statements and other documents provided to the Supervisory Board in 2013 that could lead to a conclusion that the Bank's bookkeeping was not kept in compliance with the relevant regulations or that it does not reflect the situation of UniCredit Bank.

The Supervisory Board reviewed the Report on Relations prepared by the Board of Directors of UniCredit Bank for the period from 1 July to 31 December 2013 and provided to the Supervisory Board. The Supervisory Board does not have any significant objections to the report.

March 2014

## **Basis for calculating the contribution to the Guarantee Fund in line with Section 129 of Act No. 256/2004 Coll. on Capital Market Undertakings**

The basis for calculating the contribution to the Guarantee Fund, pursuant to Section 129 of Act No. 256/2004 Coll. on Capital Market Undertakings, consists of fees and commissions received for providing investment services. As at 31 December 2013, the basis for calculating the contribution to the Guarantee Fund was CZK 332,383,707.68. The contribution to the Guarantee Fund is 2% of this amount, i.e. CZK 6,647,674.15.

# Collaborate

More efficiency, better results.

A long-standing Client of UniCredit had been owned since 2008 by a US private equity fund. The Company consistently recorded good results and after four years, the equity fund began to consider the best options for maximizing its investment. The transaction was quite complex, involving many teams in UniCredit who worked in unison, like an orchestra, to achieve the same objective, that of satisfying all the clients involved.

Our intervention enabled all of the potential buyers to be well supported and the deal was concluded in a very short time, allowing the Company to **continue its growth** path under a new shareholder, also a key Client of UniCredit. The US equity fund managed to achieve **a very successful investment**. One deal, more satisfied Clients.

**Working together for the same objective produces excellent results.**

CIB Financial Sponsor Solutions - ITALY



# Non-consolidated financial statements

## Statement of comprehensive income for 2013

|  | Note | 2013 MCZK      | 2012 MCZK      |
|--|------|----------------|----------------|
| Interest income and similar income   | 5    | 9,687          | 8,872          |
| Interest expense and similar charges   | 5    | (2,587)        | (2,688)        |
| <b>Net interest income and similar income</b>  |      | <b>7,100</b>   | <b>6,184</b>   |
| Fee and commission income  | 6    | 3,763          | 2,740          |
| Fee and commission expenses  | 6    | (927)          | (684)          |
| <b>Net fee and commission income</b>   |      | <b>2,836</b>   | <b>2,056</b>   |
| Dividend income  | 7    | 26             | 52             |
| Net income from financial assets and liabilities held for trading  | 8    | 1,758          | 1,379          |
| Net income from hedging against risk of changes in fair value  | 9    | 13             | (14)           |
| Net income from the sale of financial assets and liabilities   | 10   | 432            | 85             |
| Net income from financial assets and liabilities at fair value through profit or loss not held for trading | 11   | (2)            | 18             |
| <b>Operating income</b>  |      | <b>12,163</b>  | <b>9,760</b>   |
| Impairment losses on financial assets  | 12   | (2,129)        | (1,351)        |
| Administrative expenses  | 13   | (5,865)        | (4,627)        |
| Creation and release of provisions   |      | (10)           | 21             |
| Depreciation and impairment of property and equipment  |      | (194)          | (155)          |
| Amortisation and impairment of intangible assets   |      | (28)           | –              |
| Other operating income and expenses  | 14   | 21             | 14             |
| <b>Operating expenses</b>  |      | <b>(6,076)</b> | <b>(4,747)</b> |
| Profit (loss) from the sale of non-financial assets  |      | (2)            | 32             |
| <b>Profit before income tax</b>  |      | <b>3,956</b>   | <b>3,694</b>   |
| Income tax   | 32   | (786)          | (537)          |
| <b>Profit after tax</b>  |      | <b>3,170</b>   | <b>3,157</b>   |
| Net profit attributable to the Bank's shareholders   |      | <b>3,168</b>   | <b>3,157</b>   |
| Net profit attributable to minority shareholders   |      | <b>2</b>       | <b>–</b>       |
| <b>Other comprehensive income</b>  |      |                |                |
| Reserve from revaluation of hedging instruments:   |      | <b>(774)</b>   | <b>748</b>     |
| Changes in net fair values of derivatives in cash flow hedges  |      | (747)          | 801            |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss                            |      | (27)           | (53)           |
| Reserve from revaluation of available-for-sale securities  |      | <b>(1,150)</b> | <b>1,943</b>   |
| Change in revaluation of available-for-sale securities   |      | (966)          | 2,028          |
| Revaluation of available-for-sale securities transferred to profit or loss                                 |      | (184)          | (85)           |
| Foreign exchange rate gains from the consolidation of a foreign branch                                     |      | <b>685</b>     | <b>–</b>       |
| <b>Other comprehensive income after tax attributable to the Bank's shareholders</b>                        |      | <b>(1,239)</b> | <b>2,691</b>   |
| Other comprehensive income attributable to the Bank's shareholders   |      | <b>(1,238)</b> | <b>2,691</b>   |
| Other comprehensive income attributable to minority shareholders   |      | <b>(1)</b>     | <b>–</b>       |
| <b>Total comprehensive income attributable to the Bank's shareholders</b>                                  |      | <b>1,931</b>   | <b>5,848</b>   |
| Total comprehensive income attributable to the Bank's shareholders   |      | <b>1,930</b>   | <b>5,848</b>   |
| Total comprehensive income attributable to the minority shareholders                                       |      | <b>1</b>       | <b>–</b>       |

## Statement of financial position as of 31 December 2013

|   | Note | 31 Dec 2013<br>MCZK | 31 Dec 2012<br>MCZK |
|---|------|---------------------|---------------------|
| <b>ASSETS</b>   |      |                     |                     |
| Cash in hand and cash balances                                      | 15   | 3,969               | 1,662               |
| Financial assets at fair value through profit or loss, including FA |      | 15,474              | 14,759              |
| – held for trading  | 16   | 8,909               | 7,684               |
| – not held for trading  | 16   | 6,565               | 7,075               |
| Available-for-sale securities                                       | 17   | 74,535              | 73,045              |
| Securities held to maturity   | 18   | 1,128               | –                   |
| Receivables from banks  | 19   | 71,460              | 36,641              |
| Receivables from clients  | 20   | 289,945             | 184,715             |
| Positive fair value of hedging derivatives                          | 21   | 3,336               | 4,674               |
| Property and equipment  | 22   | 1,917               | 1,085               |
| Intangible assets   | 23   | 12                  | 2                   |
| Tax receivables, including:   |      | 853                 | 385                 |
| – current income tax  |      | 210                 | –                   |
| – deferred tax  | 33   | 643                 | 385                 |
| Non-current assets held for sale                                    | 24   | –                   | 18                  |
| Other assets  | 25   | 1,993               | 1,923               |
| <b>Total assets</b>   |      | <b>464,622</b>      | <b>318,909</b>      |
| <b>LIABILITIES</b>  |      |                     |                     |
| Deposits from banks   | 26   | 49,798              | 34,230              |
| Deposits from clients   | 27   | 306,298             | 195,120             |
| Debt securities issued  | 28   | 43,041              | 36,194              |
| Financial liabilities held for trading                              | 29   | 5,388               | 5,956               |
| Negative fair value of hedging derivatives                          | 30   | 3,157               | 2,645               |
| Tax liabilities, including:   |      | 215                 | 1,223               |
| – current income tax  | 33   | –                   | 253                 |
| – deferred tax  | 33   | 215                 | 970                 |
| Other liabilities   | 31   | 4,243               | 3,577               |
| Provisions  | 32   | 1,735               | 1,027               |
| <b>Total liabilities</b>  |      | <b>413,875</b>      | <b>279,972</b>      |
| <b>EQUITY</b>   |      |                     |                     |
| Issued capital  | 34   | 8,755               | 8,750               |
| Share premium   | 34   | 3,495               | 3,483               |
| Reserve funds from revaluation of financial instruments             |      | 2,951               | 4,178               |
| Retained earnings and reserve funds                                 | 36   | 32,376              | 19,369              |
| Profit for the period   |      | 3,170               | 3,157               |
| <b>Total shareholder's equity</b>                                   |      | <b>50,747</b>       | <b>38,937</b>       |
| <b>Total liabilities and shareholder's equity</b>                   |      | <b>464,622</b>      | <b>318,909</b>      |

## Statement of cash flows for the period ended 31 December 2013

|  | 2013<br>MCZK    | 2012<br>MCZK    |
|--|-----------------|-----------------|
| <b>Net profit for the period</b>   | <b>3,170</b>    | <b>3,157</b>    |
| <b>Adjustments for non-cash items</b>  |                 |                 |
| Impairment of loans and receivables and financial investments                  | 2,129           | 1,352           |
| Revaluation of securities and derivatives                                      | 55              | (156)           |
| Creation and release of other provisions                                       | 10              | (72)            |
| Foreign exchange rate gains or losses from the foreign branch                  | 685             | –               |
| Depreciation and amortisation of property and equipment, and intangible assets | 222             | 155             |
| Profit (loss) from property and equipment and intangible assets sold           | 2               | (32)            |
| Taxes  | 787             | (124)           |
| Other non-monetary changes   | 856             |                 |
| <b>Operating profit before change in operating assets and liabilities</b>      | <b>7,916</b>    | <b>4,280</b>    |
| Financial assets and liabilities held for trading                              | (1,132)         | 13,418          |
| Receivables from banks   | (33,693)        | (9,977)         |
| Loans and receivables from clients   | (29,750)        | (4,408)         |
| Other assets   | 12              | (1,117)         |
| Deposits from banks  | (2,144)         | 1,794           |
| Deposits from clients  | 45,027          | 16,468          |
| Other liabilities  | 360             | 797             |
| Income tax paid  | (1,172)         | (411)           |
| <b>Net cash flows from operating activities</b>                                | <b>(14,576)</b> | <b>20,844</b>   |
| Changes in securities available for sale and financial investments             | 12,128          | (26,291)        |
| Acquisition of a subsidiary  | –               | (105)           |
| Gains from the sale of property and equipment and intangible assets            | 16              | 124             |
| Acquisition of property and equipment and intangible assets                    | (134)           | (189)           |
| Dividends received   | 26              | 52              |
| <b>Net cash flows from investment activities</b>                               | <b>12,036</b>   | <b>(26,409)</b> |
| Dividends paid   | (1,763)         | –               |
| Debt securities issued   | 3,229           | 4,799           |
| <b>Net cash flows from financial activities</b>                                | <b>1,466</b>    | <b>4,799</b>    |
| <b>Cash and other highly liquid funds at the start of the period</b>           | <b>1,662</b>    | <b>2,428</b>    |
| Addition arising from the merger   | 3,381           | –               |
| Net cash flows from operating activities                                       | (14,576)        | 20,844          |
| Net cash flows from investment activities                                      | 12,036          | (26,409)        |
| Net cash flows from financial activities                                       | 1,466           | 4,799           |
| <b>Cash and other highly liquid funds at the end of the period</b>             | <b>3,969</b>    | <b>1,662</b>    |
| Interest received  | 9,408           | 8,848           |
| Interest paid  | (2,200)         | (2,506)         |

# Statement of changes in equity for 2013

| MCZK   | Reserve from revaluation |               |                     |                               | Retained earnings and reserve funds               |                        |                     |                              | Equity         |
|--|--------------------------|---------------|---------------------|-------------------------------|---|------------------------|---------------------|------------------------------|----------------|
|  | Issued capital           | Share premium | hedging instruments | securities available for sale | exchange rate gains or losses of a foreign branch | Statutory reserve fund | Other reserve funds | Special-purpose reserve fund |                |
| Balance as at 31 December 2011   | 8,750                    | 3,483         | 888                 | 599                           | –   | 1,175                  | 1,824               | –                            | 33,094         |
| Transactions with owners, contributions from and distributions to owners                             |                          |               |                     |                               |   |                        |                     |                              |                |
| Allocation of the 2011 profit  |                          |               |                     |                               |   | 58                     |                     |                              | –              |
| Dividend payment   |                          |               |                     |                               |   |                        |                     |                              | –              |
| Impact of merger with UniCredit ČAIB Czech Republic a.s.   |                          |               |                     |                               |   |                        |                     |                              | (5)            |
| <b>Total comprehensive income for the period</b>   |                          |               |                     |                               |   |                        |                     |                              |                |
| Net profit for 2012  |                          |               |                     |                               |   |                        |                     |                              | 3,157          |
| <b>Other comprehensive income</b>  |                          |               |                     |                               |   |                        |                     |                              |                |
| Change in revaluation of available-for-sale securities reported in other comprehensive income        |                          |               |                     | 2,028                         |   |                        |                     |                              | 2,028          |
| Revaluation of available-for-sale securities transferred to profit or loss                           |                          |               |                     | (85)                          |   |                        |                     |                              | (85)           |
| Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income |                          |               | 801                 |                               |   |                        |                     |                              | 801            |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss                      |                          |               | (53)                |                               |   |                        |                     |                              | (53)           |
| <b>Total comprehensive income for the period</b>   |                          |               | <b>748</b>          | <b>1,943</b>                  |   |                        |                     |                              | <b>2,691</b>   |
| Balance as at 31 December 2012   | 8,750                    | 3,483         | 1,636               | 2,542                         | –   | 1,233                  | 1,824               | –                            | 38,937         |
| Transactions with owners, contributions from and distributions to owners                             |                          |               |                     |                               |   |                        |                     |                              |                |
| Allocation of the 2012 profit  |                          |               |                     |                               |   | 157                    |                     |                              | –              |
| Dividend payment   |                          |               |                     |                               |   |                        |                     |                              | (1,763)        |
| Impact of the cross-border merger with UniCredit Bank Slovakia a.s.                                  | 5                        | 12            | (11)                | 23                            |   |                        |                     | 11,611                       | 11,642         |
| <b>Total comprehensive income for the period</b>   |                          |               |                     |                               |   |                        |                     |                              |                |
| Net profit for 2013  |                          |               |                     |                               |   |                        |                     |                              | 3,170          |
| <b>Other comprehensive income</b>  |                          |               |                     |                               |   |                        |                     |                              |                |
| Change in revaluation of available-for-sale securities reported in other comprehensive income        |                          |               |                     | (966)                         |   |                        |                     |                              | (966)          |
| Revaluation of available-for-sale securities transferred to profit or loss                           |                          |               |                     | (184)                         |   |                        |                     |                              | (184)          |
| Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income |                          |               | (747)               |                               |   |                        |                     |                              | (747)          |
| Net fair value of derivatives in cash flow hedges transferred to profit or loss                      |                          |               | (27)                |                               |   |                        |                     |                              | (27)           |
| Foreign exchange rate gains or losses from the consolidation of a foreign branch                     |                          |               |                     |                               | 685   |                        |                     |                              | 685            |
| <b>Total comprehensive income for the period</b>   |                          |               | <b>(774)</b>        | <b>(1,150)</b>                | <b>685</b>  |                        |                     |                              | <b>(1,239)</b> |
| Balance at 31 December 2013  | 8,755                    | 3,495         | 851                 | 1,415                         | 685   | 1,390                  | 1,824               | 11,611                       | 50,747         |



# Notes to the separate financial statements

## 1. Introduction

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Bank") was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company. Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013. The Bank's principal shareholder, holding 99.94% of shares, is UniCredit Bank Austria AG, Vienna. The parent company of the entire UniCredit Group is UniCredit S.p.A, Milan.

*The Bank's registered office:*  
Želetavská 1525/1  
140 92, Praha 4 – Michle

Following the completion of the cross-border merger, the Bank has been continuing to perform activities previously undertaken by UniCredit Bank Slovakia a.s. on the territory of the Slovak Republic through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank). The cross-border merger was made with the objective of creating a stronger entity capable of managing business activities both in the Czech and Slovak markets that will bring significant advantages to the UniCredit Group since the merger gave rise to an entity that is able to more efficiently and effectively serve clients and achieve greater returns in the context of the anticipated cost savings and dynamic growth of business in both countries. The integration enabled to benefit from synergistic effects in terms of costs and income while achieving a more balanced capital structure and optimised liquidity management. In addition, the UniCredit Group had the opportunity to reduce the complexity of its organisational structure and the level of management efforts as a result of establishing one local management team overseeing both markets. The Bank increased its share capital for the purposes of the merger. A number of minority shareholders of UniCredit Bank Slovakia a.s. exercised their right to sell the shares of the dissolving bank, other minority shareholders utilised the right to exchange the shares

for newly issued shares of the Bank. The successor bank took over the capital of the dissolving bank of MCZK 11,611 and allocated it to the special-purpose reserve fund in EUR that can be used only to offset losses. Information about significant assets and liabilities taken over and other matters is disclosed in Note 43.

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

The Bank's principal activities include:

- Receiving deposits from the public;
- Providing loans;
- Investing in securities on its own behalf;
- Operating a system of payments and clearing;
- Issuing and administration of payment products;
- Providing guarantees;
- Opening letters of credit;
- Administering cash collection;
- Trading on its own behalf or on behalf of clients:
  1. In foreign-exchange currency products;
  2. In forward and contract options, including foreign currency and interest rate contracts; and
  3. With transferable securities;
- Participating in share subscriptions and providing related services;
- Issuing mortgage bonds;
- Conducting financial brokerage;
- Managing securities, including portfolio management, on behalf of clients;
- Providing depository services and administration of securities;
- Providing depository services for investment funds;
- Conducting foreign currency exchange activities;
- Providing banking information;
- Renting safe-deposit boxes; and
- Conducting activities directly connected with the activities stated above.

## 2. Basis for the preparation of the financial statements

In 2013, the Bank prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where the Bank is the successor company and UniCredit Bank Slovakia a.s. is the dissolving company. The merger effective date was determined at 1 July 2013. These financial statements were prepared for the reporting period from 1 January 2013 to 31 December 2013. The statement of comprehensive income and the statement of cash flows include the information for UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013 and the information for



UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July 2013 to 31 December 2013. The statement of financial position as of 31 December 2013 includes the balances of UniCredit Bank Czech Republic and Slovakia, a.s. The 2012 comparative period includes information for standalone UniCredit Bank Czech Republic, a.s. as of 31 December 2012.

In 2013, the Bank decided to change the structure of its financial statements due to the alignment of the structure with that of the internal reporting package of the parent company for consolidation purposes.

The financial information for 2012 has been adjusted in accordance with the current structure for the purposes of comparability.

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

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

These financial statements are separate financial statements prepared in accordance with the requirements of Act 563/1991 Coll., on Accounting. The Bank's ultimate owner is UniCredit S.p.A, Milan, which consolidates the entire group in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements were prepared on the fair value principle for financial derivatives, financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, except for those whose fair value measurement cannot be reliably determined. The methods for determining fair value are presented in Note 3(b)(iv). Recognised assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. Other financial assets and liabilities and non-financial assets and liabilities are measured at amortised cost or at historical cost.

### 3. Significant accounting policies

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

#### (a) Foreign Currency

Transactions in foreign currencies (ie other than functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank and ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as "Net income from financial assets and liabilities held for trading".

#### (b) Financial Instruments

##### (i) Classification

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

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

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

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

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

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

##### (ii) Recognition of Financial Assets

Financial assets at fair value through profit or loss are recognised on the settlement date. Any gains or losses arising from changes

in the fair value of the assets are recognised in the Bank's profit or loss on the trade date.

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

Held-to-maturity assets are recognised on the settlement date in the Bank's accounting books. The Bank initially recognises loans and receivables on their origination dates.

### ***(iii) Measurement of Financial Assets***

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

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

### ***(iv) Fair Value Measurement Principles***

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

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

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

In the context of the situation on the financial markets during the years 2012 and 2013, 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 valuations is selected for each of the bonds. The credit spread of the bond is calculated from particular contributions and discount curves

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

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

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

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

Another model is used for the Value at Risk (VaR) calculation (see Note 40) in the system for market risk management, which assists in determining 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 interest (VaR IR) and credit (spread VaR) 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 2011 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 valuation of the securities portfolio. The Bank's management believes that the fair value of the assets and liabilities presented in these financial statements can be measured reliably.

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

- Level 1 input – quoted (unadjusted) prices on active markets for identical assets or liabilities available to the Bank as of the date of valuation;
- Level 2 input – input data other than the quoted prices contained in level 1 that are observable for an asset or liability either directly or indirectly. This category includes the instruments valued at:

quoted prices of similar assets or liabilities on active markets;  
quoted prices of identical or similar assets or liabilities on markets that are not active; valuation techniques for which a significant input is observable on the market directly or indirectly; and

- Level 3 input – unobservable input data for an asset or liability. This category includes instruments under which valuation techniques contain an input not based on observable data and the unobservable input may have a significant impact on the instrument's valuation.

#### **(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 recognised directly in profit or loss as "Net income from financial assets and liabilities held for trading".

Interest income from financial assets held for trading is recognised in profit or loss as "Interest income and similar income".

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

The interest income from financial assets and liabilities at fair value through profit or loss not held for trading is recognised in profit or loss as "Interest and similar income".

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

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

#### **(vi) Derecognition**

A financial asset is derecognised when the Bank loses the contractual rights to the cash flow from an asset or the Bank transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is settled.

Available-for-sale assets and assets recognised at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised at the settlement date.

The Bank uses accounting methods to determine the gain or loss on derecognition. Held-to-maturity instruments and loans and receivables are derecognised on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

#### **(c) Participation Interests**

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

#### **(d) Derivatives**

##### **(i) Hedging Derivatives**

Hedging derivatives are carried at fair value. The method of recognising fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- The hedge is in line with the Bank's risk management strategy;
- The hedge relationship is formally documented at the inception of the hedge;
- It is expected that the hedge relationship will be highly effective throughout its life;
- The effectiveness of the hedge relationship can be objectively measured;
- The hedge relationship is highly effective throughout the accounting period; and
- In the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in profit or loss in "Net income from hedging against risk of changes in fair value". Realised interest income and expenses are reported on a net basis in "Interest income and similar income" or "Interest expense and similar charges".

If the derivative hedges an exposure to the variability of cash flows related to recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in other comprehensive income and becomes the equity item "Reserves from revaluation of hedging instruments".

The ineffective part of the hedge is recognised in profit or loss. If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the aforementioned policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately recognised in profit or loss.

#### **(ii) Embedded Derivatives**

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

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

#### **(e) Borrowing and Lending of Securities**

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

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

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

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

In the case of the sale of a security acquired on the basis of securities lending arrangements or repurchase agreements, the Bank derecognises the securities acquired in such manner from off-balance sheet and records a payable from a short-term sale, which is revalued

to fair value, in the balance sheet. This payable is reported under "Financial liabilities held for trading".

