UniCredit Bank

The world
is changing.

Let's change
together.

2014 Consolidated Reports and Accounts

Time is precious.

Give it more value.

Advice when you want it.

Everyone needs advice. And no one wants to waste time. That is why we created **Video Advice@home**. This convenient service delivers expert advice online, allowing you to connect with our consultants from the comfort of home. Easy-to-install software enables us to respond quickly to questions about your current account, car loan or mortgage. We can create value for you, whenever and wherever you need us.

Contents

Consolidated* Financial Highlights

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2014 MCZK	31 Dec 2013 MCZK
Operating results		
Net interest and similar income	10 049	7 100
Net fee and commission income	3 557	2 836
Administrative expenses	(7 170)	(5 865)
Profit before income tax	6 030	3 956
Net profit for the year	4 911	3 170
Statement of financial position figures		
Total assets	508 616	464 622
Receivables from clients	339 510	289 945
Deposits from clients	328 585	306 298
Issued capital	8 755	8 755
Key ratios		
Return on average assets	1.0%	0.8%
Return on Tier 1 capital	10.6%	8.3%
Assets per employee	154.4	151.3
Administrative expenses per employee	2.2	1.9
Profit after tax employee	1.5	1.0
Information about capital and capital adequacy**		
Tier 1	47 397	45 260
Tier 2	1 051	1 464
Deductible items	–	(148)
Own funds	48 448	46 576
Capital requirements for credit risk under the standardised approach:	5 708	4 255
Capital requirement for exposures towards regional governments or local authorities	7	–
Capital requirement for exposures towards institutions	2	1
Capital requirement for exposures towards corporates	2 073	684
Capital requirement for retail exposures	1 722	3 017
Capital requirement for exposures secured by mortgages on immovable property	627	***
Capital requirement for exposures in default	515	
Capital requirement for equity exposures	21	176
Capital requirement for other items	741	377
Capital requirements for credit risk under internal ratings based approach:	18 553	16 762
Capital requirement for exposures towards central governments and central banks	540	870
Capital requirement for exposures towards institutions	750	1 143
Capital requirement for exposures towards corporates	15 992	14 749
Capital requirement for retail exposures	1 271	–
Capital requirement for position risk	596	1 054
Capital requirement for foreign exchange risk	97	59
Capital requirement for settlement risk	–	–
Capital requirement for commodities risk	281	43
Capital requirement for operational risk	1 647	1 963
CET1 Capital ratio	14.04%	***
Tier 1 Capital ratio	14.04%	***
Total capital ratio	14.35%	15.44%
Number of employees at the end of the period	2 932	3 062
Branch offices	173	175

* data as of 31.12.2013 are non-consolidated, financial results and key ratios 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

** data as of 31.12.2014 are according to Basel III framework, data as of 31.12.2013 according to Basel II

*** data were not presented under Basel II framework

Reconciliation of equity in the statement of financial position and own funds (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2014 MCZK
Statement of financial position figures:	
Issued capital	8 755
Share premium	3 495
Reserve funds from revaluation	5 635
Retained earnings and reserve funds	35 614
Profit for the period	4 911
Total equity	**58 410**
Adjustments of CET1 capital:	
Profit for the period	(4 911)
Reserve from revaluation of hedging instruments	(2 122)
Reserve from revaluation of available for sale securities	(2 687)
FX differences from foreign branch	(7)
Intangible assets	(97)
Effect of subsidiaries not included in prudential consolidation group	(1 189)
Total CET 1 capital	**47 397**
Total Tier 1 (T1) capital	**47 397**
Provisions	10 587
Expected losses	(9 536)
Total Tier 2 (T2) capital	**1 051**
Own funds	**48 448**