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

#### **(f) Offsetting**

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

#### **(g) Impairment**

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

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

Loans and receivables and held-to-maturity assets are presented net of impairment losses for uncollectibility.

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

Collective impairment losses of portfolios of standard loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.

The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit rating of the underlying customers. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

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

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after

the impairment loss, the impairment loss is reversed through profit or loss in "Impairment of loans and receivables".

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

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

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

Property and equipment and intangible assets are assets which are held in order to pursue banking activities and which may be used for a period of longer than one year.

Property and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.

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

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

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

The gains and losses on disposal are determined based on the net book value and are included in other operating income or expenses. The costs of repair, maintenance and technical improvement are

expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised.

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

#### **(i) Leases**

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

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

#### **(j) Deposits from Banks and Clients and Securities Issued**

Upon initial recognition, these deposits are recognised at fair value. They are subsequently reported at amortised cost.

#### **(k) Provisions**

Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions are recognised when:

- There is an obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%); and
- The amount of the obligation can be reliably estimated.

#### **(l) Interest Income and Expense**

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

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

#### **(m) Fee and Commission Income and Expense**

Fee and commission income and expense consist of fees and commissions received/paid by the Bank for providing financial services other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognised when the corresponding service is provided or completed.



#### (n) Dividend Income

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

#### (o) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period pursuant to Czech Accounting Standards to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits. The tax payable or receivable is calculated using the tax rate valid at the year-end and reported in the expected amount of the settlement with the tax authorities. Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

#### (p) 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 down 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.

#### (q) 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 on the Bank's financial

statements in the future. The Bank plans to implement these standards at the date they become effective.

- *IFRS 10 Consolidated Financial Statements*, effective for annual periods beginning on or after 1 January 2014;
- *IFRS 11 Joint Arrangements*, effective for annual periods beginning on or after 1 January 2014;
- *IFRS 12 Disclosures of Interests in Other Entities*, effective for annual periods beginning on or after 1 January 2014;
- *IAS 27 (revised in 2011) Separate Financial Statements*, effective for annual periods beginning on or after 1 January 2014;
- *IAS 28 (revised in 2011) Investments in Associates and Joint Ventures*, effective for annual periods beginning on or after 1 January 2014;
- Amendments to *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements* and *IFRS 12 Disclosures of Interests in Other Entities – Transition* adopted by the EU on 4 April 2013, effective for annual periods beginning on or after 1 January 2014; and
- Amendments to *IFRS 10 Consolidated Financial Statements*, *IFRS 12 Disclosures of Interests in Other Entities* and *IAS 27 (revised in 2011) Separate Financial Statements – Investment Entities*, adopted by the EU on 20 November 2013, effective for annual periods beginning on or after 1 January 2014.
- Amendments to *IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities*, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to *IAS 36 "Impairment of Assets" – Recoverable Amount Disclosures for Non-Financial Assets*, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014); and
- Amendments to *IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting*, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The below standards and interpretations were published by the IASB, but not yet adopted by the European Union. The Bank estimates that the application of these standards, amendments to these standards and interpretations in the period of their first-time use, will have no impact on the financial statements of the Bank.

- *IFRS 9 Financial Instruments* published on 13 November 2009;
- Amendments to *IAS 19 Employee Benefits* published on 21 November 2013;
- Amendments to various standards and interpretations "Improvements to IFRSs 2010-2012: *IFRS 2 Share-based Payment*, *IFRS 3 Business Combinations*, *IFRS 8 Operating Segments*, *IFRS 13 Fair Value Measurement*, *IAS 16 Property, Plant and Equipment*, *IAS 24 Related Party Disclosures* and *IAS 38 Intangible Assets* published on 12 December 2013;
- Amendments to various standards and interpretations "Improvements to IFRSs 2011-2013: *IFRS 1 First-time Adoption*

of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property published on 12 December 2013; and

- IFRIC 21 – Levies published on 20 May 2013.

#### **(r) Transactions under common control**

A business combination between entities or companies under common control is a business combination where all combining entities or companies are ultimately controlled by the same party or parties as prior to and post the business combination and this control is not temporary. For business combinations under common control the Bank has adopted the method of carrying amounts of the acquired business. Accounting policies of combining entities are subsequently harmonised. In reporting profit or loss and financial position, the Bank takes guidance from IAS 21, specifically the provisions that set out the use of a presentation currency other than the functional currency.

## **4. Critical accounting estimates and judgements**

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

### **(a) Key Sources of Estimation Uncertainty**

#### **(i) Impairment**

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

#### **(ii) Determining Fair Values**

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of

valuation techniques as described in accounting policy 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; the Bank confirms that the assumptions disclosed in Note 3(b) (i) have been met.

#### **(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 period ended 31 December 2013 and the year ended 31 December 2012.

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

In the period ended 31 December 2013 and the year ended 31 December 2012, 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 periods significant changes occurred on 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 was not required to transfer any financial investments between categories based on the quality of the input data for revaluation (see Note 42).

## 5. Net interest income and similar income

| MCZK   | 2013           | 2012           |
|--|----------------|----------------|
| Interest income and similar income   |                |                |
| Balances with central banks  | 10             | 47             |
| Receivables from banks   | 104            | 166            |
| Receivables from clients   | 7 470          | 6 656          |
| Available-for-sale securities  | 1 544          | 1 504          |
| Securities held to maturity  | 7              | –              |
| Financial assets at fair value through profit or loss held for trading     | 41             | 106            |
| Financial assets at fair value through profit or loss not held for trading | 36             | 86             |
| Hedging derivatives  | 475            | 307            |
| <b>Interest income and similar income</b>                                  | <b>9 687</b>   | <b>8 872</b>   |
| Interest expense and similar charges                                       |                |                |
| Deposits from central bank   | (1)            | –              |
| Deposits from banks  | (183)          | (298)          |
| Deposits from clients  | (1 272)        | (1 356)        |
| Debt securities issued   | (1 109)        | (1 007)        |
| Financial liabilities held for trading                                     | (22)           | (27)           |
| <b>Interest expense and similar charges</b>                                | <b>(2 587)</b> | <b>(2 688)</b> |
| <b>Net interest income and similar income</b>                              | <b>7 100</b>   | <b>6 184</b>   |

## 6. Net fee and commission income

| MCZK   | 2013         | 2012         |
|--|--------------|--------------|
| Fee and commission income from                           |              |              |
| Securities transactions                                  | 13           | 45           |
| Management, administration, deposit and custody services | 447          | 282          |
| Loans  | 1 303        | 819          |
| Payment services   | 632          | 529          |
| Account administration                                   | 469          | 353          |
| Payment cards  | 847          | 703          |
| Other  | 52           | 9            |
| <b>Fee and commission income from</b>                    | <b>3 763</b> | <b>2 740</b> |
| Fee and commission expense from                          |              |              |
| Securities transactions                                  | (1)          | (18)         |
| Management, administration, deposit and custody services | (70)         | (137)        |
| Loans  | (199)        | (63)         |
| Payment services   | (19)         | (9)          |
| Payment cards  | (610)        | (446)        |
| Other  | (28)         | (11)         |
| <b>Fee and commission expense from</b>                   | <b>(927)</b> | <b>(684)</b> |
| <b>Net fee and commission income</b>                     | <b>2 836</b> | <b>2 056</b> |

## 7. Dividend income

| MCZK   | 2013      | 2012      |
|--|-----------|-----------|
| Dividend income  |           |           |
| From shares classified as available-for-sale securities  | 1         | 1         |
| From investment certificates classified as securities designated at fair value upon initial recognition through profit or loss | 25        | 51        |
| <b>Total dividend income</b>   | <b>26</b> | <b>52</b> |



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

| MCZK   | 2013         | 2012         |
|--|--------------|--------------|
| Net realised and unrealised gain/(loss) from securities held for trading   | 19           | 59           |
| Net realised and unrealised gain/(loss) from derivatives held for trading  | 658          | 802          |
| Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX | 1 081        | 518          |
| <b>Net trading income</b>  | <b>1 758</b> | <b>1 379</b> |

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

| MCZK   | 2013      | 2012        |
|--|-----------|-------------|
| Hedging instruments  | 148       | (167)       |
| Hedged instruments   | (135)     | 153         |
| <b>Net gain from hedging against risk of changes in fair value</b> | <b>13</b> | <b>(14)</b> |

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

| MCZK  | 2013         | 2012      |
|---|--------------|-----------|
| Receivables from clients  | (19)         | (3)       |
| Available-for-sale securities                                       | 461          | 90        |
| Debt securities issued  | (10)         | (2)       |
| <b>Net income from the sale of financial assets and liabilities</b> | <b>(432)</b> | <b>85</b> |

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

| MCZK  | 2013       | 2012      |
|---|------------|-----------|
| Debt securities   | (2)        | 18        |
| <b>Net income from financial assets and liabilities at fair value through profit or loss not held for trading</b> | <b>(2)</b> | <b>18</b> |

## 12. Impairment losses on financial assets

| MCZK                                  | 2013           | 2012           |
|---------------------------------------|----------------|----------------|
| Receivables from clients              | (2 139)        | (1 467)        |
| Provision for off-balance sheet items | 79             | 30             |
| Available-for-sale securities         | (69)           | 86             |
| <b>Total</b>                          | <b>(2 129)</b> | <b>(1 351)</b> |

## 13. Administrative expenses

| MCZK  | 2013           | 2012           |
|---|----------------|----------------|
| Personnel expenses  |                |                |
| Wages and salaries paid to employees                          | (1 792)        | (1 462)        |
| Social costs  | (613)          | (482)          |
| Other   | (176)          | (123)          |
|   | <b>(2 581)</b> | <b>(2 067)</b> |
| Including wages and salaries paid to:                         |                |                |
| Members of the Board of Directors                             | (79)           | (59)           |
| Other executives directly reporting to the Board of Directors | (121)          | (98)           |
|   | <b>(200)</b>   | <b>(157)</b>   |
| Other administrative expenses                                 |                |                |
| Rent and building maintenance                                 | (461)          | (384)          |
| Information technologies                                      | (1 005)        | (760)          |
| Promotion and marketing                                       | (339)          | (290)          |
| Consumables used  | (116)          | (67)           |
| Audit, legal and advisory services                            | (148)          | (179)          |
| Administrative and logistic services                          | (292)          | (292)          |
| Deposits and transactions insurance                           | (289)          | (239)          |
| Services  | (260)          | (310)          |
| Other   | <b>(374)</b>   | <b>(39)</b>    |
|   | <b>(3 284)</b> | <b>(2 560)</b> |
| <b>Total administrative expenses</b>                          | <b>(5 865)</b> | <b>(4 627)</b> |

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

| 2013<br>MCZK            | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
|-------------------------|----------------------|---------------------|-------------------------------|
| Minimum future payments | 302                  | 1 155               | –                             |
|                         |                      |                     |                               |
| 2012<br>MCZK            | Due within<br>1 year | Due in<br>1–5 years | Due in the<br>following years |
| Minimum future payments | 292                  | 1 122               | –                             |

Information about bonuses tied to equity is included in Note 35.

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

|   | 2013  | 2012  |
|---|-------|-------|
| Employees   | 3 071 | 1 952 |
| Members of the Board of Directors                             | 10    | 6     |
| Members of the Supervisory Board                              | 6     | 3     |
| Other executives directly reporting to the Board of Directors | 52    | 25    |

The information represents the sum of the average headcount of the Czech headquarters for the period from 1 January 2013 to 31 December 2013 and the average headcount of the Slovak branch for the period from 1 July 2013 to 31 December 2013.

## 14. Other operating income and expenses

| MCZK   | 2013        | 2012        |
|--|-------------|-------------|
| Income from rent                                 | 33          | 20          |
| Use of provisions (see Note 26 b)                | –           | 10          |
| Other income                                     | 33          | 13          |
| <b>Total other operating income</b>              | <b>66</b>   | <b>43</b>   |
| Other taxes                                      | –           | (10)        |
| Fines and penalties                              | (9)         | (7)         |
| Other  | (36)        | (12)        |
| <b>Total other operating expenses</b>            | <b>(45)</b> | <b>(29)</b> |
| <b>Total other operating income and expenses</b> | <b>21</b>   | <b>14</b>   |

## 15. Cash in hand and cash balances

| MCZK                              | 31 Dec 2013  | 31 Dec 2012  |
|-----------------------------------|--------------|--------------|
| Cash in hand                      | 3 792        | 1 657        |
| Other balances with central banks | 177          | 5            |
| <b>Total</b>                      | <b>3 969</b> | <b>1 662</b> |

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds. In respect of the change in the structure of the statements (as disclosed in Note 2), there was a change in the structure of cash and highly-liquid funds – the obligatory minimum reserves were also included in the original structure; in the new structure, these reserves are reported within “Receivables from banks”.

## 16. Financial assets at fair value through profit or loss

### (a) Held for Trading

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

| MCZK                    | Level 1      | Level 2      | Level 3  | Total        |
|-------------------------|--------------|--------------|----------|--------------|
| <b>31 December 2013</b> |              |              |          |              |
| Debt securities         | 4 426        | 12           | –        | 4 438        |
| Shares                  | 23           | –            | –        | 23           |
| Derivatives             | 32           | 4 416        | –        | 4 448        |
| <b>Total</b>            | <b>4 481</b> | <b>4 428</b> | <b>–</b> | <b>8 909</b> |
| <b>31 December 2012</b> |              |              |          |              |
| Debt securities         | 3 079        | 24           | –        | 3 103        |
| Shares                  | 4            | –            | –        | 4            |
| Derivatives             | 22           | 4 554        | 1        | 4 577        |
| <b>Total</b>            | <b>3 105</b> | <b>4 578</b> | <b>1</b> | <b>7 684</b> |

*(ii) Securities by Type of Issuer*

| MCZK               | 31 Dec 2013  | 31 Dec 2012  |
|--------------------|--------------|--------------|
| Debt securities    |              |              |
| Government sector  | 4 438        | 3 103        |
| Shares             |              |              |
| Financial services | 16           | –            |
| Other              | 7            | 4            |
| <b>Total</b>       | <b>4 461</b> | <b>3 107</b> |

**(b) Not Held for Trading**

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

| MCZK                    | Level 1      | Level 2      | Level 3  | Total        |
|-------------------------|--------------|--------------|----------|--------------|
| <b>31 December 2013</b> |              |              |          |              |
| Debt securities         | 99           | 6 466        | –        | 6 565        |
| Shares                  | –            | –            | –        | –            |
| <b>Total</b>            | <b>99</b>    | <b>6 466</b> | <b>–</b> | <b>6 565</b> |
| <b>31 December 2012</b> |              |              |          |              |
| Debt securities         | 1 840        | 5 235        | –        | 7 075        |
| Shares                  | –            | –            | –        | –            |
| <b>Total</b>            | <b>1 840</b> | <b>5 235</b> | <b>–</b> | <b>7 075</b> |

*(ii) Securities by Type of Issuer*

| MCZK               | 31 Dec 2013  | 31 Dec 2012  |
|--------------------|--------------|--------------|
| Debt securities    |              |              |
| Financial services | –            | 965          |
| Government sector  | 6 371        | 5 916        |
| Other              | 194          | 194          |
| <b>Total</b>       | <b>6 565</b> | <b>7 075</b> |

## 17. Available-for-sale securities

At the end of 2011, the Bank held Greek state bonds in its available-for-sale portfolio in the nominal value of MEUR 120. In March 2012, the Bank participated in restructuring Greek state bonds as part of an agreement with private creditors and it subsequently sold the new bonds. The impact of this transaction on the statement of comprehensive income for the year ended 31 December 2012 is disclosed in Note 12. The Bank has no Italian, Spanish, Irish, Portuguese or Greek state bonds in its portfolios.

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

| MCZK                    | Level 1       | Level 2       | Level 3    | Total         |
|-------------------------|---------------|---------------|------------|---------------|
| <b>31 December 2013</b> |               |               |            |               |
| Debt securities         | 48 693        | 23 452        | 4          | 72 149        |
| Shares                  | –             | 2 248         | 138        | 2 386         |
| <b>Total</b>            | <b>48 693</b> | <b>25 700</b> | <b>142</b> | <b>74 535</b> |
| <b>31 December 2012</b> |               |               |            |               |
| Debt securities         | 39 796        | 31 029        | –          | 70 825        |
| Shares                  | –             | 2 200         | 20         | 2 220         |
| <b>Total</b>            | <b>39 796</b> | <b>33 229</b> | <b>20</b>  | <b>73 045</b> |

## (b) Securities by Type of Issuer

| MCZK                          | 31 Dec 2013   | 31 Dec 2012   |
|-------------------------------|---------------|---------------|
| Debt securities               |               |               |
| Banking                       | 10 827        | 12 010        |
| Governments and central banks | 56 605        | 50 997        |
| Other                         | 4 717         | 7 818         |
| Shares                        |               |               |
| Investment funds              | 2 248         | 2 200         |
| Other                         | 138           | 20            |
| <b>Total</b>                  | <b>74 535</b> | <b>73 045</b> |

## (c) Participation Interests

| Name   | Registered office | Date of acquisition | Acquisition price | Net book value 2013 | Net book value 2012 | Share of the Bank 31 Dec 2013 | Share of the Bank 31 Dec 2012 |
|--|-------------------|---------------------|-------------------|---------------------|---------------------|-------------------------------|-------------------------------|
| CBCB – Czech Banking Credit Bureau, a.s. (bank register) | Prague            | 10 Oct 2001         | 0.24              | 0.24                | 0.24                | 20%                           | 20%                           |
| <b>Total</b>   |                   |                     | <b>0.24</b>       | <b>0.24</b>         | <b>0.24</b>         | <b>–</b>                      | <b>–</b>                      |

# 18. Securities held to maturity

## (a) By type of security

| MCZK            | 31 Dec 2013  | 31 Dec 2012 |
|-----------------|--------------|-------------|
| Debt securities | 1 128        | –           |
| Shares          | –            | –           |
| <b>Total</b>    | <b>1 128</b> | <b>–</b>    |

## (b) Securities by activities of issuers

| MCZK                          | 31 Dec 2013  | 31 Dec 2012 |
|-------------------------------|--------------|-------------|
| Debt securities               |              |             |
| Governments and central banks | 189          | –           |
| Other                         | 939          | –           |
| <b>Total</b>                  | <b>1 128</b> | <b>–</b>    |

# 19. Receivables from banks

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

| MCZK                                 | 31 Dec 2013   | 31 Dec 2012   |
|--------------------------------------|---------------|---------------|
| Current accounts                     | 5 328         | 3 522         |
| Term deposits                        | 30 651        | 13 300        |
| Loans                                | 856           | 322           |
| Repurchase commitments (see Note 36) | 29 140        | 15 028        |
| Obligatory minimum reserves          | 5 485         | 4 468         |
| <b>Total</b>                         | <b>71 460</b> | <b>36 641</b> |

## (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 of 31 December 2013 was MCZK 206 (as of 31 December 2012: MCZK 189). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from one to six months, and the interest rate is based on the relevant EURIBOR rate.

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

| MCZK                                | 31 Dec 2013   | 31 Dec 2012   |
|-------------------------------------|---------------|---------------|
| Czech Republic                      | 50 791        | 27 146        |
| Other EU countries                  | 19 271        | 8 122         |
| Other                               | 1 398         | 1 373         |
| <b>Total receivables from banks</b> | <b>71 460</b> | <b>36 641</b> |

## 20. Receivables from clients

(a) Analysis of Receivables from Clients, by Type

| MCZK                                 | Not impaired   | Impaired      | Total          |
|--------------------------------------|----------------|---------------|----------------|
| <b>31 December 2013</b>              |                |               |                |
| Current accounts                     | 31 247         | 1 625         | 32 872         |
| Repurchase commitments (see Note 36) | 12             | –             | 12             |
| Resident mortgage loans              | 62 450         | 3 910         | 66 360         |
| Other mortgage loans                 | 56 864         | 4 456         | 61 320         |
| Credit cards                         | 3 951          | 492           | 4 443          |
| Factoring                            | 1 734          | 20            | 1 754          |
| Other loans                          | 118 169        | 5 015         | 123 184        |
| <b>Total</b>                         | <b>274 427</b> | <b>15 518</b> | <b>289 945</b> |
| <b>31 December 2012</b>              |                |               |                |
| Current accounts                     | 17 046         | 838           | 17 884         |
| Repurchase commitments (see Note 36) | 21             | –             | 21             |
| Resident mortgage loans              | 36 109         | 2 945         | 39 054         |
| Other mortgage loans                 | 55 198         | 2 999         | 58 197         |
| Credit cards                         | 657            | 206           | 863            |
| Factoring                            | 2 475          | 35            | 2 510          |
| Other loans                          | 64 484         | 1 702         | 66 186         |
| <b>Total</b>                         | <b>175 990</b> | <b>8 725</b>  | <b>184 715</b> |

(b) Classification of Receivables from Clients and Impairment

| MCZK                    | Gross value    | Impairment of individual receivables | Impairment of portfolios of receivables | Net value      |
|-------------------------|----------------|--------------------------------------|---|----------------|
| <b>31 December 2013</b> |                |                                      |   |                |
| Standard                | 275 413        | –                                    | (986)                                   | 274 427        |
| Watched                 | 10 155         | (756)                                | –                                       | 9 399          |
| Substandard             | 4 829          | (1 282)                              | –                                       | 3 547          |
| Doubtful                | 2 612          | (1 581)                              | –                                       | 1 031          |
| Loss                    | 7 064          | (5 523)                              | –                                       | 1 541          |
| <b>Total</b>            | <b>300 073</b> | <b>(9 142)</b>                       | <b>(986)</b>                            | <b>289 945</b> |
| <b>31 December 2012</b> |                |                                      |   |                |
| Standard                | 177 023        | –                                    | (1 032)                                 | 175 991        |
| Watched                 | 4 846          | (390)                                | –                                       | 4 456          |
| Substandard             | 4 254          | (898)                                | –                                       | 3 356          |
| Doubtful                | 769            | (495)                                | –                                       | 274            |
| Loss                    | 5 154          | (4 516)                              | –                                       | 638            |
| <b>Total</b>            | <b>192 046</b> | <b>(6 299)</b>                       | <b>(1 032)</b>                          | <b>184 715</b> |

| MCZK                                | 31 Dec 2013    | 31 Dec 2012    |
|-------------------------------------|----------------|----------------|
| Receivables not impaired            |                |                |
| Internal rating 1                   | 2 896          | 4 214          |
| Internal rating 2                   | 20 113         | 9 137          |
| Internal rating 3                   | 29 504         | 25 894         |
| Internal rating 4                   | 79 399         | 44 499         |
| Internal rating 5                   | 71 005         | 46 097         |
| Internal rating 6                   | 51 415         | 35 312         |
| Other internal rating               | 17 012         | 10 098         |
| Receivables without internal rating | 4 069          | 1 772          |
| <b>Total</b>                        | <b>275 413</b> | <b>177 023</b> |
| Receivables impaired                | 24 660         | 15 023         |
| <b>Total</b>                        | <b>300 073</b> | <b>192 046</b> |

The Bank regularly classifies its receivables. The categories used for classification consider the Bank's analysis as to the probability of repayment and analysis of the borrower's behaviour (number of days payments are past due, financial performance, 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 realised collateral); in respect of corporate clients on an individual basis, retail clients using the relevant model.

The following table summarises 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 Dec 2013    | 31 Dec 2012    |
|---------------------------------|----------------|----------------|
| Receivables not impaired, gross |                |                |
| Due receivables                 | 274 628        | 176 413        |
| 1 – 30 days past due            | 785            | 607            |
| 31 – 90 days past due           | –              | 1              |
| 91 – 180 days past due          | –              | 1              |
| More than 180 days past due     | –              | 1              |
| <b>Total</b>                    | <b>275 413</b> | <b>177 023</b> |

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

| MCZK                       | 31 Dec 2013    | 31 Dec 2012    |
|----------------------------|----------------|----------------|
| Financial institutions     | 21 654         | 18 231         |
| Non-financial institutions | 195 484        | 129 098        |
| Government sector          | 1 145          | 785            |
| Individuals and others     | 71 662         | 36 601         |
| <b>Total</b>               | <b>289 945</b> | <b>184 715</b> |

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

| MCZK                          | Standard       | Watch         | Substandard  | Doubtful     | Loss         | Total          |
|-------------------------------|----------------|---------------|--------------|--------------|--------------|----------------|
| <b>As of 31 December 2013</b> |                |               |              |              |              |                |
| Bank and similar guarantee    | 11 635         | 17            | 214          | –            | –            | 11 866         |
| Mortgage                      | 76 449         | 2 735         | 1 611        | 382          | 1 253        | 82 430         |
| Corporate guarantee           | 3 112          | 13            | –            | –            | 5            | 3 130          |
| Other security                | 15 872         | 245           | 86           | 210          | 245          | 16 658         |
| Unsecured                     | 168 345        | 7 145         | 2 918        | 2 020        | 5 561        | 185 989        |
| <b>Total</b>                  | <b>275 413</b> | <b>10 155</b> | <b>4 829</b> | <b>2 612</b> | <b>7 064</b> | <b>300 073</b> |

| MCZK                          | Standard       | Watch        | Substandard  | Doubtful   | Loss         | Total          |
|-------------------------------|----------------|--------------|--------------|------------|--------------|----------------|
| <b>As of 31 December 2012</b> |                |              |              |            |              |                |
| Bank and similar guarantee    | 11 087         | 10           | 305          | –          | –            | 11 402         |
| Mortgage                      | 40 484         | 653          | 356          | 108        | 423          | 42 024         |
| Corporate guarantee           | 1 709          | –            | –            | –          | –            | 1 709          |
| Other security                | 5 694          | 71           | 17           | 105        | 143          | 6 030          |
| Unsecured                     | 118 049        | 4 112        | 3 576        | 556        | 4 588        | 130 881        |
| <b>Total</b>                  | <b>177 023</b> | <b>4 846</b> | <b>4 254</b> | <b>769</b> | <b>5 154</b> | <b>192 046</b> |

The item “Unsecured” includes, among other things, receivables arising from project funding that are secured by real estate collateral in the nominal value of MCZK 53,035 (as of 31 December 2012: MCZK 39,238). In the case of the project funding of commercial real estate (IPRE), the collateral quality is taken into account in determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

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

| MCZK               | 31 Dec 2013    | 31 Dec 2012    |
|--------------------|----------------|----------------|
| Czech Republic     | 187 317        | 170 538        |
| Other EU countries | 95 452         | 7 916          |
| Other              | 7 176          | 6 261          |
| <b>Total</b>       | <b>289 945</b> | <b>184 715</b> |

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

| MCZK                                  | 31 Dec 2013    | 31 Dec 2012    |
|---------------------------------------|----------------|----------------|
| Real estate services                  | 66 730         | 53 639         |
| Financial services                    | 21 654         | 18 231         |
| Wholesale                             | 20 918         | 11 921         |
| Household services                    | 69 504         | 35 495         |
| Retail                                | 4 613          | 3 521          |
| Leasing and rental                    | 1 996          | 1 103          |
| Automotive industry                   | 5 425          | 5 717          |
| Power industry                        | 30 400         | 15 816         |
| Other                                 | 68 705         | 39 272         |
| <b>Total receivables from clients</b> | <b>289 945</b> | <b>184 715</b> |

#### (g) Impairment of Receivables from Clients

| MCZK   |                 |
|--|-----------------|
| Balance as of 1 January 2012   | (6 319)         |
| Creation during the current year   | (2 368)         |
| Release during the current year  | 895             |
| Net effect on profit or loss   | (1 473)         |
| Receivables written off – use  | 441             |
| FX differences   | 20              |
| <b>Total impairment of receivables from clients as of 31 December 2012</b> | <b>(7 331)</b>  |
| Balance as of 1 January 2013   | (7 331)         |
| Addition arising from the merger   | (1 968)         |
| Creation during the current year   | (3 355)         |
| Release during the current year  | 1 216           |
| Net effect on profit or loss   | (2 139)         |
| Receivables written off – use  | 1 352           |
| FX differences   | (42)            |
| <b>Total impairment of receivables from clients as of 31 December 2013</b> | <b>(10 128)</b> |



## 21. Positive fair value of hedging derivatives

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

| MCZK                    | Level 1  | Level 2      | Level 3  | Total        |
|-------------------------|----------|--------------|----------|--------------|
| <b>31 December 2013</b> |          |              |          |              |
| Fair value hedging      | –        | 439          | –        | 439          |
| Cash flow hedging       | –        | 2 897        | –        | 2 897        |
| <b>Total</b>            | <b>–</b> | <b>3 336</b> | <b>–</b> | <b>3 336</b> |
| <b>31 December 2012</b> |          |              |          |              |
| Fair value hedging      | –        | 592          | –        | 592          |
| Cash flow hedging       | –        | 4 082        | –        | 4 082        |
| <b>Total</b>            | <b>–</b> | <b>4 674</b> | <b>–</b> | <b>4 674</b> |

## 22. Property and equipment

Movements in Property and Equipment

| MCZK  | Buildings and land | Fixtures and fittings | IT equipment | Other     | Total        |
|---|--------------------|-----------------------|--------------|-----------|--------------|
| Cost at 1 January 2012                                      | 2 212              | 290                   | 517          | 111       | 3 130        |
| Accumulated depreciation and impairment at 1 January 2012   | (1 309)            | (223)                 | (429)        | (47)      | (2 008)      |
| <b>Net Book Value at 1 January 2012</b>                     | <b>903</b>         | <b>67</b>             | <b>88</b>    | <b>64</b> | <b>1 122</b> |
| Additions   | 81                 | 25                    | 42           | 346       | 494          |
| Disposals   | –                  | –                     | –            | –         | –            |
| Depreciation charges  | (93)               | (14)                  | (38)         | (10)      | (155)        |
| Transfers to assets held for sale                           | (17)               | –                     | –            | (1)       | (18)         |
| Other   | –                  | (5)                   | –            | (353)     | (358)        |
| <b>Net Book Value at 31 December 2012</b>                   | <b>874</b>         | <b>73</b>             | <b>92</b>    | <b>46</b> | <b>1 085</b> |
| Cost at 31 December 2012                                    | 2 159              | 227                   | 411          | 86        | 2 883        |
| Accumulated depreciation and impairment at 31 December 2012 | (1 285)            | (154)                 | (319)        | (40)      | (1 798)      |
| Cost at 1 January 2013                                      | 2 159              | 227                   | 411          | 86        | 2 883        |
| Accumulated depreciation and impairment at 1 January 2013   | (1 285)            | (154)                 | (319)        | (40)      | (1 798)      |
| <b>Net Book Value at 1 January 2013</b>                     | <b>874</b>         | <b>73</b>             | <b>92</b>    | <b>46</b> | <b>1 085</b> |
| Additions arising from the merger                           | 787                | 44                    | 65           | –         | 896          |
| Additions   | 27                 | 4                     | 44           | 98        | 173          |
| Disposals   | –                  | –                     | –            | (104)     | (104)        |
| Depreciation charges  | (90)               | (39)                  | (45)         | (20)      | (194)        |
| Transfers to assets held for trading                        | –                  | –                     | –            | –         | –            |
| Other and FX differences                                    | (51)               | 6                     | –            | 4         | 61           |
| <b>Net Book Value at 31 December 2013</b>                   | <b>1 649</b>       | <b>88</b>             | <b>156</b>   | <b>24</b> | <b>1 917</b> |
| Cost at 31 December 2013                                    | 3 681              | 503                   | 694          | 30        | 4 908        |
| Accumulated depreciation and impairment at 31 December 2013 | (2 032)            | (415)                 | (538)        | (6)       | (2 991)      |

The impairment loss as of 31 December 2013 in the amount of MCZK 250 (at 31 December 2012: MCZK 250) includes the impairment of the buildings as a result of the fair value of the buildings being lower than their net book value.

## 23. Intangible assets

### Movements in Intangible Assets

| MCZK  | Software  | Other    | Total     |
|---|-----------|----------|-----------|
| Cost at 1 January 2012                                      | 5         | 5        | 10        |
| Accumulated amortisation and impairment at 1 January 2012   | (5)       | (5)      | (10)      |
| <b>Net Book Value at 1 January 2012</b>                     | <b>–</b>  | <b>–</b> | <b>–</b>  |
| Additions   | 2         | –        | 2         |
| Disposals   | –         | –        | –         |
| Amortisation charges  | –         | –        | –         |
| <b>Net Book Value at 31 December 2012</b>                   | <b>2</b>  | <b>–</b> | <b>2</b>  |
| Cost at 31 December 2012                                    | 7         | 5        | 12        |
| Accumulated amortisation and impairment as of 31 Dec 2012   | (5)       | (5)      | (10)      |
| Cost at 1 January 2013                                      | 7         | 5        | 12        |
| Accumulated amortisation and impairment at 1 January 2013   | (5)       | (5)      | (10)      |
| <b>Net Book Value at 1 January 2013</b>                     | <b>2</b>  | <b>–</b> | <b>2</b>  |
| Additions arising from the merger                           | 33        | 1        | 34        |
| Additions   | 4         | –        | 4         |
| Disposals   | –         | –        | –         |
| Amortisation charges  | (28)      | –        | (28)      |
| <b>Net Book Value at 31 December 2013</b>                   | <b>11</b> | <b>1</b> | <b>12</b> |
| Cost at 31 December 2013                                    | 16        | 6        | 22        |
| Accumulated amortisation and impairment at 31 December 2013 | (5)       | (5)      | (10)      |

## 24. Other assets

| MCZK  | 31 Dec 2013  | 31 Dec 2012  |
|---|--------------|--------------|
| Deferred expenses and accrued income                                      | 251          | 178          |
| Prepayments made in relation to cash additions to ATMs and cash registers | 1 023        | 984          |
| Trade receivables   | 203          | 136          |
| Receivables from securities   | 3            | 11           |
| Suspense accounts   | 535          | 625          |
| <b>Total</b>  | <b>2 015</b> | <b>1 934</b> |
| Impairment of other assets  | (22)         | (11)         |
| <b>Net other assets</b>   | <b>1 993</b> | <b>1 923</b> |

## 25. Non-current assets held for sale

During 2012, the Bank reclassified buildings at the net book value of MCZK 18 from “Property and equipment” into “Non-current assets held for sale”. These buildings were sold in the first half of 2013. The loss from the sale was reported under “Profit/loss from the sale of non-financial assets”.

## 26. Deposits from banks

### Analysis of Deposits from Banks by Type

| MCZK                                 | 31 Dec 2013   | 31 Dec 2012   |
|--------------------------------------|---------------|---------------|
| Current accounts                     | 4 197         | 8 466         |
| Loans                                | 13 807        | 9 033         |
| Term deposits                        | 19 336        | 4 972         |
| Repurchase commitments (see Note 37) | 12 454        | 11 759        |
| Other                                | 4             | –             |
| <b>Total</b>                         | <b>49 798</b> | <b>34 230</b> |

## 27. Deposits from clients

### Analysis of Deposits from Clients by Type

| MCZK                                 | 31 Dec 2013    | 31 Dec 2012    |
|--------------------------------------|----------------|----------------|
| Current accounts                     | 233 269        | 155 559        |
| Term deposits                        | 59 233         | 34 497         |
| Repurchase commitments (see Note 37) | 11 827         | 2 959          |
| Other                                | 1 969          | 2 105          |
| <b>Total</b>                         | <b>306 298</b> | <b>195 120</b> |

## 28. Issued debt securities

### Analysis of Issued Debt Securities

| MCZK                         | 31 Dec 2013   | 31 Dec 2012   |
|------------------------------|---------------|---------------|
| Mortgage bonds               | 29 853        | 21 591        |
| Structured bonds             | 4 990         | 4 558         |
| Zero coupon bonds            | 5 176         | 6 592         |
| Other issued debt securities | 3 022         | 3 453         |
| <b>Total</b>                 | <b>43 041</b> | <b>36 194</b> |

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 5,236 (at 31 December 2012: MCZK 5,605). The positive fair value of these derivatives of MCZK 20 is reported under “Financial assets held for trading” (at 31 December 2012: MCZK 22); the negative fair value of these derivatives of MCZK 180 is recognised under “Financial liabilities held for trading” (at 31 December 2012: MCZK 169).

## 29. Financial liabilities held for trading

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

| MCZK                         | Level 1    | Level 2      | Level 3  | Total        |
|------------------------------|------------|--------------|----------|--------------|
| <b>31 December 2013</b>      |            |              |          |              |
| Liabilities from short sales | 858        | –            | –        | 858          |
| Derivatives                  | –          | 4 530        | –        | 4 530        |
| <b>Total</b>                 | <b>858</b> | <b>4 530</b> | <b>–</b> | <b>5 388</b> |

| MCZK                         | Level 1      | Level 2      | Level 3  | Total        |
|------------------------------|--------------|--------------|----------|--------------|
| <b>31 December 2012</b>      |              |              |          |              |
| Liabilities from short sales | 1 532        | –            | –        | 1 532        |
| Derivatives                  | –            | 4 417        | 7        | 4 424        |
| <b>Total</b>                 | <b>1 532</b> | <b>4 417</b> | <b>7</b> | <b>5 956</b> |

## 30. Negative fair value of hedging derivatives

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

| MCZK                    | Level 1  | Level 2      | Level 3  | Total        |
|-------------------------|----------|--------------|----------|--------------|
| <b>31 December 2013</b> |          |              |          |              |
| Fair value hedging      | –        | 905          | –        | 905          |
| Cash flow hedging       | –        | 2 252        | –        | 2 252        |
| <b>Total</b>            | <b>–</b> | <b>3 157</b> | <b>–</b> | <b>3 157</b> |
| <b>31 December 2012</b> |          |              |          |              |
| Fair value hedging      | –        | 799          | –        | 799          |
| Cash flow hedging       | –        | 1 846        | –        | 1 846        |
| <b>Total</b>            | <b>–</b> | <b>2 645</b> | <b>–</b> | <b>2 645</b> |

## 31. Other liabilities

| MCZK                                 | 31 Dec 2013  | 31 Dec 2012  |
|--------------------------------------|--------------|--------------|
| Deferred income and accrued expenses | 825          | 609          |
| Trade payables                       | 147          | 39           |
| Unsettled security transactions      | 80           | 2            |
| Suspense accounts                    | 3 109        | 2 892        |
| Other                                | 82           | 35           |
| <b>Total other liabilities</b>       | <b>4 243</b> | <b>3 577</b> |

## 32. Provisions

Provisions include the following items:

| MCZK  | 31 Dec 2013  | 31 Dec 2012  |
|---|--------------|--------------|
| Provisions for off-balance sheet credit items | 1 129        | 611          |
| Other provisions                              | 606          | 416          |
| Legal disputes                                | 77           | 57           |
| Outstanding vacation days and bonuses         | 515          | 311          |
| Other   | 14           | 48           |
| <b>Total provisions</b>                       | <b>1 735</b> | <b>1 027</b> |

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

| MCZK   |              |
|--|--------------|
| Balance at 1 Jan 2012  | 641          |
| Charge during the year   | 131          |
| Release during the year  | (161)        |
| <b>Total provisions for off-balance sheet credit items at 31 December 2012</b> | <b>611</b>   |
| Balance at 1 Jan 2013  | 611          |
| Addition arising from the merger   | 565          |
| Charge during the period   | 163          |
| Release during the period  | (242)        |
| Other – foreign exchange rate gains or losses                                  | 32           |
| <b>Total provisions for off-balance sheet credit items at 31 December 2013</b> | <b>1 129</b> |

#### (b) Other Provisions

| MCZK  | Legal disputes | Outstanding vacation days and bonuses | Other     | Total      |
|---|----------------|---------------------------------------|-----------|------------|
| Balance at 1 Jan 2012                             | 88             | 293                                   | 107       | 488        |
| Charge during the year                            | 1              | 310                                   | –         | 311        |
| Release during the year                           | (10)           | (287)                                 | (57)      | (354)      |
| Release of redundant provisions and other         | (22)           | (5)                                   | (2)       | (29)       |
| <b>Total other provisions at 31 December 2012</b> | <b>57</b>      | <b>311</b>                            | <b>48</b> | <b>416</b> |
| Balance at 1 Jan 2013                             | 57             | 311                                   | 48        | 416        |
| Addition arising from the merger                  | 9              | 7                                     | 145       | 161        |
| Charge during the period                          | 11             | 524                                   | 14        | 549        |
| Use during the period                             | –              | (241)                                 | (174)     | (415)      |
| Release of redundant provisions and other         | –              | (86)                                  | (19)      | (105)      |
| <b>Total other provisions at 31 December 2013</b> | <b>77</b>      | <b>515</b>                            | <b>14</b> | <b>606</b> |

## 33. Income tax

#### (a) Tax in Profit or Loss

| MCZK   | 2013         | 2012         |
|--|--------------|--------------|
| Current tax – current period/year              | (767)        | (654)        |
| Current tax – prior year (estimate adjustment) | –            | (7)          |
| <b>Total current tax</b>                       | <b>(767)</b> | <b>(661)</b> |
| Deferred tax                                   | (19)         | 124          |
| <b>Total income tax</b>                        | <b>(786)</b> | <b>(537)</b> |

The income tax of the Bank differs from the theoretical tax which would arise if the tax rate effective in the Czech Republic were applied as follows:

| MCZK  | 2013         | 2012         |
|---|--------------|--------------|
| Profit/loss for the year before tax               | 3 956        | 3 694        |
| Tax calculated using the tax rate of 19%          | (752)        | (702)        |
| Impact of prior years                             | (17)         | 4            |
| Impact of foreign income                          | –            | (1)          |
| Non-taxable income                                | 248          | 237          |
| Tax non-deductible expenses                       | (179)        | (198)        |
| Change in deferred tax as part of the profit/loss | (19)         | 124          |
| Other   | (67)         | (1)          |
| <b>Total income tax</b>                           | <b>(786)</b> | <b>(537)</b> |

The effective tax rate of the Bank is 19.9 % (2012: 14.5 %).

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

The Bank made income tax prepayments in the amount of MCZK 391 (2012: MCZK 411) and reports an income tax receivable of MCZK 210 (at 31 Dec 2012, the Bank reported a tax payable in the amount of MCZK 253).

#### (c) Deferred Tax Asset/Liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method under the application of the appropriate tax rate.

In calculating net tax assets and liabilities, the Bank offsets deferred tax assets against deferred tax liabilities arising from income tax paid to the same tax institution in the same tax category. With regard to the tax institution in the Slovak Republic, the net balance is a net deferred tax asset while in the Czech Republic, the net balance is a net deferred tax liability. The net deferred tax asset reported as of 31 December 2012 is due from the tax institution in the Czech Republic.

Management of the Bank believes that the Bank will be able to fully recover deferred tax assets reported as of 31 December 2013 based on the current and anticipated future level of taxable profits.

##### (i) Net Deferred Tax Asset

| MCZK  | 31 December 2013   |                        | 31 December 2012   |                        |
|---|--------------------|------------------------|--------------------|------------------------|
|   | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| Tax non-deductible provisions                             | 33                 | –                      | 79                 | –                      |
| Impairment of loans                                       | 609                | –                      | 310                | –                      |
| Differences arising from the net book values of assets    | –                  | –                      | –                  | (7)                    |
| Other   | 2                  | –                      | 3                  | –                      |
| Reserve from revaluation of hedging instruments           | 6                  | –                      | –                  | –                      |
| Reserve from revaluation of available-for-sale securities | –                  | (7)                    | –                  | –                      |
| Deferred tax liability/asset                              | 650                | (7)                    | 392                | (7)                    |
| <b>Net deferred tax asset</b>                             | <b>643</b>         | <b>–</b>               | <b>385</b>         | <b>–</b>               |

The Bank reports a deferred tax asset arising from the difference between the net book values of property and equipment arising from technical improvements and impairment of buildings in the amount of MCZK 164 (at 31 December 2012: MCZK 280), which was not recognised by the Bank on the grounds of prudence.

##### (ii) Net Deferred Tax Liability

| MCZK  | 31 December 2013   |                        | 31 December 2012   |                    |
|---|--------------------|------------------------|--------------------|--------------------|
|   | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax asset |
| Tax non-deductible provisions                             | 82                 | –                      | –                  | –                  |
| Impairment of loans                                       | 240                | –                      | –                  | –                  |
| Differences arising from the net book values of assets    | –                  | (9)                    | –                  | –                  |
| Other   | –                  | –                      | –                  | –                  |
| Reserve from revaluation of hedging instruments           | –                  | (205)                  | –                  | (384)              |
| Reserve from revaluation of available-for-sale securities | –                  | (323)                  | –                  | (586)              |
| Deferred tax liability/asset                              | 322                | (537)                  | –                  | (970)              |
| <b>Net deferred tax liability</b>                         | <b>–</b>           | <b>(215)</b>           | <b>–</b>           | <b>(970)</b>       |

## 34. Issued capital and share premium

The recorded, issued and fully paid capital of the Bank amounted to MCZK 8,755 as of 31 December 2013 (MCZK 8,750 as of 31 December 2012).