Non-consolidated* Financial Fighlights

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2014 MCZK	31 Dec 2013 MCZK
Operating results		
Net interest and similar income	8 984	7 100
Net fee and commission income	3 348	2 836
Administrative expenses	(6 646)	(5 865)
Profit before income tax	5 326	3 956
Net profit for the year	4 361	3 170
Statement of financial position figures		
Total assets	480 910	464 622
Receivables from clients	312 133	289 945
Deposits from clients	328 712	306 298
Issued capital	8 755	8 755
Key ratios		
Return on average assets	0.9%	0.8%
Return on Tier 1 capital	9.5%	8.3%
Assets per employee	163.5	151.3
Administrative expenses per employee	2.3	1.9
Profit after tax employee	1.5	1.0
Information about capital and capital adequacy**		
Tier 1	47 024	45 260
Tier 2	1 012	1 464
Deductible items	–	(148)
Own funds	48 036	46 576
Capital requirements for credit risk under the standardised approach:	3 178	4 255
Capital requirement for exposures towards regional governments or local authorities	7	–
Capital requirement for exposures towards institutions	–	1
Capital requirement for exposures towards corporates	820	684
Capital requirement for retail exposures	810	3 017
Capital requirement for exposures secured by mortgages on immovable property	564	***
Capital requirement for exposures in default	139	
Capital requirement for equity exposures	303	176
Capital requirement for other items	535	377
Capital requirements for credit risk under internal ratings based approach:	19 658	16 762
Capital requirement for exposures towards central governments and central banks	540	870
Capital requirement for exposures towards institutions	760	1 143
Capital requirement for exposures towards corporates	17 087	14 749
Capital requirement for retail exposures	1 271	–
Capital requirement for position risk	596	1 054
Capital requirement for foreign exchange risk	103	59
Capital requirement for settlement risk	–	–
Capital requirement for commodities risk	281	43
Capital requirement for operational risk	1 422	1 963
CET1 Capital ratio	14.83%	***
Tier 1 Capital ratio	14.83%	***
Total capital ratio	15.15%	15.44%
Number of employees at the end of the period	2 932	3 062
Branch offices	173	175

* financial results and key ratios 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

** data as of 31.12.2014 are according to Basel III framework, data as of 31.12.2013 according to Basel II

*** data were not presented under Basel II framework

Reconciliation of equity in the statement of financial position and own funds (non-consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2014 MCZK	31 Dec 2013 MCZK
Statement of financial position figures:		
Issued capital	8 755	8 755
Share premium	3 495	3 495
Reserve funds from revaluation	5 667	2 951
Retained earnings and reserve funds	33 961	32 376
Profit for the period	4 361	3 170
Total equity	**56 239**	**50 747**
Adjustments of CET1 capital:		
Profit for the period	(4 361)	(3 170)
Reserve from revaluation of hedging instruments	(2 154)	(851)
Reserve from revaluation of available for sale securities	(2 687)	(1 415)
FX differences from foreign branch	(7)	–
Intangible assets	(6)	(12)
Total CET 1 capital	**47 024**	**45 260**
Total Tier 1 (T1) capital	**47 024**	**45 260**
Provisions	10 587	8 997
Expected losses	(9 575	(7 533)
Total Tier 2 (T2) capital	**1 012**	**1 464**
Deductible items from Tier 1 + Tier 2	*	(148)
Own funds	**48 036**	**46 576**

* data are not presented under Basel III framework

Introduction from the Chairman of the Board of Directors

Dear shareholders, ladies and gentlemen

This is the second 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 Czech and the Slovak UniCredit Banks, with the aim of creating a more powerful financial institution operating on both markets and providing a higher standard of services via its network of branches in Slovakia and the Czech Republic.

As a result of the acquisition of the UniCredit Leasing companies and their subsidiaries in the spring of last year and the acquisition of Transfinance, a factoring company, in January 2015, we have created a strong financial group which is able to provide our clients with a broad range of banking services, expert skills in retail, corporate and private banking and now also leasing and factoring services.

Last year, the Czech and the Slovak economies grew.
After the previous two years of decline, the Czech market set off in a positive direction when GDP increased by 2%. However, the year-on-year growth in loans experienced a mild deceleration to 2.6% in the retail market and 2.2% in the corporate market. Banks were in a bit of a setback, owing to the pressure on interest margins and lower demand for loans that lagged behind the pace of GDP nominal growth. Throughout the year short-term interest rates were close to zero and long-term interest rates reached historical lows.

On the Slovak market, the economy was driven by the revival, in local demand, mainly household consumption encouraged by growth in wages and minimum inflation. The growth of GDP accelerated to reach 2.4%, which is its three-year maximum. Monetary policy remained stable; the European Central Bank knocked down the basic interest rate to a historic low equal to 0.05%. The year-on-year increase in the amount of loans rose to 12.1% in retail, while the amount of corporate loans fell to 1.3%. The profitability of the banking sector was driven by improving interest income. The profit after tax grew by 1.3%, on a year-on-year basis.

In 2014, the merged UniCredit Bank achieved excellent results. Our consolidated net profit amounted to CZK 4.9 billion and grew by 55%, on a year-on-year basis, compared to the total results for a similar period last year.

In the improving business environment, we brought new innovations to the product portfolio and, at the same time, we improved the quality of services provided. Owing to the introduction of the revolutionary U Account with its 10-year guarantee of conditions, we managed to more than double the number of new client acquisitions in the **retail** segment.