### (a) Shareholder Structure

| Entity                            | Registered office | Nominal value of shares in MCZK | Share premium in MCZK | Ownership percentage |
|-----------------------------------|-------------------|---------------------------------|-----------------------|----------------------|
| <b>At 31 December 2013</b>        |                   |                                 |                       |                      |
| UniCredit Bank Austria AG, Vienna | Austria           | 8 750                           | 3 483                 | 99.94                |
| Minority shareholders             |                   | 5                               | 12                    | 0.06                 |
| <b>Total</b>                      |                   | <b>8 755</b>                    | <b>3 495</b>          | <b>100.00</b>        |
| <b>At 31 December 2012</b>        |                   |                                 |                       |                      |
| UniCredit Bank Austria AG, Vienna | Austria           | 8 750                           | 3 483                 | 100.00               |
| <b>Total</b>                      |                   | <b>8 750</b>                    | <b>3 483</b>          | <b>100.00</b>        |

### (b) Capital Breakdown

|                                   | 31 Dec 2013<br>Number of shares | 31 Dec 2013<br>MCZK | 31 Dec 2012<br>Number of shares | 31 Dec 2012<br>MCZK |
|-----------------------------------|---------------------------------|---------------------|---------------------------------|---------------------|
| Ordinary shares of CZK 16,320,000 | 100                             | 1 632               | 100                             | 1 632               |
| Ordinary shares of CZK 13,375,000 | 200                             | 2 675               | 200                             | 2 675               |
| Ordinary shares of CZK 10,000     | 436 500                         | 4 365               | 436 500                         | 4 365               |
| Ordinary shares of CZK 7,771,600  | 10                              | 78                  | 10                              | 78                  |
| Ordinary shares of CZK 46         | 106 563                         | 5                   | –                               | –                   |
| <b>Total issued capital</b>       |                                 | <b>8 755</b>        |                                 | <b>8 750</b>        |

The shares are transferrable subject to the approval of the General Meeting. Ordinary shares include the entitlement to participate in the Bank's governance and the entitlement to a share on profit. Both at 31 December 2013 and 31 December 2012, the Bank held no treasury shares.

## 35. Equity-based bonuses

The Bank has not implemented any employee motivation or stabilisation programme for the purchase of treasury shares or remuneration in the form of treasury share options.

## 36. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

| MCZK                         | 31 Dec 2013   | 31 Dec 2012   |
|------------------------------|---------------|---------------|
| Statutory reserve fund       | 1 390         | 1 233         |
| Other reserve funds          | 1 824         | 1 824         |
| Special-purpose reserve fund | 11 611        | –             |
| Retained earnings            | 17 551        | 16 312        |
| <b>Total</b>                 | <b>32 376</b> | <b>19 369</b> |

The Bank establishes the statutory reserve fund (reported under "Reserve funds") from the net profit reported in the ordinary financial statements for the year in which the relevant profit was generated for the first time, at the minimum of 20% of the net profit but no more than at 10% of the Bank's issued capital. Additions to the fund are made annually at 5% of the net profit until the threshold of 20% of issued capital



is achieved. The reserve fund established in this method may be used up to 20% of the issued capital, solely to cover losses. Decisions on the use of the reserve fund are passed by the Board of Directors.

In line with the relevant effective regulations, the Board of Directors is entitled to establish funds over and above the statutory reserve fund to cover specific risks of the Bank, and other funds, as and when needed. The Board of Directors passes decisions on the use of the funds.

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

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

### Reverse Repurchase Transactions

| MCZK                              | 31 Dec 2013 | 31 Dec 2012 |
|-----------------------------------|-------------|-------------|
| Receivables from banks            | 29 140      | 15 028      |
| Fair value of securities received | 28 567      | 14 993      |
| Receivables from clients          | 12          | 21          |
| Fair value of securities received | 11          | 21          |

Securities received as collateral as part of reverse repurchase transactions of MCZK 8,054 are further provided as collateral under repurchase transactions.

### Repurchase Transactions

| MCZK                              | 31 Dec 2013 | 31 Dec 2012 |
|-----------------------------------|-------------|-------------|
| Deposits from banks               | 12 454      | 11 759      |
| Fair value of securities provided | 11 678      | 12 192      |
| Deposits from clients             | 11 827      | 2 959       |
| Fair value of securities provided | 12 264      | 2 957       |

## 38. Contingent liabilities, contingent assets and financial derivatives

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

### (a) Contingent Liabilities

#### Legal Disputes

As of 31 December 2013, the Bank assessed the legal disputes in which it acted as a defendant. The Bank established provisions for these legal disputes (see Note 32). In addition to these disputes, legal actions arising from ordinary business activities were taken against

the Bank. The management does not anticipate the result of these legal disputes to have a material impact on the Bank's financial position.

#### Taxation

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

#### Liabilities arising from Guarantees, Credit Commitments and Other Contingent Liabilities

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

credits and guarantees that may be revoked by the Bank at any time without stating the reason. On the contrary, irrevocable commitments represent the Bank's liability to provide a credit or issue a guarantee, the performance of which, even though bound on meeting the contractual terms by the client, is to a certain extent independent of the Bank's will.

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

Documentary letters of credit represent a written irrevocable commitment of the Bank issued based on a client's request (orderer), to provide a third party or to its order (recipient, beneficiary), with certain performance, under the condition that the terms of the letter of credit are met by a specified deadline. For these financial instruments, the Bank creates provisions using a similar algorithm as applied for credits (see Note 40). The Bank created provisions for off-balance sheet items to cover losses incurred and arising from the impairment of the off-balance sheet items due to credit risk. As of 31 December 2013, the aggregate provisions amounted to MCZK 129 (as of 31 December 2012: MCZK 611), see Note 32 (a).

| MCZK   | 31 Dec 2013    | 31 Dec 2012    |
|--|----------------|----------------|
| Letters of credit and financial guarantees               | 40 470         | 29 167         |
| Other contingent liabilities (undrawn credit facilities) | 101 076        | 78 108         |
| <b>Total</b>   | <b>141 546</b> | <b>107 275</b> |

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

| MCZK   | 31 Dec 2013    | 31 Dec 2012    |
|--|----------------|----------------|
| Bonds  | 432 671        | 239 140        |
| Shares   | 211 831        | 161 055        |
| Depository notes   | 18 063         | 23 442         |
| <b>Total values taken into administration and management</b> | <b>662 565</b> | <b>423 637</b> |

#### **(b) Contingent Assets**

As of 31 December 2013, the Bank had an option to draw a credit line provided by the European Investment Bank (EIB) amounting to MCZK 3,675 million (MEUR 134) with the latest maturity of twelve years from the time of drawing. This credit line is purpose-bound for the refinancing of credits that fulfil the conditions of the EIB and it will be drawn during 2014.

#### **(c) Financial Derivatives**

##### *(i) Nominal and Fair Values of Financial Derivatives*

| MCZK  | Nominal value  | Positive fair value | Negative fair value |
|---|----------------|---------------------|---------------------|
| <b>31 December 2013</b>                             |                |                     |                     |
| <b>Trading instruments – interbank market (OTC)</b> |                |                     |                     |
| Options   | 46 923         | 716                 | (697)               |
| Interest rate swap contracts                        | 200 730        | 2 916               | (2 797)             |
| Forward rate agreements (FRA)                       | 1 000          | –                   | (1)                 |
| Cross currency swap contracts                       | 15 684         | 54                  | (640)               |
| Term currency transactions                          | 69 963         | 688                 | (355)               |
| Other instruments                                   | 2 276          | 42                  | (40)                |
| <b>Total</b>  | <b>336 576</b> | <b>4 416</b>        | <b>(4 530)</b>      |
| <b>Trading instruments – stock exchange</b>         |                |                     |                     |
| Futures   | 1 070          | 32                  | –                   |
| <b>Total trading instruments</b>                    | <b>337 646</b> | <b>4 448</b>        | <b>(4 530)</b>      |
| <b>Hedging instruments</b>                          |                |                     |                     |
| Interest rate swap contracts                        | 138 476        | 3 221               | (2 477)             |
| Cross currency swap contracts                       | 26 688         | 115                 | (680)               |
| <b>Total hedging instruments</b>                    | <b>165 164</b> | <b>3 336</b>        | <b>(3 157)</b>      |

| MCZK  | Nominal value  | Positive fair value | Negative fair value |
|---|----------------|---------------------|---------------------|
| <b>31 December 2012</b>                             |                |                     |                     |
| <b>Trading instruments – interbank market (OTC)</b> |                |                     |                     |
| Options   | 41 895         | 548                 | (523)               |
| Interest rate swap contracts                        | 138 228        | 3 821               | (3 616)             |
| Forward rate agreements (FRA)                       | 2 045          | –                   | (4)                 |
| Cross currency swap contracts                       | 40 399         | 66                  | (92)                |
| Term currency transactions                          | 7 481          | 115                 | (184)               |
| Other instruments                                   | 1 879          | 5                   | (5)                 |
| <b>Total</b>  | <b>231 927</b> | <b>4 555</b>        | <b>(4 424)</b>      |
| <b>Trading instruments – stock exchange</b>         |                |                     |                     |
| Futures   | 1 420          | 22                  | –                   |
| <b>Total trading instruments</b>                    | <b>233 347</b> | <b>4 577</b>        | <b>(4 424)</b>      |
| <b>Hedging instruments</b>                          |                |                     |                     |
| Interest rate swap contracts                        | 91 173         | 4 524               | (2 448)             |
| Cross currency swap contracts                       | 31 606         | 150                 | (197)               |
| <b>Total hedging instruments</b>                    | <b>122 779</b> | <b>4 674</b>        | <b>(2 645)</b>      |

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

| MCZK                       | Up to 1 year   | 1 – 5 years    | Over 5 years  | Total          |
|----------------------------|----------------|----------------|---------------|----------------|
| <b>31 December 2013</b>    |                |                |               |                |
| <b>Trading instruments</b> |                |                |               |                |
| Interest rate instruments  | 46 673         | 121 975        | 46 309        | 214 957        |
| Equity instruments         | 82             | 5 183          | 2 767         | 8 032          |
| Currency instruments       | 90 183         | 9 945          | 11 183        | 111 311        |
| Other                      | 1520           | 756            | –             | 2 276          |
| <b>Total</b>               | <b>138 458</b> | <b>137 859</b> | <b>60 259</b> | <b>336 576</b> |
| <b>Hedging instruments</b> |                |                |               |                |
| Interest rate instruments  | 24 146         | 66 190         | 48 140        | 138 476        |
| Currency instruments       | 6 078          | 7 564          | 13 046        | 26 688         |
| <b>Total</b>               | <b>30 224</b>  | <b>73 754</b>  | <b>61 186</b> | <b>165 164</b> |

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

| MCZK                       | Up to 1 year  | 1 – 5 years   | Over 5 years  | Total          |
|----------------------------|---------------|---------------|---------------|----------------|
| <b>31 December 2012</b>    |               |               |               |                |
| <b>Trading instruments</b> |               |               |               |                |
| Interest rate instruments  | 27 890        | 80 490        | 46 364        | 154 744        |
| Equity instruments         | 2 348         | 2 221         | 538           | 5 107          |
| Currency instruments       | 53 804        | 10 496        | 5 897         | 70 197         |
| Other                      | 70            | 1 809         | –             | 1 879          |
| <b>Total</b>               | <b>84 112</b> | <b>95 016</b> | <b>52 799</b> | <b>231 927</b> |
| <b>Hedging instruments</b> |               |               |               |                |
| Interest rate instruments  | 15 037        | 32 805        | 43 331        | 91 173         |
| Currency instruments       | 5 678         | 12 172        | 13 756        | 31 606         |
| <b>Total</b>               | <b>20 715</b> | <b>44 977</b> | <b>57 087</b> | <b>122 779</b> |

## 39. Segment reporting

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

### (a) Segment Information by Client Category

|   | Retail banking/<br>small and<br>medium-sized<br>businesses | Private,<br>corporate and<br>investment<br>banking | Other  | Total   |
|---|--|--|--------|---------|
| <b>MCZK</b>   |  |  |        |         |
| <b>At 31 December 2013</b>  |  |  |        |         |
| Net interest and dividend income  | 2 142  | 4 736  | 248    | 7 126   |
| Other net income  | 1 724  | 2 778  | 535    | 5 037   |
| Depreciation/amortisation and accumulated depreciation/amortisation of property and equipment and intangible assets | (147)  | (42)   | (33)   | (222)   |
| Impairment of assets and provisions   | (595)  | (1 470)  | (74)   | (2 139) |
| Segment expenses  | (2 948)  | (2 225)  | (673)  | (5 846) |
| Profit before tax   | 176  | 3 777  | 3      | 3 956   |
| Income tax  | –  | –  | (786)  | (786)   |
| Result of segment   | 176  | 3 777  | (783)  | 3 170   |
| Segment assets  | 77 238   | 379 919  | 7 466  | 464 622 |
| Segment liabilities   | 109 600  | 279 145  | 25 130 | 413 875 |

Total assets amount to CZK 107 billion relating to the Slovak branch. The Slovak branch reported operating income of CZK 1.7 billion for the second half of 2013. The Bank does not have a client or a group of clients that would comprise more than 10 percent of the Bank's income.

|   | Retail banking/<br>small and<br>medium-sized<br>businesses | Private,<br>corporate and<br>investment<br>banking | Other  | Total   |
|---|--|--|--------|---------|
| <b>MCZK</b>   |  |  |        |         |
| <b>At 31 December 2012</b>  |  |  |        |         |
| Net interest and dividend income  | 1 661  | 4 439  | 136    | 6 236   |
| Other net income  | 1 216  | 2 252  | (1)    | 3 467   |
| Depreciation/amortisation and accumulated depreciation/amortisation of property and equipment and intangible assets | (104)  | (3)  | (48)   | (155)   |
| Impairment of assets and provisions   | (280)  | (1 172)  | 239    | (1 213) |
| Segment expenses  | (2 465)  | (1 913)  | (263)  | (4 641) |
| Profit before tax   | 28   | 3 603  | 63     | 3 694   |
| Income tax  | –  | –  | (537)  | (537)   |
| Result of segment   | 28   | 3 603  | (474)  | 3 157   |
| Segment assets  | 40 617   | 270 400  | 7 892  | 318 909 |
| Segment liabilities   | 72 119   | 188 327  | 19 526 | 279 972 |

## 40. Financial risk management

### (a) Introduction

The Bank is exposed to the following types of risk:

- Credit risk;
- Market risk; and
- Operational risk.

The Board of Directors is responsible for the overall risk management strategy which it approves and assesses on a regular basis. The Board of Directors has established the Assets and Liabilities

Committee (ALCO), the Credit Committee and the Committee for Operational Risk Management. These committees are in charge of monitoring and managing individual risks with regard to individual specific fields. The committees report to the Board of Directors on a regular basis.

The risk management principles will be harmonised with the Bank's branch during 2014.

### (b) Credit Risk

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

Credit risk is managed both on the level of individual clients (transactions) and on the portfolio level.

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. All these departments are organisationally independent of the business divisions and are directly accountable to a member of the Board of Directors in charge of the risk management division. Under its credit policy, the Bank defines the general principles, methods and instruments applied in identifying, measuring and managing credit risk. The definition of the Bank's credit policy is rendered by the Strategic Credit Risk Management department. The policy is reviewed by this department on a regular basis, minimally once a year.

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

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

The credit risk on the level of individual clients is managed by analysing clients' financial health and determining the limits of credit exposure. The analysis is focused on clients' position in the relevant market, rating of their financial statements, prediction of future liquidity, and the like. The result of this analysis is, among other things, to establish a rating that reflects the probability of clients' default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is rendered both prior to granting a credit and during the credit arrangements with clients.

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "-" to certain rating classes, such as: 1+; 1; 1-; 2+; etc). To classify clients into individual rating classes, the Bank assesses (apart from the number of days past due with regard to overdue receivables, if any) the financial indicators related to the client (such as the structure of and proportion between the balance sheet, the income statement, and the cash flow statement), management quality, ownership structure, individual clients' market position, reporting quality, production equipment, account-use history, etc. Clients with default receivables are always assigned to one of the classes from 8-, 9 or 10.

For receivables from individuals, the ability of the client to fulfil his or her obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring). The Bank likewise sets and regularly updates the probability of client default – natural entities, using the behavioural scoring method. A client's final rating combines both application and behavioural components.

As an additional source of information for assessing a client's financial standing, the Bank uses information provided by credit registries.

In accordance with its credit risk management strategy, prior to providing credits, the Bank requires collateral for its credit receivables (according to the client's financial health and the character of the

given transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of property. In determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing collateral and the nominal value of the collateral, ie expert appraisals made by a special department of the Bank. The realisable value of collateral is determined based on this value by applying the adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

#### ***(ii) Credit Risk Management on the Portfolio Level***

This level of credit risk management principally includes reporting on the credit portfolio including analyses and monitoring of trends in individual credit sub-portfolios.

The Bank monitors its overall credit risk exposure, i.e. it takes into account all on-balance and off-balance sheet exposures and quantifies the anticipated losses from its credit exposure. The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.

The Bank assesses the concentration risk of the loan portfolio on a regular basis and establishes concentration limits as appropriate in relation to specific industries, countries, or economically-connected groups of debtors.

#### ***(iii) Classification of Receivables, Impairment Losses and Provisions***

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

The Bank assesses on a regular basis whether any impairment of receivables has occurred. If any such impairment is identified, the Bank reports impairment losses for individual accounts receivable or receivable portfolios, in accordance with IFRS.

##### Impairment Losses on Individual Receivables

Impairment losses related to individual receivables are recognised in the event that the carrying amount of individual receivables is impaired and the Bank does not write off such receivables, or a portion thereof that equals the balance sheet impairment.

The Bank assesses the impairment of the carrying amount of all monitored receivables and receivables in respect of which the debtors are in default: corporate clients are assessed individually, retail clients are assessed using the relevant model. The Bank writes off receivables in the event that no income is anticipated on the given receivables or on the collateral received with regard to the given receivable. The Bank determines impairment losses arising from individual receivables; losses from the impairment are equal to the difference between the carrying amount of a receivable reduced by the materially appraisable value of collateral and the discounted value of estimated future cash flows from the unsecured part of the receivable.

#### Impairment Losses on the Portfolio Receivables

The Bank recognises impairment losses on standard receivable portfolios based on an assessment of the portfolio's carrying amount; impairment losses are determined in an amount equalling the impaired carrying amount of the standard receivable portfolio due to events indicating a reduction in anticipated future cash flows from the relevant portfolio. Impairment losses are assigned to individual portfolios and are not divided or assigned to individual receivables included in the given portfolio.

In reporting the impairment losses related to individual receivable portfolios, the Bank takes into account the time delay between an impairment event's occurrence and the time the Bank obtains information on the impairment event (i.e. when the given receivable is removed from the portfolio of standard receivables and the impairment is assessed in line with the receivable assessing policy, i.e. when the impairment loss related to a particular receivable is recognised) – the “incurred loss” concept.

#### Provisions for Off-Balance Sheet Items

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

- (i) Provisions for off-balance sheet items in respect of the Bank's clients on whom the Bank currently recognises individual balance-sheet receivables meeting the conditions for being classified as watch receivables and/or receivables with debtor's default. The Bank recognises the impairment losses related to such individual receivables.

Note: The Bank does not create such provisions for undrawn credit lines under issued credit cards.

- (ii) Provisions for selected off-balance sheet items in respect of the Bank's clients on whom the Bank records no balance sheet receivables in the given period; even though, in the event that such receivable existed, the conditions for classification under watch receivables or receivables with debtor's default would be fulfilled.
- (iii) Provisions for selected off-balance sheet items that are ranked into portfolios. The Bank recognises such provisions in the same method as used in reporting impairment losses on receivable portfolios.

#### ***(iv) Recovery of Receivables***

The Bank has established the Credit Workout & Restructuring Unit which administers the receivables whose recoverability is at risk. The purpose of this unit involves achieving one or a number of the following goals in respect of risk-bearing credit receivables:

- a) “Revitalisation” of the credit arrangement, restructuring and subsequent reclassification into standard receivables;
- b) Full repayment of the credit;
- c) Minimisation of the loss from the credit (realisation of collateral, sale of the receivable with a discount, etc); and/or
- d) Prevention of additional losses from the credit (comparison of future expenses versus income).

#### **(c) Market Risks**

##### ***(i) Trading***

The Bank holds trading positions in various financial instruments, including financial derivatives. The majority of the Bank's business activities are performed in line with the requirements of the Bank's customers. Depending on the estimated demand of its customers, the Bank holds a certain supply of financial instruments and maintains access to the financial markets through quoting of the bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by speculation and market-making and its goal is to maximise the net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are limits on the volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value, or BPV), stop loss limits, and value at risk (VaR) limits. The quantitative methods applied in risk management are included in the following section entitled “Market risk management”.

The majority of derivatives are negotiated on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

##### ***(ii) Market Risk Management***

Below are described selected risks to which the Bank is exposed through its trading activities, managing the positions resulting from these activities, and also managing these risks. The procedures applied by the Bank to measure and manage these risks are described in detail in the following paragraphs.

The Bank is exposed to market risks arising from its open positions in interest rate, equity and foreign currency instrument transactions that are sensitive to changes in the situation on the financial market. The Bank's risk management focuses on managing the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by observing the sensitivity of particular assets and liabilities in individual time periods, as expressed by the change in the actual values of assets and liabilities if interest rates increase by one basis point (BPV). For hedge accounting purposes, the Bank identifies specific assets/liabilities causing this incongruity so that the accounting criteria for the application of hedge accounting are met.

#### Value at Risk

Value at Risk represents the main method for managing the market risks arising from the Bank's open positions. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. Value at Risk is measured based on a 1-day holding period and a confidence level

of 99%. The pre-conditions for the Value at Risk model have the following limitations:

- The one-day holding period pre-supposes that all the positions can be closed during a single day. This assumption does not necessarily apply to markets with lower liquidity.
- The 99% confidence level does not reflect all possible losses that can occur at this confidence level.
- VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened on an “intra-day” basis.
- Using historical data as a basic determinant of possible future development does not necessarily cover all possible future scenarios, especially crisis scenarios.

The Bank uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with the negative movements in the prices of market factors (spread risk, option risk, etc).

The aggregate structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO); at least once a year the structure and the amount of limits are revised in accordance with the Bank's needs and developments on the financial markets. The results of the VaR calculation are published daily for selected users (Board of Directors, selected employees of the Financial Markets Department, the Market Risk Department, the Assets & Liabilities Management Unit, and the MARS department of the parent bank/sub-holding).

#### Back Testing – Value at Risk

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

The table below shows the Values at Risk reported by the Bank.

| MCZK                             | At 31 Dec<br>2013 | Average<br>for 2013 | At 31 Dec<br>2012 | Average<br>for 2012 |
|----------------------------------|-------------------|---------------------|-------------------|---------------------|
| VaR of interest rate instruments | 162.5             | 169                 | 227.7             | 203                 |
| VaR of currency instruments      | 3.95              | 3.44                | 0.78              | 1.96                |
| VaR of equity instruments        | 0.03              | 0.84                | 0.12              | 0.79                |

#### Interest Rate Risk

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

The Bank's overall interest rate position as of 31 December 2013 is characterised by greater interest rate sensitivity on the liabilities side as compared to the assets side. This can be seen in the positive aggregate basis point value (BPV) – if the interest rates under individual currencies increased in parallel, there would be a slight increase in market revaluation. The Bank's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

Interest rate derivatives are generally used to manage the mismatch between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for managing the assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional

incongruity between the assets and liabilities that are interest rate-sensitive.

The Bank applies a “Basis Point Value (BPV)” approach for measuring interest sensitivity of assets and liabilities. BPV represents the change in the present value of cash flows derived from individual instruments if interest rates increase by one basis point (0.01%), i.e. it represents the sensitivity of instruments to interest rate risks.

The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% (the “BPV limit”).

#### Stress Testing of Interest Rate Risk

The Bank carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the Bank's financial results. Given that the Bank enters into derivative transactions in order to hedge against the interest rate risk for the entire interest rate-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 by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Bank's results. The Bank uses the euro as the base



currency for stress testing. The values as of 31 December 2013 and the maximum and minimum values are translated into CZK using the foreign exchange rate of the Czech National Bank promulgated as of 31 December 2013 and 31 December 2012 (2013: 27.425

CZK/EUR; 2012: 25.14 CZK/EUR). The average values are translated into CZK using the average value of the daily CZK/EUR foreign exchange rates for the particular year (average 2013: 25.976 CZK/EUR; average 2012: 25.15 CZK/EUR).

| MCZK                   | Basic stress test |        | MM stress test |
|------------------------|-------------------|--------|----------------|
|                        | -200bp            | +200bp | +250bp         |
| Value at 31 Dec 2013   | (240)             | 237    | (32)           |
| Average for the period | (210)             | 222    | (95)           |
| Maximum value          | (80)              | 363    | 16             |
| Minimum value          | (347)             | 35     | (217)          |
| Value at 31 Dec 2012   | (112)             | 265    | 129            |
| Average for the year   | (130)             | 161    | (52)           |
| Maximum value          | 10                | 383    | 129            |
| Minimum value          | (349)             | (58)   | (195)          |

#### Hedge Accounting

As part of its market risk management strategy, the Bank hedges against interest rate risk. The Bank's hedge strategy uses both fair value hedges and cash flow hedges.

#### *Fair Value Hedging*

Hedged instruments include financial assets and liabilities recognised at their carrying amounts (except for securities held to maturity) and securities available for sale recognised at their fair values, with changes in fair value recognised in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the hedged arrangement, the Bank performs a fair value hedge effectiveness test on the basis of future cash flows of hedged and hedging instruments and of expected interest rates movements (the "prospective test"). On the basis of the actual interest rate developments, the test of effectiveness is carried out at the last day of each month. The Bank has selected the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of the hedge arrangements.

For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedged arrangement until the maturity of the hedged instrument, or until the end of the hedge arrangement. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of the discount factors for specific currencies. The fair value of a transaction is the total of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further netted for realised cash flows by adding them back or subtracting. The hedge effectiveness is measured using the comparison of the cumulative change in the fair value of the hedged and hedging instrument. The hedge is considered effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

#### *Cash Flow Hedging*

The Bank uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and expenses sensitive to changes in market interest rates. Future anticipated transactions arise from concluded contracts and future transactions established on the basis of replication models. The hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

The effectiveness of a cash flow hedge is determined in accordance with the BA Group standards, based on an approved methodology. First, the nominal values (divided into assets and liabilities) of external trades by currency are identified, for which the interest cash flow (established on the basis of the re-financing – the "funding" rate) may be considered variable (hedged cash flows). Second, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (i.e. net cash in/outflows).

The Bank 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 for individual years, 10–15 years, and greater than 15 years. The hedge is judged effective if the aggregate volume of variable interest cash flows from hedged deals is greater than the net variable interest cash flows from hedged deals (designated with an opposite – positive/negative sign) in each of the time periods, measured separately for each monitored currency.

#### Currency Risk

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, comprise the Bank's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in profit or loss.

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of EUR 30 million with respect to the total net currency exposure and to individual main currencies

(CZK, EUR), and of EUR 20 million to the USD. For other currencies, the limits from EUR 0.2 million to EUR 5 million are valid according to the risk profile of a particular currency.

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

| MCZK  | CZK     | EUR     | USD   | CHF | Other | Total   |
|---|---------|---------|-------|-----|-------|---------|
| <b>At 31 December 2013</b>  |         |         |       |     |       |         |
| Cash in hand and cash balances                                      | 1 763   | 1 920   | 139   | 42  | 105   | 3 969   |
| Financial assets at fair value through profit or loss, including FA | 12 253  | 3 160   | 26    | 20  | 15    | 15 474  |
| <i>of which:</i>  |         |         |       |     |       |         |
| – held for trading  | 5 910   | 2 938   | 26    | 20  | 15    | 8 909   |
| – not held for trading  | 6 343   | 222     | –     | –   | –     | 6 565   |
| Available-for-sale securities                                       | 49 302  | 25 233  | –     | –   | –     | 74 535  |
| Receivables from banks  | 48 286  | 21 270  | 772   | 478 | 654   | 71 460  |
| Receivables from clients  | 137 076 | 148 478 | 3 561 | 586 | 244   | 289 945 |
| Positive fair value of hedging derivatives                          | 2 321   | 1 015   | –     | –   | –     | 3 336   |
| Property and equipment  | 1 010   | 907     | –     | –   | –     | 1 917   |
| Intangible assets   | 4       | 8       | –     | –   | –     | 12      |
| Tax receivables   | 256     | 597     | –     | –   | –     | 853     |
| Other assets  | 1 023   | 567     | 326   | 26  | 51    | 1 993   |
| Deposits from banks   | 14 502  | 34 638  | 507   | –   | 151   | 49 798  |
| Deposits from clients   | 174 412 | 121 466 | 7 425 | 738 | 2 257 | 306 298 |
| Debt securities issued  | 36 114  | 6 820   | 107   | –   | –     | 43 041  |
| Financial liabilities held for trading                              | 3 688   | 1 662   | 16    | 19  | 3     | 5 388   |
| Negative fair value of hedging derivatives                          | 591     | 2557    | –     | 9   | –     | 3 157   |
| Tax liabilities   | 215     | –       | –     | –   | –     | 215     |
| Other liabilities   | 1 183   | 2 717   | 281   | 7   | 55    | 4 243   |
| Provisions  | 1 562   | 173     | –     | –   | –     | 1 735   |
| Equity  | 38 499  | 12 256  | 1     | 2   | (11)  | 50 747  |
| <b>At 31 December 2012</b>  |         |         |       |     |       |         |
| Cash in hand and cash balances                                      | 1 311   | 242     | 72    | 15  | 22    | 1 662   |
| Financial assets at fair value through profit or loss, including FA | 13 463  | 1 296   | –     | –   | –     | 14 759  |
| <i>of which:</i>  |         |         |       |     |       |         |
| – held for trading  | 6 250   | 1 366   | 62    | 3   | 3     | 7 684   |
| – not held for trading  | 6 077   | 998     | –     | –   | –     | 7 075   |
| Available-for-sale securities                                       | 55 436  | 17 609  | –     | –   | –     | 73 045  |
| Receivables from banks  | 26 956  | 7 962   | 829   | 162 | 732   | 36 641  |
| Receivables from clients  | 130 677 | 51 851  | 1 513 | 583 | 91    | 184 715 |
| Positive fair value of hedging derivatives                          | 3 445   | 1 229   | –     | –   | –     | 4 674   |
| Property and equipment  | 1 085   | –       | –     | –   | –     | 1 085   |
| Intangible assets   | 2       | –       | –     | –   | –     | 2       |
| Tax receivables   | 385     | –       | –     | –   | –     | 385     |
| Fixed assets held for sale  | 18      | –       | –     | –   | –     | 18      |
| Other assets  | 1 246   | 342     | 269   | 22  | 44    | 1 923   |
| Deposits from banks   | 17 827  | 16 110  | 292   | –   | 1     | 34 230  |
| Deposits from clients   | 153 465 | 34 919  | 5 435 | 421 | 880   | 195 120 |
| Debt securities issued  | 35 297  | 758     | 139   | –   | –     | 36 194  |
| Financial liabilities held for trading                              | 4 916   | 927     | 59    | 23  | 31    | 5 956   |
| Negative fair value of hedging derivatives                          | 585     | 2 050   | –     | 10  | –     | 2 645   |
| Tax liabilities   | 1 224   | (1)     | –     | –   | –     | 1 223   |
| Other liabilities   | 2 035   | 1 348   | 161   | 2   | 31    | 3 577   |
| Provisions  | 979     | 48      | –     | –   | –     | 1 027   |
| Equity  | 38 545  | 391     | –     | 1   | –     | 38 937  |

### Equity Risk

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

### Liquidity Risk

Liquidity risk arises as a result of the manner of financing the Bank's activities and managing its positions. It includes both the risk that the Bank would be unable to finance its assets using instruments with appropriate maturity and the risk that the Bank would be unable to dispose of its assets for an appropriate price within the necessary time period. The Bank has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Bank flexible and limits its dependency on any single funding source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Board of Directors. The Bank also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly

liquid funds, such as state treasury bills and similar bonds. Liquidity risk is evaluated regularly by the Bank using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Bank monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If limits are breached, the Bank takes action to reduce the liquidity risk. In the long-term (structural) perspective, the Bank monitors the difference between the maturity of assets and liabilities in periods longer than one year. For products with non-specified maturity (i.e. current accounts) the Bank has developed a model for their expected residual maturity. The Bank again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing). The Bank has drawn up a contingency plan for the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation. Stress tests of short-term liquidity are performed by the Bank on a weekly basis. The stress tests verify the Bank's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Bank. The stress scenarios' results are presented to the ALCO.

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

| MCZK  | Carrying amount | Net cash flow | Up to 3 months | 3 months – 1 year | 1–5 years | Over 5 years | Unspecified |
|---|-----------------|---------------|----------------|-------------------|-----------|--------------|-------------|
| <b>At 31 December 2013</b>  |                 |               |                |                   |           |              |             |
| Cash in hand and cash balances                                      | 3 969           | 3 969         | 3 969          | –                 | –         | –            | –           |
| Financial assets at fair value through profit or loss, including FA | 15 474          | 17 364        | 3 392          | 5 029             | 5 455     | 3 416        | 72          |
| <i>of which:</i>  |                 |               |                |                   |           |              |             |
| – held for trading  | 8 909           | 9 613         | 752            | 1 282             | 4 428     | 3 079        | 72          |
| – not held for trading  | 6 565           | 7 751         | 2 640          | 3 747             | 1 027     | 337          | –           |
| Available-for-sale securities                                       | 74 535          | 80 243        | 3 390          | 9 909             | 44 143    | 22 663       | 138         |
| Securities held to maturity   | 1 128           | 1 190         | 8              | 951               | 39        | 192          | –           |
| Receivables from banks  | 71 460          | 72 000        | 67 453         | 720               | 3 777     | 26           | 24          |
| Receivables from clients  | 289 945         | 328 582       | 34 653         | 58 225            | 119 387   | 107 849      | 8 468       |
| Positive fair value of hedging derivatives                          | 3 336           | 3 336         | 48             | 111               | 1 898     | 1 279        | –           |
| Property and equipment  | 1 917           | 1 917         | –              | –                 | –         | –            | 1 917       |
| Intangible assets   | 12              | 12            | –              | –                 | –         | –            | 12          |
| Tax receivables   | 853             | 853           | –              | 853               | –         | –            | –           |
| Other assets  | 1 993           | 1 998         | 37             | –                 | –         | –            | 1 961       |
| Deposits from banks   | 49 798          | 50 370        | 35 206         | 3 552             | 4 612     | 6 997        | 3           |
| Deposits from clients   | 306 298         | 307 139       | 282 482        | 17 627            | 5 230     | 130          | 1 670       |
| Debt securities issued  | 43 041          | 48 170        | 3 061          | 4 266             | 35 720    | 4 699        | 424         |
| Financial liabilities held for trading                              | 5 388           | 5 388         | 481            | 772               | 2 109     | 2 025        | 1           |
| Negative fair value of hedging derivatives                          | 3 157           | 3 157         | 22             | 328               | 950       | 1 857        | –           |
| Tax liabilities   | 215             | 215           | –              | 215               | –         | –            | –           |
| Other liabilities   | 4 243           | 4 243         | 157            | –                 | –         | –            | 4 086       |
| Provisions  | 1 735           | 1 735         | 714            | –                 | –         | –            | 1 021       |
| Equity  | 50 747          | 50 747        | –              | –                 | –         | –            | 50 747      |
| Undrawn loan facilities   | 102 319         | 102 319       | 15 393         | 44 909            | 18 757    | 23 260       | –           |
| Bank guarantees   | 39 227          | 39 227        | 3 841          | 11 674            | 20 759    | 2 953        | –           |

| MCZK  | Carrying amount | Net cash flow | Up to 3 months | 3 months – 1 year | 1–5 years | Over 5 years | Unspecified |
|---|-----------------|---------------|----------------|-------------------|-----------|--------------|-------------|
| <b>At 31 December 2012</b>  |                 |               |                |                   |           |              |             |
| Cash in hand and cash balances                                      | 1 662           | 1 662         | 1 662          | –                 | –         | –            | –           |
| Financial assets at fair value through profit or loss, including FA | 14 759          | 15 336        | 1 216          | 6 407             | 4 936     | 2 745        | 32          |
| <i>of which:</i>  |                 |               |                |                   |           |              |             |
| –held for trading   | 7 684           | 8 191         | 245            | 778               | 4 391     | 2 745        | 32          |
| –not held for trading   | 7 075           | 7 145         | 971            | 5 629             | 545       | –            | –           |
| Available-for-sale securities                                       | 73 045          | 82 344        | 8 144          | 14 061            | 37 973    | 22 146       | 20          |
| Receivables from banks  | 36 641          | 36 765        | 34 654         | 92                | 1 892     | –            | 127         |
| Receivables from clients  | 184 715         | 210 384       | 33 620         | 29 072            | 83 940    | 59 478       | 4 274       |
| Positive fair value of hedging derivatives                          | 4 674           | 4 674         | 45             | 150               | 1 970     | 2 508        | –           |
| Property and equipment  | 1 085           | 1 085         | –              | –                 | –         | –            | 1 085       |
| Intangible assets   | 2               | 2             | –              | –                 | –         | –            | 2           |
| Tax receivables   | 385             | 385           | –              | 385               | –         | –            | –           |
| Other assets  | 1 923           | 1 923         | 32             | –                 | –         | –            | 1 891       |
| Deposits from banks   | 34 230          | 35 035        | 21 595         | 809               | 5 043     | 7 588        | –           |
| Deposits from clients   | 195 120         | 195 388       | 180 403        | 8 316             | 4 529     | 32           | 2 108       |
| Debt securities issued  | 36 194          | 41 267        | 1 367          | 3 830             | 32 752    | 3 318        | –           |
| Financial liabilities held for trading                              | 5 956           | 6 444         | 279            | 447               | 2 580     | 3 138        | –           |
| Negative fair value of hedging derivatives                          | 2 645           | 2 645         | –              | 160               | 621       | 1 864        | –           |
| Tax liabilities   | 1 223           | 1 223         | –              | 1 223             | –         | –            | –           |
| Other liabilities   | 3 577           | 3 577         | 216            | –                 | –         | –            | 3 361       |
| Provisions  | 1 027           | 1 027         | –              | –                 | –         | –            | 1 027       |
| Equity  | 38 937          | 38 937        | –              | –                 | –         | –            | 38 937      |
| Undrawn loan facilities   | 78 108          | 78 108        | 13 219         | 28 864            | 20 461    | 15 564       | –           |
| Bank guarantees   | 29 167          | 29 167        | 3 329          | 8 500             | 16 203    | 1 116        | 19          |

#### (d) Operational Risk

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

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and controlling activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body reporting directly to a member of the Board of Directors in charge of risk management.

The Operational Risk Department is authorised to secure unified and coordinated operational risk management in accordance with the applicable regulations and the standards of the parent company. Operational risk management and monitoring as such is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and it assesses the control and management system's functionality.

In 2013, the Bank continued developing and setting up the

comprehensive system for the identification, monitoring and management of operational risk.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by the UniCredit Group. The system complies with the requirements for capital adequacy management, in accordance with the Basel II regulation. The data acquired through the system is taken into account in calculating the capital requirement as well as in managing operational risk. It serves as a basis for designing processes that reduce the number of particular events and mitigate the consequences (e.g. in preparing process mitigation measures or strategic insurance plan for the Bank). The data is also used for reviewing the reliability of proposed measures for operational risk mitigation. The data is collected on a continuous basis in cooperation with individual departments of the Bank (all significant events are reported and resolved immediately). Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Board of Directors, the Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or immediately if necessary. The data is regularly reconciled with the accounting records and other sources in order to ensure data completeness and accuracy.

In 2013, the Bank analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management).

The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances the overall awareness of operational risk within the Bank and trains the Bank's staff both by means of training sessions and e-learning courses.

In 2013, the process of merging UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s., which was subject to the standard system of management of operational risks involved in the process change and project, was completed. As part of its standard operations, the independent Operational Risk Department was charged with ensuring the consistent and coordinated monitoring and validation of analysed operational risks and control measures in respect of individual proposed changes, with designated officials at the level of individual units evaluating, quantifying and tracking all impacts that these changes may cause. Where a new and specific operational risk associated with the process change that might have a material impact on the financial performance, operations or reputation of the Bank or its contractual counterparties materialised, this risk must have been routinely recorded and regularly monitored by the Operational Risk Department jointly with the appropriate remedial measures. The undertaken operational risk analyses indicated that no significant risk event occurred in respect of the merger and the Bank does not record any exceptionally negative trend or threatening material event of operational risk with an impact on the Bank's performance. The Bank also noted no material impact of the merger on the Bank's operational risk profile.

Based on consent obtained from the regulatory body, the Bank calculates the capital requirement for operational risk under the advanced measurement approach (AMA). Under this approach, the group model is used based on internal and external data, the results of scenario analyses and risk indicator data.

#### **(e) Capital Management**

The banking market regulator, the Czech National Bank (CNB), establishes rules for calculating capital requirements and monitors their development. Since 1 January 2008, the Bank has met the requirements in accordance with Basel II. These were implemented by CNB Decree No. 123/2007 Coll., stipulating the prudential rules for banks, savings and credit unions and security traders.

The Bank's regulatory capital consists of the following:

- Original capital (Tier 1), which comprises paid up registered capital, share premium, reserve funds, retained earnings, foreign exchange rate gains or losses from consolidation, audited profit for the previous period after tax; minus intangible assets;
- Additional capital (Tier 2) which is the excess in the coverage of anticipated credit losses when using the internal rating based approach; and
- Items deductible from original and additional capital, which comprise capital investments in banks exceeding 10% and other financial institutions, and significant prudential adjustments using market valuation and/or model-based valuation.

Management monitors the development of the Bank's capital adequacy and its capital position. The Bank's capital adequacy fulfils the minimum requirement of 8% stipulated by the CNB and Basel II. The management believes that potentially-stricter capital adequacy rules in future years will not materially affect the Bank's position.

#### **(f) Market Development in 2013**

The first half of 2013 showed the first signs of abating recession in the Eurozone. The situation in Europe stabilised and the deterring debt crisis partly diminished. The interest rate margins on bonds in peripheral EU economies decreased year-on-year, the bond markets showed lower volatility and the imminent threat arising from the state default of countries that are currently facing problems backed away. During the second quarter of 2013, the interbank markets showed a rather significant increase in interest rates, as a response to the US Fed's statement on potentially stopping quantitative easing. As part of its trading portfolio, the Bank held positions oriented on growing interest rates, which paid off and, thanks to the growth in the interest rates of approximately 70-80 basis points, the Bank generated a profit from these positions.

In the latter half of 2013, the growth of interest rates did not continue, the rates oscillated around the level achieved at mid-year. The Bank used short-term fluctuations in rates to take rather short-term trading positions with the objective of profiting from these fluctuations.

The Czech National Bank (CNB) has maintained the repo rate at its historically lowest level (0.05%) and in view of the slowly-improving prospects of the Czech economy, the CNB continuously considered intervention aimed at the depreciation of the Czech currency. The CNB proceeded to directly intervene in the interbank market in the fourth quarter of 2013; since that time, it has held the Czech crown on lower levels (EUR/CZK approximately 27.5) with the objective of further loosening currency conditions and preventing deflation.

A more favourable economic environment in Europe, together with the weakening of the crown, should help the Czech economy in 2014. The prediction of the GDP growth for 2014 is 2.5%.

The year-on-year increase in the volume of client deposits in 2013 was higher than the increase in provided client loans. The Bank invested the excess of liquidity primarily in treasury bills and government bonds while always ensuring that it invests in liquid assets that the Bank would use for repurchase transactions with central banks as and when needed.

During 2013, the Bank continuously enhanced its systems and processes under financial risk management as follows:

##### **(i) Credit Risk**

- Adjustments in specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
- Adjustments in selected product parameters and credit products in retail banking;
- Refinement of the procedure for credit fraud identification;

- Strengthening of the monitoring process related to the loan portfolio (timely identification of the warning signals) and of the process for recovery of loan receivables);
- Continuous improvement of the Bank's own estimates of risk parameters (PD, LGD, EAD); and
- Submitting an application for the use of the advanced approach (A-IRB) to the calculation of the capital requirements for credit risk for the banking portfolio (except for the portfolio of the Bank's foreign branch).

#### (ii) Market Risk

- The Bank continued the implementation of the new treasury system (launched in the first half of 2013) enabling additional expansion of the product portfolio offered to clients, and thus maintaining the leading position in this segment on the Czech market. The launch of the first phase of the system is planned for the second quarter of 2014.
- In the context of the merger between UniCredit Bank Czech Republic and UniCredit Bank Slovakia, risk positions of both banks were integrated and the reporting of market risk indicators was aligned.
- Another step is the calculation of risk indicators (VaR, BPV) in the new IT platform universal for the entire banking group. The launch of this new platform is planned for the second quarter of 2014.