Altogether, last year, the amount of deposits of all our clients grew by 7.3%. In the lending segment, the amount of loans extended to clients increased, owing mainly to the 14% year-on-year growth of consumer and mortgage loans. The **corporate** segment further focused on structured financing; during the course of last year, UniCredit Bank participated in most of the largest transactions in the Czech Republic and in Slovakia. The Bank also kept growing substantially in financing small and medium-sized companies and reached a 25% year-on-year growth in this segment. **Leasing** companies further strengthened brand financing of vehicles, credit financing in corporate loans and operating leases for companies and individuals.

We believe that the future of the banking sector is in future innovations and the overall simplification of the banking business. Therefore, our strategy will include further efforts to simplify not only our products but also the related supporting processes. A clear and understandable offer is the key to winning new clients and keeping our existing ones. Even after the UniCredit Leasing and Transfinance acquisitions, we will further work to reinforce our position, market force and extension of services and know-how.

In order to successfully meet the aforementioned goals, we have to continue to maintain a high level of confidence and customer satisfaction in the future. Various prestigious awards recently bestowed on us prove that we are doing well in this. The awards were decided not only by the votes of the professional public, but our qualities were confirmed by our clients.

UniCredit Bank won the top award granted by Global Finance in business financing in CEE countries. Additionally, as a part of Euromoney magazine's Private Banking Survey 2014, UniCredit Bank was awarded for the high level of its private banking in the investment products scope category. Moreover, as a large employer, UniCredit Bank obtained the Top Employer 2014 certificate.

In 2014, similarly to prior years, UniCredit Bank maintained its standing as a socially responsible company. Our key priorities further include the support of art, cultural heritage and sporting activities. During the past few years, we have cooperated with the UniCredit Foundation and have been involved in charitable projects and projects focused on social businesses in the Czech Republic and Slovakia.

Our employees are also involved in charitable projects; in this way we intend to encourage their proactive approach to philanthropy. Our key initiative in this area is the Gift Matching Program, allowing our employees to support a non-profit organisation of their choice. In the area of charity, we support the Konto BARIÉRY Foundation, VIZE 97 Foundation, charge-free blood drives, as well as the auction of artists' houses, which has been organised since 1993.

In terms of music, we have established great cooperation with the Dvořák Festival, which connects artists of various genres and presents Dvořák's music in unexpected arrangements and styles. The Czech Culture Festivities, a series of festivals aimed at the maintenance and systematic support of key spiritual values of the Czech nation, are newly supported by UniCredit Bank.

Our cooperation with the International Film Festival Karlovy Vary plays a key role among our sponsorship activities.
Moreover, we have supported major tennis events for many years, with the UniCredit Czech Open tournament in Prostejov, the most prominent among these events. The UniCredit Group is the official bank of the UEFA Champions League – the most prestigious football league in the world. This sponsorship allows us to further improve our position as one of the leading European banks. Owing to this sponsorship, the awareness of UniCredit brands and the value of the brand have continued to grow significantly from the very beginning of the project.

Looking back at 2014, I have to say that it was a successful year for UniCredit Bank, although, on the other hand, it had its difficulties. Last year's challenges and achievements encourage us to press on and keep searching for new ways to grow and strengthen our position. When considering our clients' confidence, the support of our shareholders and our professional staff, I would like to express my gratitude and appreciation to everyone. It is you who give me faith in further years of success for UniCredit Bank Czech Republic and Slovakia, a. s.

Jiří Kunert
Chairman of the Board
of Directors and CEO

Macroeconomic environment in 2014

In the Czech economy, the year 2014 can be characterised as the turning point after the prior lengthy recession. The annual growth of GDP by 2% was based on stabile year-on-year increments during the first three quarters and a following technical correction to the year-on-year 1.5% in the last quarter. On the demand side, economic growth was supported by all local segments, i.e. both private and government consumption and investments, while the impact of net exports on growth remained neutral. From among production segments, the expansion of the Czech economy was encouraged mainly by the processing industry, in particular the automobile industry. The weakening of the Czech koruna in November 2013 contributed to significant improvement in the foreign trade exchange rates. The building industry reported its first year-on-year growth in the last seven years. Consumer confidence also reached a 7-year high, owing to the impact of the creation of new jobs and stable price levels. The growth trends in the economy give a good basis for similar development in the following year.