#### (iii) Liquidity

- The Bank has improved the liquidity management process by introducing local parameters to the group model for short-term liquidity stress-testing. The new parameters under the model were approved by the Assets and Liabilities Committee (ALCO) and the relevant results are published on a weekly basis for all users (ALCO members, employees of the Trading and ALM departments, and employees of the Market Risk department).
- The Bank continuously improved the calculation methodology for the Basel III, LCR and NSFR indicators.

## 41. Related party transactions

Entities are deemed to be entities under special arrangements in the event that one entity is able to control the activities of the other or is able to exercise significant influence over the other entity's financial or operational policies. As part of its ordinary business, the Bank enters into transactions with related entities. These transactions principally comprise loans, deposits and other types of transactions and are concluded under arm's length conditions and at arm's length prices in order to prevent any detriment to any party. Related parties principally include the parent companies and fellow subsidiaries as part of the UCI/HVB/BA Group, subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

#### (a) Transactions with the parent company UniCredit Bank Austria AG

| MCZK  | 31 Dec 2013   | 31 Dec 2012  |
|---|---------------|--------------|
| <b>Assets</b>   |               |              |
| Financial assets held for trading                                 | 3             | –            |
| Receivables from banks  | 9 318         | 5 380        |
| Securities available for sale                                     | –             | 2 535        |
| <b>Total</b>  | <b>9 321</b>  | <b>7 915</b> |
| <b>Liabilities</b>  |               |              |
| Deposits from banks   | 15 660        | 7 141        |
| Financial liabilities held for trading                            | 9             | –            |
| <b>Total</b>  | <b>15 669</b> | <b>7 141</b> |
| <b>Off-balance sheet items</b>                                    |               |              |
| Issued guarantees   | 334           | 95           |
| Irrevocable credit facilities                                     | 283           | 434          |
| <b>Total</b>  | <b>617</b>    | <b>529</b>   |
| <b>Interest and similar income</b>                                | <b>78</b>     | <b>130</b>   |
| Interest and similar expenses                                     | (30)          | (63)         |
| Income from fees and commissions                                  | 8             | 2            |
| Expenses for fees and commissions                                 | (16)          | –            |
| Net profit from financial assets and liabilities held for trading | (6)           | (–)          |
| General administrative expenses                                   | 29            | (1)          |
| <b>Total</b>  | <b>63</b>     | <b>68</b>    |

(b) Transactions with other related parties (continued)

| MCZK                                       | 31 Dec 2013  | 31 Dec 2012  |
|--|--------------|--------------|
| <b>Assets</b>                              |              |              |
| Financial assets held for trading          | 611          | 789          |
| <i>of which:</i>                           |              |              |
| UniCredit Bank AG                          | 598          | 771          |
| Receivables from banks                     | 2 181        | 1 796        |
| <i>of which:</i>                           |              |              |
| UniCredit Bank Slovakia a.s.               | –            | 43           |
| UniCredit Bank AG                          | 940          | 1 060        |
| UniCredit Bank Serbia Jsc                  | 403          | 189          |
| UniCredit Bank Hungary Zrt.                | 248          | 470          |
| UniCredit S.p.A.                           | 515          | –            |
| Receivables from clients                   | 5 665        | 3 567        |
| <i>of which:</i>                           |              |              |
| UniCredit Leasing Group                    | 5 229        | 3 344        |
| UCTAM CZ                                   | 222          | –            |
| Board of Directors                         | 8            | 9            |
| Other executives                           | 96           | 77           |
| Positive fair value of hedging derivatives | 1 500        | 1 975        |
| <i>of which:</i>                           |              |              |
| UniCredit Bank AG                          | 1 500        | 1 975        |
| <b>Total</b>                               | <b>9 957</b> | <b>8 127</b> |

| MCZK   | 31 Dec 2013  | 31 Dec 2012  |
|--|--------------|--------------|
| <b>Liabilities</b>                             |              |              |
| Deposits from banks                            | 3 453        | 450          |
| <i>of which:</i>                               |              |              |
| UniCredit Luxembourg S.A.                      | 342          | 51           |
| UniCredit Bank AG                              | 3 026        | 247          |
| UniCredit Bank Slovakia a.s.                   | –            | 1            |
| UniCredit Bank Hungary Zrt.                    | 29           | 49           |
| UniCredit S.p.A.                               | 45           | 98           |
| Deposits from clients                          | 1 304        | 1 351        |
| <i>of which:</i>                               |              |              |
| UniCredit Leasing Group                        | 233          | 133          |
| Pioneer Asset Management                       | 403          | 357          |
| Pioneer Investment Company                     | 97           | 149          |
| UniCredit Business Integrated Solutions S.p.A. | 348          | 490          |
| Board of Directors                             | 70           | 41           |
| Other executives                               | 53           | 60           |
| Financial liabilities held for trading         | 1 644        | 1 749        |
| <i>of which:</i>                               |              |              |
| UniCredit Bank AG                              | 1 643        | 1 747        |
| Negative fair value of hedging derivatives     | 1 822        | 1 795        |
| <i>of which:</i>                               |              |              |
| UniCredit Bank AG                              | 1 822        | 1 794        |
| Other liabilities                              | –            | 16           |
| <i>of which:</i>                               |              |              |
| UniCredit S.p.A.                               | –            | 16           |
| <b>Total</b>                                   | <b>8 223</b> | <b>5 361</b> |



| MCZK                          | 31 Dec 2013  | 31 Dec 2012  |
|-------------------------------|--------------|--------------|
| Off-balance sheet items       |              |              |
| Issued guarantees             | 968          | 331          |
| <i>of which:</i>              |              |              |
| UniCredit Bank AG             | 471          | 260          |
| UniCredit S.p.A.              | 199          | 10           |
| UniCredit Bank Hungary Zrt.   | 99           | 13           |
| ZAO UniCredit Bank            | 93           | 6            |
| Irrevocable credit facilities | 2 186        | 3 364        |
| <i>of which:</i>              |              |              |
| UniCredit Leasing Group       | 1 724        | 3 093        |
| UniCredit Bank AG             | 113          | 106          |
| Yapi ve Kredi Bankasi AS      | 122          | –            |
| UniCredit S.p.A.              | 94           | 95           |
| Board of Directors            | 1            | 2            |
| Other executives              | 3            | 4            |
| <b>Total</b>                  | <b>3 154</b> | <b>3 695</b> |

| MCZK  | 2013         | 2012           |
|---|--------------|----------------|
| Interest income and similar income                                | 187          | 191            |
| <i>of which:</i>  |              |                |
| UniCredit Bank AG   | 79           | 10             |
| UniCredit Leasing Group   | 85           | 115            |
| Interest expenses and similar charges                             | (2)          | (5)            |
| <i>of which:</i>  |              |                |
| UniCredit Bank Hungary Zrt.                                       | (1)          | (1)            |
| UniCredit Bank AG   | –            | (1)            |
| Fee and commission income   | 24           | 10             |
| <i>of which:</i>  |              |                |
| UniCredit Bank AG   | 7            | 4              |
| UniCredit Leasing Group   | 4            | 4              |
| Fee and commission expenses                                       | (8)          | –              |
| <i>of which:</i>  |              |                |
| UniCredit Bank AG   | (1)          | –              |
| UniCredit S.p.A.  | (5)          | –              |
| Net income from financial assets and liabilities held for trading | (287)        | (1 034)        |
| <i>of which:</i>  |              |                |
| UniCredit Bank AG   | (275)        | (1 049)        |
| Net income from hedging against risk of changes in fair value     | 350          | (46)           |
| <i>of which:</i>  |              |                |
| UniCredit Bank AG   | 350          | (46)           |
| General administrative expenses                                   | (1 202)      | (895)          |
| <i>of which:</i>  |              |                |
| UniCredit S.p.A.  | (53)         | –              |
| UniCredit Business Integrated Solutions S.p.A.                    | (1 107)      | (852)          |
| <b>Total</b>  | <b>(938)</b> | <b>(1 779)</b> |

## 42. Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair values of financial assets and liabilities that are not reported at fair values in the Bank's balance sheet (the fair value is calculated using discounted future cash flows under the application of arm's length market rates):

| MCZK                         | 31 December 2013 |            | 31 December 2012 |            |
|------------------------------|------------------|------------|------------------|------------|
|                              | Carrying amount  | Fair value | Carrying amount  | Fair value |
| <b>Financial assets</b>      |                  |            |                  |            |
| Receivables from banks       | 71 460           | 71 528     | 36 641           | 36 703     |
| Receivables from clients     | 289 945          | 293 029    | 184 715          | 184 826    |
| <b>Financial liabilities</b> |                  |            |                  |            |
| Deposits from banks          | 49 798           | 49 693     | 34 230           | 35 825     |
| Deposits from clients        | 306 298          | 306 622    | 195 120          | 195 251    |
| Debt securities issued       | 43 041           | 44 189     | 36 194           | 33 539     |

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

| Financial assets at fair value based on Levels 1 a 2: |   |                      |                               |                     |        |
|---|---|----------------------|-------------------------------|---------------------|--------|
| MCZK  | Financial assets at fair value through profit or loss |                      | Securities available for sale | Hedging derivatives | Total  |
|   | Held for trading                                      | Not held for trading |                               |                     |        |
| <b>31 December 2013</b>                               |   |                      |                               |                     |        |
| Transfer from Level 1 to Level 2                      | 12  | –                    | –                             | –                   | 12     |
| Transfers from Level 2 to Level 1                     | 764   | 99                   | 18 169                        | –                   | 19 032 |

In 2012, no financial assets reported at fair value were transferred between Levels 1 and 2. For the period ended 31 December 2013 and for the year ended 31 December 2012, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

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

| MCZK  | Financial assets at fair value through profit or loss |                      | Securities available for sale | Hedging derivatives | Total      |
|---|---|----------------------|-------------------------------|---------------------|------------|
|   | Held for trading                                      | Not held for trading |                               |                     |            |
| <b>Opening balance at 1 Jan 2012</b>  | –   | –                    | 399                           | –                   | 399        |
| Revaluation gains and losses  |   |                      |                               |                     |            |
| In profit or loss   | –   | –                    | –                             | –                   | –          |
| In other comprehensive income   | –   | –                    | –                             | –                   | –          |
| Purchases   | 1   | –                    | 6                             | –                   | 7          |
| Sales/maturity  | –   | –                    | (385)                         | –                   | (385)      |
| Transfers from/to other levels  | –   | –                    | –                             | –                   | –          |
| <b>Closing balance at 31 Dec 2012</b>   | <b>1</b>  | <b>–</b>             | <b>20</b>                     | <b>–</b>            | <b>21</b>  |
| Total revaluation gains and losses included in profit or loss for the period:   |   |                      |                               |                     | –          |
| Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end |   |                      |                               |                     | –          |
| <b>Opening balance at 1 Jan 2013</b>  | <b>1</b>  | <b>–</b>             | <b>20</b>                     | <b>–</b>            | <b>21</b>  |
| Addition arising from the merger  | –   | –                    | 136                           | –                   | 136        |
| Revaluation gains and losses  |   |                      |                               |                     |            |
| In profit or loss   | –   | –                    | –                             | –                   | –          |
| In other comprehensive income   | –   | –                    | –                             | –                   | –          |
| Purchases   | –   | –                    | 5                             | –                   | 5          |
| Sales/maturity  | (1)   | –                    | –                             | –                   | (1)        |
| Transfers from/to other levels  | –   | –                    | (19)                          | –                   | (19)       |
| <b>Closing balance at 31 Dec 2013</b>   | <b>1</b>  | <b>–</b>             | <b>142</b>                    | <b>–</b>            | <b>142</b> |
| Total revaluation gains and losses included in profit or loss for the period:   |   |                      |                               |                     | –          |
| Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end |   |                      |                               |                     | –          |

Financial liabilities at fair value transferred from Level 3:

|   | Financial liabilities at fair value through profit or loss |                      | Hedging derivatives | Total    |
|---|--|----------------------|---------------------|----------|
|   | Held for trading   | Not held for trading |                     |          |
| <b>MCZK</b>   |  |                      |                     |          |
| <b>Opening balance at 1 Jan 2012</b>  | –  | –                    | –                   | –        |
| Revaluation gains and losses  |  |                      |                     |          |
| In profit or loss   | –  | –                    | –                   | –        |
| In equity   | –  | –                    | –                   | –        |
| Purchases   | 7  | –                    | –                   | 7        |
| Sales/maturity  | –  | –                    | –                   | –        |
| Transfers to Level 3  | –  | –                    | –                   | –        |
| Transfers from Level 3  | –  | –                    | –                   | –        |
| <b>Closing balance at 31 Dec 2012</b>   | <b>7</b>   | <b>–</b>             | <b>–</b>            | <b>7</b> |
| Total revaluation gains and losses included in profit or loss for the period:   |  |                      |                     | –        |
| <i>Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial liabilities held at the period end</i> |  |                      |                     | –        |
| <b>Opening balance at 1 Jan 2013</b>  | <b>7</b>   | <b>–</b>             | <b>–</b>            | <b>7</b> |
| Revaluation gains and losses  |  |                      |                     |          |
| In profit or loss   | –  | –                    | –                   | –        |
| In equity   | –  | –                    | –                   | –        |
| Purchases   | –  | –                    | –                   | –        |
| Sales/maturity  | (6)  | –                    | –                   | (6)      |
| Transfers to Level 3  | –  | –                    | –                   | –        |
| Transfers from Level 3  | (1)  | –                    | –                   | (1)      |
| <b>Closing balance at 30 Jun 2013</b>   | <b>–</b>   | <b>–</b>             | <b>–</b>            | <b>–</b> |
| Total revaluation gains and losses included in profit or loss for the period:   |  |                      |                     | –        |
| <i>Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial liabilities held at the period end</i> |  |                      |                     | –        |

## 43. Assets and liabilities taken over upon the merger

As of the merger effective date, the Bank took over the following significant assets and liabilities:

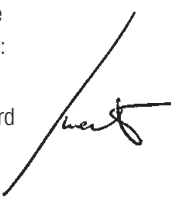
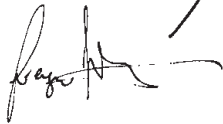


| MCZK  | 1 July 2013 |
|---|-------------|
| <b>Assets</b>                                 |             |
| Securities available for sale                 | 14 121      |
| Receivables from clients (gross)              | 80 678      |
| Impairment losses on receivables from clients | (1 966)     |
| <b>Liabilities</b>                            |             |
| Deposits from banks                           | 17 169      |
| Deposits from clients                         | 66 592      |
| Issued debt securities                        | 3 577       |

The profit of the Bank as of 31 December 2013 includes operating income of the Slovak branch of MEUR 67 and profit of TEUR 287. For the first half of 2013, UniCredit Bank Slovakia a.s. reported operating income of MEUR 63 and profit of MEUR 1.2.

## 44. Subsequent events

On 14 February 2014, the Bank entered into contracts for the purchase of the 100% equity investment in UniCredit Leasing CZ, a.s. and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. These contracts will become effective on 14 March 2014 or at any other date on which both parties confirm in writing that the conditions subsequent have been fulfilled. For this reason, it is not possible to determine or estimate the financial impact of these contracts. The contracts were signed between the Bank and UniCredit Leasing, S.p.A.; as such, these transactions are transactions under common control. The sale of both companies to the Bank is being made as a result of the reorganisation of the equity investments within the group. Both companies are principally engaged in leases and instalment sale.

Except for the matter disclosed above, the Bank's management is not aware of any post balance sheet events that would require adjustments in the financial statements of the Bank.

|                  |   |   |   |
|------------------|---|---|---|
| Approval date:   | Stamp and signature of the statutory body:<br><br>Ing. Jiří Kunert<br>Chairman of the Board of Directors<br><br><br>Mag. Gregor Hofstaetter-Pobst<br>Member of the Board of Directors | Individual in charge of the accounting records (name, signature):<br><br><br><br>Ing. Jiří Kupec | Individual in charge of the extraordinary financial statements (name, signature):<br><br><br><br>Mgr. Michaela Mrštíková |
| 26 February 2014 |   |   |   |



# Facilitate

Finding solutions to make everything easier.

“Due to an internal bug, one of my Customers received funds to pay staff salaries two days late. I did everything I could to find a solution. I asked my colleagues for help, and together we came up with a response: we compensated for the two lost days in their wages the next month. The Customer called to thank me for solving the issue quickly. We showed that our **bank is easy to deal with.**”

Peter Tschöp - Financial Institutions Group - CIB Global Division  
UniCredit Bank Austria

# Auditor's report on the non-consolidated annual report



Deloitte Audit s.r.o.  
Nile House  
Karolinská 654/2  
186 00 Prague 8 - Karlín  
Czech Republic

Tel: +420 246 042 500  
Fax: +420 246 042 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz

## INDEPENDENT AUDITOR'S REPORT

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

Registered at the Municipal Court in  
Prague, Section C, File 24349  
Id. Nr.: 49620592  
Tax Id. Nr.: CZ49620592

Having its registered office at: Želetavská 1525/1, 140 92 Praha 4 - Michle  
Identification number: 649 48 242

### Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 27 February 2014 on the financial statements which are included in this annual report on pages 19 to 64:

„We have audited the accompanying unconsolidated financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. which comprise the statement of financial position as of 31 December 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Statutory Body's Responsibility for the Unconsolidated Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of unconsolidated 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 about whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the unconsolidated 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 control. 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 unconsolidated 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 unconsolidated financial statements give a true and fair view of the financial position of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Emphasis of Matter

We draw attention to Note 2 to the unconsolidated financial statements which states that in 2013 the UniCredit Bank Czech Republic, a.s. has prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where the UniCredit Bank Czech Republic, a.s. is the successor company and UniCredit Bank Slovakia a.s. is the dissolving company. The merger effective date has been determined at 1 July 2013. As such, the statement of comprehensive income and the statement of cash flows include the information for UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013 and the information for UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July to 31 December 2013. The statement of financial position as of 31 December 2013 includes the balances of the merged bank UniCredit Bank Czech Republic and Slovakia, a.s. The 2012 comparative period includes information for standalone UniCredit Bank Czech Republic, a.s. as of 31 December 2012. For this reason, the information presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows is not fully comparable to the prior period.

Our opinion is not modified in respect of this matter.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/cz/about](http://www.deloitte.com/cz/about) for a more detailed description of DTTL and its member firms.

#### Other Matters

The financial statements of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2012 were audited by another auditor who issued an audit report on those financial statements on 27 February 2013 containing an unqualified opinion. „

#### Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July 2013 to 31 December 2013 which is included in this annual report on pages 88 to 90. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company 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 related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July 2013 to 31 December 2013 contains material factual misstatements.

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

The related party transactions report was prepared in accordance with Section 66a of Act No. 513/1991 Coll., the Commercial Code.

#### Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2014 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

In Prague on 29 April 2014

Audit firm:

Deloitte Audit s.r.o.  
Certificate no. 79



Statutory auditor:

Diana Rádl Rogerová  
Certificate no. 2045







# Innovate

Processes and time savings  
that serve people's goals.

Thanks to us, farmers can now get funds more rapidly. The Ministry of Agriculture has developed a faster method to make state incentive payments, based on a proposal from our bank.

The method is related to an existing program that allows Customers who meet certain requirements to obtain a **fast-track loan**. When the loan is approved, they can access their funds on the same day. This **innovative solution meets the needs of 87 percent** of farmers.

Legal Support for the Area Corporate Banking  
UniCredit Bank Banja Luka - BOSNIA AND HERZEGOVINA

# Supplementary information

published pursuant to Section 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended

## 1. Basic data

Business name: UniCredit Bank Czech Republic and Slovakia, a.s.  
Registered office: Želetavská 1525/1, 140 95 Prague 4,  
Czech Republic  
Company ID No.: 64948242  
Companies register: recorded in the Companies Register  
maintained by the Municipal Court in Prague,  
Section B, file 3608  
Tax ID No.: CZ699001820  
Date of incorporation: 1 January 1996, for an indefinite period  
Legal form: joint-stock company  
Internet address: www.unicreditbank.cz  
E-mail: info@unicreditgroup.cz  
Phone: +420 955 911 111  
Fax: +420 221 112 132

UniCredit Bank Czech Republic and Slovakia, a.s. ("UniCredit Bank") is a joint-stock company incorporated according to Czech law.

As at 1 December 2013, UniCredit Bank merged with UniCredit Slovakia, a.s., a joint-stock company incorporated according to Slovak law, having its registered office at Bratislava, Šancová 1/A, PC 813 33, Company ID No.: 00 681 709, recorded in the Companies Register maintained by the District Court Bratislava I, Section Sa, file No. 34/B. As a result of this cross-border transformation through merger pursuant to Section 61 of Act No. 125/2008 Coll. on Transformations of Commercial Companies and Cooperatives as amended and Section 69aa of the Slovak Act No. 513/1991 Coll., Commercial Code, as amended, UniCredit Bank Slovakia a.s. was dissolved as at the above date and its assets were transferred to UniCredit Bank.

UniCredit Bank fulfils all of its obligations in a due and timely manner. No changes have occurred that could be of material significance in evaluating the issuer's solvency.

In carrying out its activities in the Czech market, UniCredit Bank is governed by Czech legal regulations, in particular the Banking Act, Commercial Code (until the end of 2013), and regulations governing operations in the banking and capital markets. In the Slovak market, where UniCredit Bank has operated since 1 December 2013 through its organisational unit, the Bank is also governed by the relevant Slovak legal regulations.

## 2. Persons responsible for the audit of the financial statements

Responsible person: Diana Rádl Rogerová  
License No.: 2045

Domicile/Place of business: Karolinská 654/2, 18600 Prague 8  
Auditor: Deloitte Audit s.r.o.  
License No.: 079  
Registered office: Nile House, Karolinská 654/2,  
186 00 Prague 8 – Karlín

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

### 3.1 History and development of the issuer

UniCredit Bank Czech Republic and Slovakia, a.s., launched its activities in the Czech market on 5 November 2007. Its name was changed after it merged with the Slovak UniCredit Bank Slovakia, a.s., as at 1 December 2013. UniCredit Bank Czech Republic, a.s., itself was established through the merger of HVB Bank Czech Republic, a.s., and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, Postcode 113 80, Company ID No.: 000 01 368, recorded in the Companies 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 Companies Register maintained by the Municipal Court in Prague, Section B, file 3608.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Companies Register maintained by the Municipal Court in Prague in Section B, file 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorisation to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatisation of Živnostenská banka was approved. In February

2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16% share in the issued capital of Živnostenská banka, a.s., from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

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

UniCredit Bank Czech Republic and Slovakia, a.s., operates in all regional cities in both countries and currently has 174 branches and 365 ATMs. The Bank's branch network continues to grow, aimed at increasing UniCredit Bank's accessibility to clients in the smaller towns of individual regions as much as possible. In 2013, an additional 3 UniCredit Bank branches and 7 franchise points of sale called UniCredit Bank Expres were opened, and 13 points of sale were established based on cooperation with the financial company Partners.

The merged Bank holds a 7% market share with its balance sum totalling nearly CZK 650 billion and is the fourth largest bank in the Czech Republic and the largest in Slovakia. The Bank is a universal bank, providing the services of small, commercial and investment banking in Czech crowns as well as in foreign currencies to local and foreign clients mainly in the Czech Republic, in Slovakia and, further, in other EU countries.

### 3.2 Issued share capital

(The Bank has a share capital of CZK 8,754,617,898 divided as follows:

- a) 100 registered shares, each with a nominal value of CZK 16,320,000;
- b) 200 registered shares, each with a nominal value of CZK 13,375,000;
- c) 436,500 registered shares, each with a nominal value of CZK 10,000;
- d) 10 registered shares, each with a nominal value of CZK 7,771,600; and
- e) 106,563 registered shares in nominal value of CZK 46.00.

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

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

In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank's shares entitle the shareholder to participate in the company's management and to share in its profit as well as in its liquidation balance upon dissolution of the company. UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares.

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

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 majority shareholder of UniCredit Bank, with a 99.94% 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 majority shareholder may only influence the Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. UniCredit Bank is not party to a controlling contract or a contract for transfer of profit. The character of the control by the controlling entity, which is UniCredit 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 99.94% 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 authorisations or special powers of the Board of Directors in terms of Section 118, par. 5h) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended. UniCredit Bank has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.

There are no programmes in UniCredit Bank that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions.

UniCredit Bank has concluded no significant contracts that will take effect, change or expire in case of a change in the control of the issuer as a result of a takeover bid.

## 4. Summary of business activities

### 4.1 Scope of business activities:

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

- a) receiving deposits from the public;
- b) granting loans;
- c) investing in securities on its own account;
- 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, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter “the Securities Act”), receipt of and conveying instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
  - main investment service pursuant to Section 8, par. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, par. 1a) and 1g) of the Securities Act,
  - main investment service pursuant to Section 8, par. 2c) of the Securities Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
  - main investment service pursuant to Section 8, par. 2d) of the Securities Act, management of individual portfolios at its own

discretion within the terms of a contractual covenant with the client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,

- main investment service pursuant to Section 8, par. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1c) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3c) of the Securities Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, par. 1a)–1d) and 1g) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies,
- supplementary investment service pursuant to Section 8, par. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, par. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3f) of the Securities Act, consulting services related to investment in investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, and
- supplementary investment service pursuant to Section 8, par. 3g) of the Securities Act, executing of foreign currency operations related to provision of investment services,
- 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 account 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 (consulting and payment)
- Maintaining accounts and deposits
- Payment systems
- Electronic banking
- Direct banking
- SWIFT services
- Cash pooling
- Payment cards
- Card acquiring
- Trading on the Prague Energy Exchange and in Leipzig
- 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

### Launching of new products or activities

In the area of corporate banking, we continued fulfilling our mid-term strategy aimed at strengthening our market position in the segment of small and medium-sized enterprises and maintaining an excellent position in the segment of large corporations. We are also developing new activities in the agricultural sector and in the sector of municipalities.

In 2013, there was a significant milestone in the history of the UniCredit Group, namely the merger of the Czech and Slovak UniCredit Bank to form one UniCredit Bank Czech Republic and Slovakia, a.s. The new model will allow us to better serve corporate clients in the segment of corporate banking operating in both markets.

In 2013, the organisational structure was changed and an independent department, Agrobusiness, was established; its main activities consist of the support of the distribution network in business in the area of agriculture, including biogas station financing. A joint Czech and Slovak agricultural team is following up on the long-term successful activity in Slovakia.

### Retail banking

- Personal accounts and packages – EXPRESNÍ konto and AKTIVNÍ konto for standard needs, PERFEKTNÍ konto and Konto PREMIUM for demanding customers, as well as DĚTSKÉ konto and Cool konto PRO MLADÉ and SENIOR konto;
- Business account and packages – Konto PRO PODNIKATELE, BUSINESS Konto, BUSINESS Konto Exklusive, Konto DOMOV (an account for housing co-operatives and owners associations), Konto PROFESÉ, Freelancer Professions Account;

- 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 and activities

In the first half of 2013, the Bank introduced an improvement of the very successful PRESTO loan, a consumer financing product in the form of Loan Optimisation (combining loans to get one, better, loan).

This solution ranked third in the Loan category in the Zlatá koruna competition. Thanks to the modified loan platform [www.splatkomat.cz](http://www.splatkomat.cz), our clients can simply and quickly count how much they will save due to Loan Optimisation. We are the only bank in the market that not only calculates savings off the instalment and total savings off interest or additional funds, but also enables the combination of all these three benefit at a time. Moreover, we can offer a lower interest rate to clients paying duly starting with 4.9%. The loan product PRESTO Půjčka MAXI is another new product that allows our clients to borrow as much as CZK 1 million, with loans up to CZK 600 thousand able to be obtained thanks to an individual review of the loan application without the need of a further co-borrower. To support Loan Optimisation/PRESTO loans, UniCredit Bank joined the long-term project Good Product of Ringier Axel Springer CZ in August. The project after being joined by our Bank received the name DOBRÁ ÚSPORA (*Good Saving*). The autumn campaign Loan Optimisation is a follow-up of this project.

As regards mortgage loans for natural persons, we expedited the process of mortgage review and approval, particularly for re-financed loans from other banks; moreover, here we relaxed rules to make refinancing simpler without the need to document income. Within the spring campaign, UniCredit Bank granted mortgages without the initial fee and monthly fee for administration and maintenance of the loan account. Moreover, we saved clients' money and time thanks to the new process of property valuation ordering. The Bank also came up with a unique product that allowed clients to maintain the actual low interest rate for the mortgage until the end of 2013. Clients affected by the June floods were offered an option to postpone mortgage instalments by as many as 6 months.

In February, we created a new position of a banker for freelance professions who is primarily responsible for service and acquisition and can provide our clients with professional management of the corporate finance connected with their profession and, at the same time, can take care of their private finances, too.

On 1 July, we launched the Commercial Centre for Businessmen and Smaller Enterprises project with dedicated bankers for



businessmen and small companies. We established 5 centres in total in Prague and Ostrava with the goal of improving the quality and efficiency of client services, support acquisition activity and centralise our know-how in the Small Business segment.

### Accounts

In September 2013, we introduced a new account – Konto pro PODNIKATELE (*Account for Entrepreneurs*). It covers all withdrawals from the ATMs of UniCredit in the Czech Republic and abroad free of charge, two payment cards (an embossed and so-called electronic card), internet banking, including Smart Banking on a mobile phone and ten electronic standard domestic payments (incoming and outgoing). If used actively, it is free of any monthly fee for entrepreneurs.

In the area of accounts for natural persons, we prepared MULTI account, an attractive savings account with a payment card, internet banking and an interesting appraisal for AXA Bank clients.

### Investments and deposits

Insurance and investments were dominated by the issue of the investment life insurance TOP 20 with capital guarantee. The Bank expanded the offer of CZK-hedged share funds such as Pioneer Funds – Emerging Markets Bond, Pioneer Funds – Global High Yield or Pioneer Funds – Multi Asset Real Return. Another success was also subscriptions of the CZK- and EUR-hedged fund Pioneer S.F. – Euro Financials Recovery 2018.

### Online channels

The online sales channel UniCredit Shop.cz underwent a series of improvements as regards functionalities and available products. We launched a significantly better version of Smart Banking that underwent a complete change of the user environment to facilitate clients with electronic payments even more.

### Payment cards

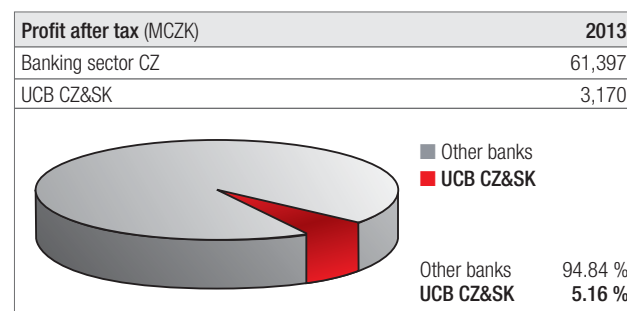
In September, we launched a new UniCredit Bank payment card security program for payments in e-shops – 3DSecure. The 3DSecure security system improves the security of card payments with e-shops that support this security and each payment is confirmed by the holder using a unique code sent as an SMS message to his/her mobile phone and data about the payment card are not disclosed to the e-shop.

### Branches

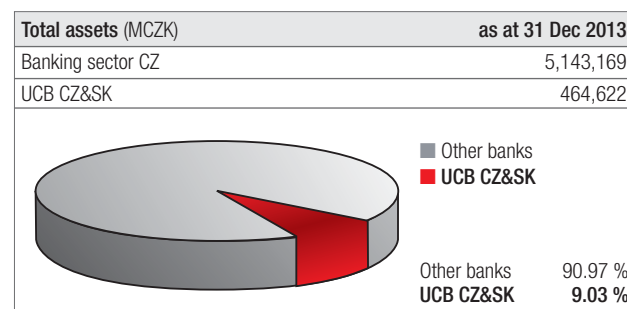
The Bank continued expanding its network of points of sale in 2013 and opened 3 new branches of UniCredit Bank and 7 franchise points of sale named UniCredit Bank Expres. Since this concept is successful, the Bank will continue in expansion of the franchise network in 2014 aiming to finish it with the optimum number of approx. 60 pieces. Also the points of sale keep growing within the new concept in cooperation with Partners. In 2013, it was 14 points of sale in total.

## 4.3 Competitive position of the issuer (i) Profit after tax

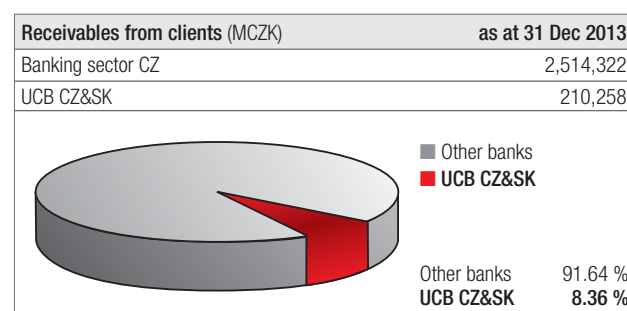
### i. Profit after tax



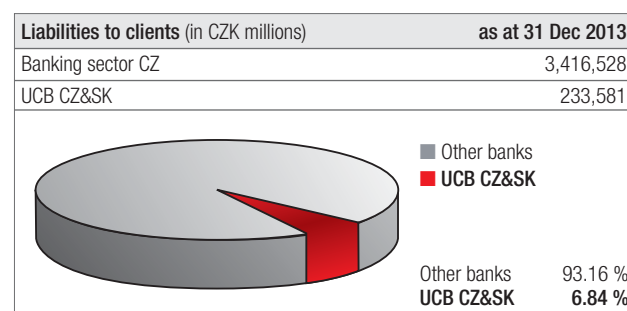
### ii. Total gross assets



### iii. Gross receivables from clients \*



### iv. Liabilities to clients \*



\* Pursuant to the CNB method, receivables from clients and liabilities to clients are only included for the Czech part of the bank.

## 5. Organisational structure

The Bank is part of the UniCredit Banking Group (hereinafter referred to as the "Group"). As a member of the Group, the Bank must comply, with the exception of certain relevant legal regulations, with directives issued by UniCredit 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, organisational structure and managerial responsibilities within key processes in the Group that are issued in exercising its powers to supervise and co-ordinate the Group in accordance with the instructions issued by the Italian surveillance authority with the aim to maintain the Group's stability.

### History of the Group

While the banking group's history dates back as far as 1473, in which year Rolo Banca was created, the contemporary history of UniCredit Group begins from a merger of nine leading Italian banks, the subsequent integration with the German HVB Group and, most recently, with the Italian Capitalia. In 1999, acquisition of Bank Pekao of Poland launched the Group's expansion (at that time under the name UniCredito Italiano) into Central and Eastern Europe (CEE).

Growth continued over the next few years with purchase of the Pioneer Investments group, the subsequent formation of Pioneer Global Asset Management, and then further strategic acquisitions gradually carried out in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic and Turkey.

In 2005, UniCredit merged with the German group HVB, which had itself been formed in 1998 by the joining of two Bavarian banks: Bayerische Vereinsbank and Bayerische Hypotheken-und Wechsel-Bank. The result was a single, major European bank. Integration with the HVB Group – reinforced by its own merger in 2000 with Bank Austria Creditanstalt, which was strongly represented in many areas of post-communist "new" Europe – creates a basis for UniCredit Group to continue strengthening its European focus.

By merging in 2007 with Capitalia, the third-largest Italian banking group, UniCredit Group further consolidated and strengthened its position in one of its most important markets, Italy. Capitalia had been established in 2002 from the integration of two previously independent entities, the Bancaroma group (itself the result of a merger between some of the oldest Roman banks: Banco di Santo Spirito, Cassa di Risparmio di Roma and Banco di Roma) and the Bipop-Carire Group.

With total assets of more than EUR 845 billion and ranking among the largest financial groups in Europe, UniCredit operates in 17 countries, with approximately 8,954 branches and more than 147,000 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, Germany, Hungary, Italy, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

### Main shareholders of UniCredit Bank Austria AG

| Shareholders of UniCredit Bank Austria AG | Share in % |
|---|------------|
| UniCredit S.p.A.                          | 99.94%     |

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

- 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 or on changes occurring on the basis of other legal facts,
- deciding on any increase or decrease of the share capital, or on authorising the Board of Directors thereto, or on the possibility of setting off financial claims due to the Bank against a claim for payment of an issuance price,
- deciding about the share capital decrease and bond issuing,
- electing and dismissing members of the Supervisory Board, members of the audit committee, and other bodies established by the Articles of Association, with the exception of members of the Supervisory Board elected and dismissed by employees of the company,
- 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 and the audit committee,
- 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 covering transfer of enterprise or a part thereof, covering lease of enterprise or a part thereof, and pledge contracts covering creation of pledge over enterprise or a part thereof;
- k) approving negotiations carried out in the name of the Bank before its incorporation;
- l) approving controlling, contracts on the transfer of profit, 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 utilisation; 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 2013 it had seven members. The members of the Board of Directors exercise their functions personally and are elected by the Supervisory Board for a 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 organise the Bank's day-to-day activities and direct its business activities,
- b) to convene the General Meeting and implement its decisions,
- d) 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,
- e) 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 the Articles of Association,
- 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 authorisations 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: Jihovýchodní III 789/60, Prague 4 – Záběhlice  
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: Baarova 1540/48, Prague 4 – Michle  
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

#### **Mgr. JAKUB DUSÍLEK, MBA**

Member of the Board of Directors and Director of the Global Banking Services Division responsible for activities aimed at optimising costs and internal processes in order to guarantee the best possible synergies and savings throughout the Bank as well as for the quality of services provided to third parties.  
Work address: Želetavská 1521/1, Prague 4  
Domicile: Měsíční 1366/10, Prague 10 – Uhřetěves  
Born: 17 December 1974

#### **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, Prague 6 – Nebušice  
Born: 15 April 1972

#### **Ing. MIROSLAV ŠTROKENDL**

Member of the Board of Directors and Director of the organisational unit of the Bank in Slovakia.  
Work address: Šancová 1/A, 813 33 Bratislava, Slovak Republic  
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic  
Born: 12 November 1958

#### Changes in the Board of Directors in 2013

Due to the cross-border merger with UniCredit Bank Slovakia a.s., the number of members of the Board of Directors grew to seven, effective as of 1 December 2013, with Ing. Miroslav Štrokendl elected to become a member of the Board of Directors by the sole shareholder.

### **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

#### **MAURO MASCHIO**

Born: 8 May 1969

Domicile: Kiev, Anri Barbyusa Str. 5, 03150 Ukraine

#### **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

**EVA MIKULKOVÁ** Born: 29 January 1957

Born: 29 January 1957

Domicile: Dlouhá 512, Kladno – Kročehlavy

#### Change in the Supervisory Board in 2013

JUDr. Ivana Burešová resigned from the Supervisory Board as at 30 November 2013.

#### **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.

#### **STEFANO COTINI**

Chairman of the Audit Committee

Born: 31 March 1951

Domicile: Viale Zugna 6, 38068 Rovereto Tn, Italy

#### **GIORGIO EBREO**

Born: 4 November 1948

Domicile: Milan, Via Cervignano 16, Italy

#### **HEINZ MEIDLINGER**

Born: 6 September 1955

Domicile: Kalmusweg 46/Haus 107, 1220 Vienna, 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.

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.

## 8. Legal and arbitration proceedings

The Bank has reviewed all legal disputes affecting the Bank as at 31 December 2013 and created appropriate provisions for litigation and claims. In addition to these disputes, there exist other claims related to the Bank's regular business activities. The Bank is not,

## 9. Significant change in the issuer's financial situation

Since the date of presenting the audited financial statements for the year ended 31 December 2013, no significant change has occurred in the financial situation of the issuer.

## 10. Loans outstanding and other liabilities

|                        |   |
|------------------------|---|
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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*                              |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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:            | Collateralised by bonds                     |

|                        |   |
|------------------------|---|
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| 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:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Czech Republic, a.s.         |
| Loan amount:           | EUR 50,000,000                              |
| Interest rate:         | 3M EURIBOR + 1.087%                         |
| Loan origination date: | 21 February 2012                            |
| Maturity date:         | 21 February 2018                            |
| Collateral:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Slovakia, a.s.               |
| Loan amount:           | EUR 2,273,000                               |
| Interest rate:         | 3M EURIBOR + 0.13%                          |
| Loan origination date: | 15 June 2004                                |
| Maturity date:         | 15 June 2014                                |
| Collateral:            | No collateral*                              |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Slovakia, a.s.               |
| Loan amount:           | EUR 12,500,000                              |
| Interest rate:         | 3M EURIBOR + 0.13%                          |
| Loan origination date: | 21 July 2006                                |
| Maturity date:         | 15 June 2016                                |
| Collateral:            | No collateral*                              |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Slovakia, a.s.               |
| Loan amount:           | EUR 53,689,000                              |
| Interest rate:         | 3M EURIBOR + 0.13%                          |
| Loan origination date: | 17 March 2008                               |
| Maturity date:         | 15 March 2016                               |
| Collateral:            | Collateralised by bonds                     |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Slovakia, a.s.               |
| Loan amount:           | EUR 30,000,000                              |
| Interest rate:         | 3M EURIBOR + 0.633%                         |
| Loan origination date: | 31 October 2011                             |
| Maturity date:         | 31 October 2023                             |
| Collateral:            | No collateral*                              |
| <b>Creditor:</b>       | <b>European Investment Bank, Luxembourg</b> |
| Debtor:                | UniCredit Bank Slovakia, a.s.               |
| Loan amount:           | EUR 20,000,000                              |
| Interest rate:         | 3M EURIBOR + 0.724%                         |
| Loan origination date: | 30 November 2011                            |
| Maturity date:         | 30 November 2023                            |
| Collateral:            | No collateral*                              |

|   |   |
|---|---|
| <b>Creditor:</b>  | <b>European Bank for Reconstruction and Development, London</b> |
| Debtor:   | UniCredit Bank Slovakia a.s.                                    |
| Loan amount:  | EUR 2,143,000   |
| Interest rate:  | 6M EURIBOR + 1.1%   |
| Loan origination date:                                      | 1 June 2011   |
| Maturity date:  | 5 February 2016   |
| Collateral:   | No collateral*  |
| <b>Creditor:</b>  | <b>European Bank for Reconstruction and Development, London</b> |
| Debtor:   | UniCredit Bank Slovakia a.s.                                    |
| Loan amount:  | EUR 2,143,000   |
| Interest rate:  | 6M EURIBOR + 1.1%   |
| Loan origination date:                                      | 2 September 2011  |
| Maturity date:  | 5 February 2016   |
| Collateral:   | No collateral*  |
| <b>Creditor:</b>  | <b>European Bank for Reconstruction and Development, London</b> |
| Debtor:   | UniCredit Bank Slovakia a.s.                                    |
| Loan amount:  | EUR 2,143,000   |
| Interest rate:  | 6M EURIBOR + 1.1%   |
| Loan origination date:                                      | 30 December 2011  |
| Maturity date:  | 5 February 2016   |
| Collateral:   | No collateral*  |
| <b>Creditor:</b>  | <b>European Bank for Reconstruction and Development, London</b> |
| Debtor:   | UniCredit Bank Slovakia a.s.                                    |
| Loan amount:  | EUR 2,143,000   |
| Interest rate:  | 6M EURIBOR + 1.1%   |
| Loan origination date:                                      | 9 October 2012  |
| Maturity date:  | 5 February 2016   |
| Collateral:   | No collateral*  |
| <b>Creditor:</b>  | <b>European Bank for Reconstruction and Development, London</b> |
| Debtor:   | UniCredit Bank Slovakia a.s.                                    |
| Loan amount:  | EUR 2,143,000   |
| Interest rate:  | 6M EURIBOR + 1.1%   |
| Loan origination date:                                      | 7 December 2012   |
| Maturity date:  | 5 February 2016   |
| Collateral:   | No collateral*  |
| <b>Creditor:</b>  | <b>European Investment Bank, Luxembourg</b>                     |
| Debtor:   | UniCredit Bank Czech Republic and Slovakia, a.s.                |
| Loan amount:  | EUR 16,000,000  |
| Interest rate:  | 3M EURIBOR + 0.28%  |
| Loan origination date:                                      | 18 December 2013  |
| Maturity date:  | 18 December 2018  |
| Collateral:   | Pledge over receivables   |
| *) Loan is guaranteed by UniCredit Bank Austria AG, Vienna. |   |
| <b>Total loans as at 31 December 2013</b>                   | <b>CZK 13,700,651,000</b>                                       |

## 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 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 2013: CZK 43,040,706,036.

### 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 organised 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 stabilisation of all employees oriented especially toward promising staff members and those who are decisive in fulfilling the company's mission.

### Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia, 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 2013 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 co-operation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group.

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

### Variable 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 co-operation 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 50–100% of his or her annual contractual salary. A portion of the remuneration is in the form of shares of groups.

UniCredit Group's "2013 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee as a binding regulation for the variable bonuses of executive managers.

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

1. **Performance Screen;**
2. **Group Gate and Zero Factor;**
3. **Compliance Assessment and Continuous Employment Condition;**
4. **Claw Back.**

#### Ad 1

The **Performance Screen** is a table of the executive managers' individual performance objectives set each year by the Remuneration Committee of the Bank's Supervisory Board. 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 between 50–70%.