In 2014, average inflation reached only 0.4%, when the cost pressures due to the weaker currency were compensated for by lower prices of energy, food and, by the end of the year, a fall in the prices of fuel. Lower-than-expected inflation made the Czech National Bank prolong its commitment to prevent the Czech koruna from strengthening below EUR/CZK 27, until at least the second half of 2016. All year long, the CNB's repo rate remained at "technical zero", i.e. 0.05%. The yield of government bonds reported further declines during the year, which was caused by higher demand from foreign investors on the one hand and by the restricted emission of government bonds in the second half of the year on the other. At the end of the year, 10-year Czech government bonds were traded with a yield of a mere 0.5%, thus becoming equal to German bonds, which early that year were outperformed by the 0.5% Czech bonds' yield premium. Despite the interest rate's historical lows and falling margins, the banking sector (excluding the foreign branches) managed to increase its profit after tax by 3.5% year-on-year, mainly owing to lower risk costs. The amount of loans granted to Czech residents experienced only mild growth; however, the very end of the year saw a certain revival in lending.

In the first year, the government focused its economic policy mainly on meeting election pledges. The government decided on a considerable growth of wages in the non-business segment (by 3.5 – 5%) and a significant increase of minimum wages (by 8.2%). Additionally, a number of adopted measures negated the policy of the preceding government, encouraged the growth of households' disposable income and increased demands on the state budget. However, only a few of the measures came into force in 2014, most of them are expected to have an impact on the economy the following year.

Macroeconomic environment in 2014 in Slovakia

In 2014 the growth of the Slovak economy accelerated to reach its 3-year maximum (2.4%). Unlike past years, the economy was driven by local demand rather than foreign demand. The revival was seen mainly in household consumption, encouraged by the favourable situation at the labour market, improving consumer confidence, low interest rates and the absence of inflation, which emphasized real-wage growth. For the first time in its history, Slovakia experienced mild deflation, which was driven mainly by demand factors and had no negative impact on household demand. Local demand was no longer hampered by fiscal consolidation and there was a mild revival in investments. On the other hand, the export performance of the Slovak economy slowed down, although lower imports of energy (owing to, inter alia, a drop in prices) resulted in a growth of the balance of trade surplus from 5.8% to 6.2% of GDP. The robust revival of local demand in 2014 is regarded as a solid basis for the long-term revival of the economy.

With the new setup of its monetary policy in 2014, the ECB responded to fragile economic growth in the environment of suppressed inflation. In June and September, the ECB reduced the euro-area key interest rate by 20 bp in aggregate, to reach 0.05%. Additionally, in autumn the ECB decided to use unconventional instruments (TLTRO). Low interest in combination with growing wages and stable real estate prices shifted the housing availability indices to historical lows, which resulted in accelerated growth of the mortgage market. The National Bank of Slovakia responded to this trend in October by issuing a recommendation for banks, asking them to be more prudent in the assessment of LTV and clients' ability to repay loans. On the other hand, throughout the year the year-on-year growth in corporate loans fluctuated around zero. Deposits kept growing in both the retail and corporate segments; however, owing to the low interest rates, the deposits were concentrated in current accounts. The profit after tax generated by the banking sector in 2014 grew by 4%, while the growth of net income and the drop in risk costs were compensated by higher expenses, even despite lower bank levy.

In the political arena, 2014 was an election year for Slovakia, with presidential elections in the spring and municipal elections in autumn. The Government's policy was adapted thereto, consolidation of public finance was postponed and, just the contrary, preliminary estimates indicate that the structural deficit again grew. Governmental measures and proposals were focused mainly on supporting employment and addressing the problems of low-income employees (increases to the minimum wage, reduction of health insurance payments for low-income employee groups, free travel by train for select groups of the population and minimum old-age pensions) and support for science and research (tax relief).

Corporate, investment and private banking

In 2014 the Corporate, Investment and Private Banking Division confirmed its strong position on the Czech and Slovak market. This year, along with strengthening our position across all segments, we focused mainly on small and medium-sized companies: we launched new products to the market, contacted new clients and, last but not least, we used a marketing campaign to extend awareness of our capabilities to provide comprehensive solutions. As is our usual practice, this year we further developed our individual approach in dealing with our clients and in meeting their specific needs.

The merger of the Czech and the Slovak UniCredit Bank resulted in synergies allowing UniCredit Bank to improve its competitiveness on both markets, which was already reflected in 2014 revenues. The Corporate Division increased its revenues by more than 6% over 2013, and in the following year we expect further growth in revenues owing to product line extension and widening on both the Czech and Slovak markets.