#### Performance Screen parameters approved by the Remuneration Committee for executive managers for 2013

##### Operational Matrix

The Operational Matrix parameters for the CEO and COO were set at 50%. These included:

- net operating profit (gross operating profit after taking into account the adjustments);
- average probability of portfolio default.

The Operational Matrix parameters for other members of the Board of Directors were set 30–50%. These included:

- net operating profit (gross operating profit after taking into account the adjustments);
- average probability of portfolio default.

##### "Sustainability Matrix"

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 the CEO and COO and at 50–70% for the other members of the Board of Directors. These included, for example:

- commercial funding gap;
- economic profit;
- total non-personnel costs and depreciations;
- Group Risk Parameters (Risk appetite, Loss Absorption, Available Financial Resources, Liquidity Ratios);
- 2013 strategic goals for capital and liquidity; – implementation of ICT strategy.

#### 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 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 and Slovakia, a.s.

In 2013, **Group Gate** was defined using the following parameters:

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

According to the level of fulfilling these parameters, Group Gate adjusts the bonus payment from 0% to 100%.

**Zero Factor** is applied in years to which the bonus is deferred.

Zero Factor was evaluated within the System in 2013 according to the following parameters:

- net profit,
- Core Tier 1 Ratio, and
- cash horizon.

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

#### Ad 3

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 material 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.

#### Ad 4

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

#### Bonus Opportunity Plan

Payment of the bonus for the give period (2013) is spread out over a several-year period:

##### Senior Vice-Presidents

- The first part (2014) 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 (2015) is payable in cash and comprises 20% of the bonus established for the given period. It is adjusted using the Zero Factor valid for the second year of the accrual period.
- The third (2016) and fourth (2017) 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 valid for the third and fourth years of the accrual period.

##### Executive Vice-Presidents

- The first part (2014) is payable in cash and comprises 20% 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 (2015) is payable in cash and comprises 20% of the bonus established for the given period. It is adjusted using the Group Gate and Zero Factor valid for the second year of the accrual period.
- The third part (2016) will be paid in UniCredit Group shares and comprises 20% of the bonus established for the given period. This payment also is adjusted using the Group Gate and Zero Factor valid for the third year of the accrual period.

- The fourth part (2017) will be paid in cash and in UniCredit Group shares. The cash portion comprises 10% of the bonus established for the given period, while the portion paid in shares comprises 20% of the bonus established for the given period. These payments also are adjusted using the Group Gate and Zero Factor valid for the fourth year of the accrual period.
- The fifth part (2018) will be paid in UniCredit Group shares and comprises 10% of the bonus established for the given period. This payment also is adjusted using the Group Gate and Zero Factor valid for the fifth year of the accrual period.

In each year to which the bonus is deferred, 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 conditions for payment in each year and the release of the deferred bonus payment on the bases of a proposal from UniCredit Group's Board of Directors.

#### Benefits of the Bank's executive managers

Benefits are defined in accordance with the priorities of UniCredit Group's human 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 to execution of the office of Supervisory Board member. The amounts of the final annual variable bonuses paid to members of the Supervisory Board who are employed with the issuer are proposed and approved by their direct superiors according to the issuer's organisational 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 2013, the aforementioned fixed contractual remuneration was agreed with two members of the Audit Committee, and the total amount thereof is stated in the remuneration summary. The remaining member of the Audit Committee is not remunerated by the issuer.

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

| In CZK 000                         | Tax advisory | Other advisory/<br>attestation | Audit         | Total         |
|------------------------------------|--------------|--------------------------------|---------------|---------------|
| KPMG Česká republika audit, s.r.o. | 1,931        | –                              | 15,181        | 17,112        |
| Deloitte Audit s.r.o., Prague      | –            | –                              | 7,933         | 7,933         |
| Deloitte Audit s.r.o., Bratislava  | –            | 47                             | 2,290         | 2,337         |
| KPMG Valuation s.r.o., Prague      | –            | 2,801                          | –             | 2,801         |
| KPMG Valuation s.r.o., Bratislava  | –            | 226                            | –             | 226           |
| Deloitte Advisory s.r.o.           | 480          | –                              | –             | 480           |
| Price Waterhouse                   | 598          | –                              | –             | 598           |
| Ernst & Young                      | –            | 1,957                          | –             | 1,957         |
| <b>Total</b>                       | <b>3,009</b> | <b>5,031</b>                   | <b>25,404</b> | <b>33,444</b> |

## 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

| Income of the Members of the Board of Directors |  |                            |   |                           |
|---|--|----------------------------|---|---------------------------|
| Total income                                    | Remuneration as the member of the Board of Directors             | Salary                     | Remunerations of executive managers<br>Variable annual bonuses *) | Non-monetary remuneration |
| 75,440,653                                      | 9,780,375  | 46,635,775                 | 17,665,357  | 1,359,147                 |
| Supervisory Board members and Audit Committee   |  |                            |   |                           |
| Total income                                    | Remuneration as member of the Supervisory Board /Audit Committee | Salary                     | Variable annual bonuses *)  | Non-monetary remuneration |
| 7,436,692                                       | 879,200  | 4,792,236                  | 1,482,756   | 282,500                   |
| Other members of the management                 |  |                            |   |                           |
| Total income                                    | Salary   | Variable annual bonuses *) | Non-monetary remuneration   |                           |
| 101,456,901                                     | 80,014,718   | 18,712,328                 | 2,729,855   |                           |

\*) Annual variable remunerations as a bonus for 2012. Annual variable remunerations as a bonus for 2013 will be paid after the end and evaluation of 2013.

## 17. Major future investments other than financial investments (planned for 2014)

|  |                 |
|--|-----------------|
| Other investments (other than financial investments) | CZK 249 million |
|--|-----------------|

Investments in 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 in operating costs. The majority of the investments focus on development and reconstruction of the distribution network.

## 18. Guarantees provided by the issuer

| (In CZK 000)                   | 31 Dec 2013       | 31 Dec 2012       |
|--------------------------------|-------------------|-------------------|
| Guarantees provided            | 39,227,250        | 28,358,139        |
| Guarantees provided under L/Cs | 1,242,354         | 808,885           |
| <b>Total</b>                   | <b>40,469,604</b> | <b>29,167,023</b> |

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

|  |   |
|--|---|
| <b>Company:</b>                                    | <b>CBCB-Czech Banking Credit Bureau, a.s.</b>     |
| Registered office:                                 | Na Vítězné pláni 1719/4, Prague 4, Czech Republic |
| Company ID No.:                                    | 26199696  |
| Subject of business: – Provision of software,      | – Consultancy regarding HW and SW,                |
|  | – 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 2013: | Other provisions of CZK 6,000,000                 |
| Net profit as at 31 Dec 2013:                      | CZK 2,929,000                                     |
| UCB's ownership in the company's share capital:    | 20% (fully paid up)                               |
| Income in 2013 from the ownership interest:        | CZK 563,000                                       |

|  |   |
|--|---|
| <b>Company:</b>                                    | <b>MOPET CZ, a.s.</b>                                 |
| Registered office:                                 | Hvězdova 1716/2b, Prague 4 – Nusle, Czech Republic    |
| Company ID No.:                                    | 24759023  |
| Subject of business:                               | – development and operation of mobile payments system |
| Subscribed share capital:                          | CZK 144,000,000                                       |
| Amounts and types of provisions as at 31 Dec 2013: | Other provisions CZK 100,000                          |
| Net profit as at 31 Dec 2013:                      | –CZK 115,055,000                                      |
| UCB's ownership in the company's share capital:    | 12.5% (fully paid up)                                 |
| Income in 2013 from the ownership interest:        | CZK 0   |
| <b>Company:</b>                                    | <b>UniCredit Leasing Slovakia, a.s.</b>               |
| Registered office:                                 | Plynárenská 7/A, Bratislava 814 16, Slovak Republic   |
| Company ID No.:                                    | 35730978  |
| Subject of business:                               | – leasing   |
| Subscribed share capital:                          | EUR 26,560,000  |
| Amounts and types of provisions as at 31 Dec 2013: | EUR 207,000   |
| Net profit as at 31 Dec 2013:                      | EUR –8,405,000  |
| UCB's ownership in the company's share capital:    | 19.9% (fully paid up)                                 |
| Income in 2013 from the ownership interest:        | EUR 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 the 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 year-end), it shall submit 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 Czech and Slovak banking market. These have been registered as owned by the Bank at the Industrial Property Office of the Czech Republic and the Industrial Property Office of the Slovak Republic.

# Resolve

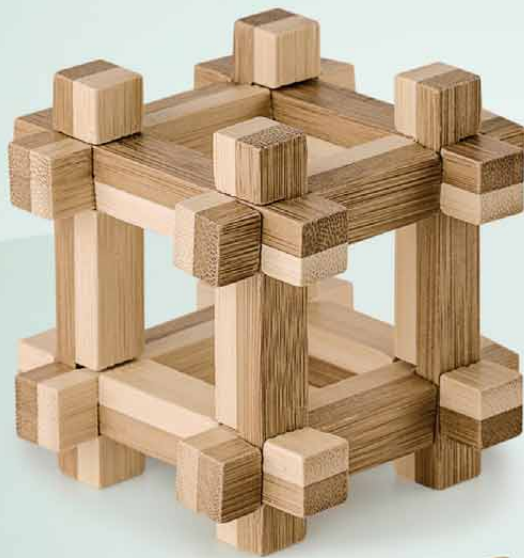
Anytime, anywhere.

“On her way back from holiday, one of my Customers had a problem with her car, forcing her to call for assistance.

The problem was serious, and the daily limit on her debit card did not permit our Customer and her husband to pay for the repairs.

She called me on the verge of panic, and I went straight to work to **solve the problem as quickly as possible**. They were able to pay their bill and set off again with peace of mind. When they got home, I received a phone call from my Customer to thank me and let me know that after their **positive experience** with UniCredit, her husband **was becoming a Customer**.”

Silvia Rieder - Commercial Bank  
Pressbaum Branch 2099 - UniCredit Bank Austria



# 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(9) of Act No. 513/1991 Coll., the Commercial Code, as amended, the Board of Directors of **UniCredit Bank Czech Republic and Slovakia, a.s.** (former UniCredit Bank Czech Republic, a.s.), having its registered office in Prague 4, Želetavská 1525/1, Postal Code: 140 92, Company Identification No. 64948242, entered into the Commercial Register administered by the Municipal Court in Prague, Section B, File No. 3608 ("UCB CS"), has compiled this **Report on Relations** for the period from **1 July 2013 until 31 December 2013** (hereinafter the "period").

The Report on Relations for the period from 1 January 2013 until 30 June 2013 was prepared by the Board of Directors of UCB CS on 30 September 2013 and it forms a part of the extraordinary annual report for the 1<sup>st</sup> half of 2013.

As of 1 December 2013, the cross-border merger of UCB CS with the dissolved company **UniCredit Bank Slovakia, a.s.**, a joint-stock

company, established under the laws of the Slovak Republic, having its registered office in Bratislava, Šancová 1/A, Postal Code: 813 33, Company Identification No.: 00 681 709, entered into the Commercial Register administered by the District Court of Bratislava I, Section Sa, File No. 34/B (hereinafter UCB Slovakia), became effective. 1 July 2014 was the effective date of the merger.

UCB CS and UCB Slovakia are hereinafter referred to as the "Controlled Entities".

In the course of the period mentioned above, the Controlled Entities were controlled by **UniCredit Bank Austria AG**, having its registered office at Schottengasse 6–8, 1010 Vienna, Republic of Austria.

At the same time, the Controlled Entities were both indirectly controlled by **UniCredit, S.p.A.**, having its registered office at Via Specchi 16, Rome, Italy.

1. The Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s., declares that the following contracts were concluded between UCB CS and the related entities known to it in the period from 1 July 2013 until 31 December 2013:

## 1.1. Between UCB CS and **UniCredit Bank Austria AG**:

| Contract title  | Subject-matter of the contract  | Date of conclusion | Detriment |
|---|---|--------------------|-----------|
| Termination Agreement relating to a risk participation agreement concluded on 28 Feb 2007 | Termination of the risk of participation in financing granted by UCBAT to external customer | 22 Jul 2013        | None      |
| Service Level Agreement   | Service of reconciliation of portfolios of derivative contracts in compliance with EMIR     | 23 Sep 2013        | None      |
| Inter-Advisory Agreement  | Provision of advisory services  | 19 Nov 2013        | None      |

## 1.2. Between UCB CS and **UniCredit Bank AG**:

| Contract title  | Subject-matter of the contract   | Date of conclusion | Detriment |
|---|--|--------------------|-----------|
| Mandate Letter – Establishment of Euro Covered Bond Programme and debut issue | Mandate letter for performance of activities of an arranger in the issuance of the Euro Covered Bond Programme | 18 Sep 2013        | None      |

## 1.3. Between UCB CS and **UniCredit Business Integrated Solutions S.C.p.A.**:

| Contract title   | Subject-matter of the contract   | Date of conclusion | Detriment |
|--|--|--------------------|-----------|
| Service Level Agreement BTS 2007-012   | Update of annex regarding services of account keeping and payment system – Description of Provided Services  | 1 Jul 2013         | None      |
| Service Level Agreement BTS 2007-013   | Update of annex regarding services in the area of Securities – Description of Provided Services  | 1 Jul 2013         | None      |
| Service Level Agreement BTS 2007-015   | Update of annex regarding services in the area of cards processing – Description of Provided Services  | 1 Jul 2013         | None      |
| Service Level Agreement BTS 2007-014   | Update of annex regarding services in the area of foreign payment system – Description of Provided Services  | 1 Jul 2013         | None      |
| Coordination Agreement BTS 2007-016  | Update of Annex No. 3 – Specimen Signatures and Stamps of Persons Authorised to Represent the Bank   | 1 Oct 2013         | None      |
| Agreement on Data Processing, Data Security, Data Protection and Confidentiality | Agreement on processing and protection of data and confidential data between UniCredit Bank Czech Republic, a.s., and UniCredit Business Integrated Solutions S.C.p.A.                 | 30 Sep 2013        | None      |
| Agreement on Data Processing, Data Security, Data Protection and Confidentiality | Agreement on processing and protection of data and confidential data between UniCredit Bank Czech Republic, a.s., and UniCredit Business Integrated Solutions S.C.p.A. – branch office | 30 Sep 2013        | None      |

| Contract title                                  | Subject-matter of the contract   | Date of conclusion | Detriment |
|---|--|--------------------|-----------|
| Service Level Agreement<br>Amendment to Annex B | Price amendment to SLA between UniCredit Bank Czech Republic, a.s., and UniCredit Business Integrated Solutions S.C.p.A., for 2013 | 21 Nov 2013        | None      |
| Service Level Agreement<br>Amendment to Annex B | Price amendment to SLA between UniCredit Bank Czech Republic, a.s., and UniCredit Business Integrated Solutions S.C.p.A., for 2013 | 21 Nov 2013        | None      |

1.4. Between UCB CS and **UniCredit Leasing CZ, a.s.:**

| Contract title   | Subject-matter of the contract  | Date of conclusion | Detriment |
|--|---|--------------------|-----------|
| Amendment No. 1 to Contract on Lease of Non-Residential Premises   | Update of the scope of services and the amount of advance payments for services associated with use of the object of lease in building No. 545, Divadelní 2, Brno | 31 Jul 2013        | None      |
| Agreement on Protection of Confidential Information                | Protection of confidential information of the contracting parties   | 26 Jun 2013        | None      |
| Amendment No. 2 to Agreement on Business Cooperation of 1 Jul 2010 | Change in the amount of commission for services intermediated to Leasing, appointment of managers for cooperation   | 5 Nov 2013         | None      |
| Agency Contract  | UniCredit Leasing is the agent of the bank in the intermediation of the sale of banking products  | 29 Jul 2013        | None      |
| Mandate Contract   | UniCredit Leasing sells, in the name and on behalf of the bank, withdrawn objects which secured the bank's loans and advances to customers                        | 19 Aug 2013        | None      |

1.5. Between UCB CS and **UniCredit Fleet Management, s.r.o.:**

| Contract title                      | Subject-matter of the contract   | Date of conclusion  | Detriment |
|-------------------------------------|--|---------------------|-----------|
| Contract on Lease of MV No. 1190164 | Operating lease for an Audi A6 3.0TDI Quattro  | 16 Dec 2013         | None      |
| Lease contracts for passenger cars  | Individual contracts on the lease of passenger cars concluded based on the Framework Contract on Lease of Vehicles of 4 March 2013 | 1 Jun – 31 Dec 2013 | None      |

1.6. Between UCB CS and **Yapı Kredi Yatırım Menkul Değerler A.Ş.:**

| Contract title           | Subject-matter of the contract | Date of conclusion | Detriment |
|--------------------------|--------------------------------|--------------------|-----------|
| Inter-Advisory Agreement | Provision of advisory services | 19 Nov 2013        | None      |

2. The Board of Directors of UCB CS declares that the following contracts were concluded between UCB Slovakia and the related entities known to it in the period from 1 July 2013 until dissolution of UCB Slovakia as of 30 November 2013:

2.1. Between UCB Slovakia and **UniCredit Business Integrated Solutions S.C.p.A.:**

| Contract title  | Subject-matter of the contract  | Date of conclusion | Detriment |
|---|---|--------------------|-----------|
| Special Agreement on Terms and Conditions of Refurbishment at Svätoplukova 31 in Bratislava pursuant to the Lease Contract No. 017/PP-2010/3560 | Definition of the terms and conditions for construction works (specification of premises, financing, supervision, deadline) | 25 Nov 2013        | None      |

2.2. Between UCB Slovakia and **UniCredit Fleet Management, s.r.o.:**

| Contract title                                       | Subject-matter of the contract                                   | Date of conclusion | Detriment |
|--|--|--------------------|-----------|
| Amendments to the Contract on Lease of Motor Vehicle | Lease of motor vehicles pursuant to the Operating Lease Contract | 29 Nov 2013        | None      |

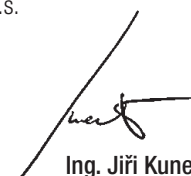
2.3. Between UCB Slovakia and **UniCredit Bank Austria AG:**

| Contract title  | Subject-matter of the contract   | Date of conclusion | Detriment |
|---|--|--------------------|-----------|
| Amendment No. 5 to Agreement on Use of Proceeds from Sale between UniCredit Bank Austria, UniCredit Bank Slovakia and Carlton Property s.r.o. | The terms and conditions for the use of funds from the sale of real estate               | 26 Jul 2013        | None      |
| Side Letter to the Term Loan Facilities Agreement   | Transfer of the rights and obligations from the Loan Agreement to UniCredit Bank Austria | 25 Jul 2013        | None      |

3. In the period from 1 July 2013 until 31 December 2013, in addition to the contracts mentioned above, the Controlled Entities concluded interbank, derivative and other banking transactions with the related entities, and cooperated with them in the issue of bonds, and concluded customer transactions (payment cards, current accounts, deposit products, cash payment system, etc.) under arm's length market conditions.
4. Within regular banking relationships, certain credit transactions are collateralised by bank guarantees provided by UniCredit Bank Austria AG a UniCredit Bank AG. Within the Group, credit products and guarantees are provided by UCB CS (also by UCB Slovakia prior to the effective date of the merger) under normal conditions.
5. Performances in providing goods or services in the period from 1 July 2013 until 31 December 2013 by the Controlled Entities to the related entities and consideration received for it: The Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s., declares that, in the accounting period, any performance in providing goods or services and consideration received for it between the Controlled Entities and the related entities were provided in the ordinary course of trade or based on the arm's-length terms, and UniCredit Bank Czech Republic and Slovakia, a.s., incurred no detriment due to this performance.
6. Other legal acts taken by the Controlled Entities in the interest of related entities: The Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s., declares that, in the period, the Controlled Entities did not take other legal acts in the interest of related entities beyond the scope of ordinary legal acts in the ordinary course of trade or ordinary legal acts taken by the Controlled Entities in the ordinary exercise of rights of UniCredit Bank Austria AG as the sole shareholder of UniCredit Bank Czech Republic and Slovakia, a.s., and the major shareholder of UniCredit Bank Slovakia, a.s. On the basis of the decision of the sole shareholder of 26 April 2013, amended on 18 July 2013, a dividend of CZK 1,763,000,000.00 was paid to the sole shareholder on 24 July 2013.
7. Other measures adopted or implemented by the Controlled Entities in the interest or instigation of the related entities, and the benefits and disadvantages thereof: The Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s., declares that, in the period, the Controlled Entities adopted or implemented no measures in the interest or instigation of the related entities beyond the ordinary course of trade or beyond the ordinary exercise of rights of shareholder of the Controlled Entities.
8. Detriment to the Controlled Entities ensuing from the concluded contracts and measures: The Board of Directors of UniCredit Bank Czech Republic and Slovakia, a.s., declares that UniCredit Bank incurred no detriment from the concluded contracts and measures.

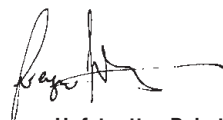
In Prague on 5 March 2014

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



**Ing. Jiří Kunert**

Chairman of the Board of Directors



**Mag. Gregor Hofstaetter-Pobst**

Member of the Board of Directors



# Respond

With a smile and a desire to help.

“One of my Customers had just got married and was about to set off on her honeymoon when she called me in a panic: her credit card had been cloned. I immediately arranged for her to be sent a new card, but several days passed and the card did not turn up. I was worried, but I didn’t let on to the Customer. I kept looking into it and found out that the courier had sent the card to the wrong address. I tracked down the courier and made sure the card was delivered to the right address in time. I called the Customer, who **was delighted that she could now enjoy** her honeymoon!”

Rita Pattuelli - Private Banking  
Bologna Centro - UniCredit SpA





# List of branches

## CZECH REPUBLIC

### PRAGUE – BANKING HOUSE

EXPRESS SERVICES  
náměstí Republiky 3a  
110 00 Praha 1  
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### PRAGUE – BANKING HOUSE

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### PRAGUE – BANKING HOUSE

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### PRAGUE – BANKING HOUSE

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### PRAGUE – BANKING HOUSE

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### PRAGUE – ADRIA

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### PRAGUE – ARBES

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### PRAGUE – VÍTĚZNÉ NÁMĚSTÍ

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### PRAGUE – KOBYLISKÉ NÁMĚSTÍ

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### PRAGUE – NA POŘÍČÍ

Na Poříčí 1933/36  
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### PRAGUE – STROSSMAYEROVO NÁM.

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### PRAGUE – VÁCLAVSKÉ NÁMĚSTÍ

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**PŘEROV**

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