We managed to significantly increase the volume of deposits in 2014 by almost CZK 16 billion in the area of primary sources in the Czech and Slovak market, which is 8.65% growth compared to 2013. In lending, despite stagnated corporate demand for loans resulting from the adverse macroeconomic situation, we increased the volume of loans by CZK 5 billion, i.e. by 8.2% compared to 2013. When speaking of lending, it is worth mentioning that UniCredit Bank financed a number of large transactions, for instance participation in the largest credit transaction in the history of the Czech Republic – for Telefonica O2 Czech Republic.

We were particularly successful in supporting small and medium-sized enterprises; where we increased the volume of granted loans by 26% on a year-on-year basis. The growth in lending was also supported by cooperation with external entities granting bank guarantees to small and medium-sized enterprises, or providing the bank with cheaper sources of financing and thus making financing available to a larger range of clients. On a long-term basis, those entities include: Českomoravská záruční a rozvojová banka (ČMZRB), the European Investment Bank (EIB) and the European Investment Fund (EIF). Moreover, we managed to expand the range of these entities in 2014 by beginning cooperation with the Council of Europe Development Bank (CEB), which supports the financing of projects with benefits in social areas. We also intensified our cooperation with EIF in 2014; in addition to the programme JEREMIE, which was already established in Slovakia, such cooperation would allow us to use the guarantees provided by the Risk Sharing Instrument (RSI) initiative in both countries. Additionally, we effectively provided our Slovak clients with financing using TLTRO funds from the European Central Bank.

We also were successful in the acquisition of new clients; in 2014 we won over 2,200 new clients on the Czech and Slovak markets.

The improved situation in the Czech Republic was conducive to increasing the number and amount of foreign payment transactions processed in the corporate segment (with an 11.2% increase in the number of transactions and 17.3% in the total amount of transactions). Even better results were achieved in payment-card acceptance; the number of transactions processed for our clients in 2014 exceeded the 2013 figure by 25%. Trade Finance and Structured Trade and Export Finance were affected by the crisis in Ukraine; but despite that, revenues from both these product lines increased by 4.4%. We won several excellent awards, such as the best Trade Finance Provider in the Czech Republic and Slovakia in the Euromoney Trade Finance Survey 2015, or the second best bank in the Czech Republic for Cash Management in the Euromoney Cash Management Survey 2014.

UniCredit Bank also provides high-quality services to its clients in specific sectors. Of particular concern are agriculture, power engineering, public administration, health care, churches and European subsidies.

Since 2013 the agricultural sector has been attended by a joint Czech and Slovak team. The team is following up on long-term successful activities in Slovakia, where UniCredit Bank is a leading bank in the agricultural sector, both in terms of number of clients and the volume of loans provided. Thanks to sharing our experience and synergies between the two countries, we managed to strengthen our leading position in Slovakia in 2014, and to considerably increase our market share in financing agricultural activities in the Czech Republic.

In UniCredit Bank, we also provide our clients with complex subsidy consulting services. This mainly involves consulting related to European structural funds but also includes further national subsidies, investment incentives or other pan-European funds. In 2014 demand was focused mainly on subsidy consulting and advisory in the area of support for industry and innovations, the environment, science and research, and human resource development. UniCredit Bank is an active member of the working group of the Czech Banking Association for cohesion policy, which raises comments on new draft operational programmes and related directives for the 2014–2020 programming period.

Despite forecasts of lower transaction activity, the Bank again achieved record-breaking results in structured financing and syndicated loans and confirmed its leading position on the market. Particularly in the financing of the power-engineering and network industries, the Bank managed to occupy a clearly dominant position.

Halfway through the year, the Bank strengthened its structured financing team with a special focus on smaller loans in amounts, starting from CZK 30 million in order to make better use of the growth of its activities in this segment. In 2014 the Bank managed to increase the revenues of this segment by 28%.

Despite the high competitiveness of the Slovak market in structured financing, we managed to achieve a year-on-year growth in revenues in 2014 and to maintain our significant position on the market. Traditionally, the bulk of the broad scale of our activities involved the energy sector. We followed up on the trend of financing or refinancing a larger number of projects involving renewable energy sources below 1 MW of installed capacity.

In commercial property financing, UniCredit Bank's long-term perspective is focused on project quality as well as other input parameters, such as location, clients, tenants and the results of the whole portfolio. That is how we manage to maintain the high level of this division. On the one hand, the Bank's new transactions were made with existing clients of UniCredit Group, and on the other, we managed to attract a number of new clients.

Examples include the financing of the Euro Astra Palace acquisition in the centre of Prague for a Czech private investor and the financing of the Van Graaf department store on St. Wenceslaus Square for an Austrian investment fund. We successfully prolonged certain major transactions in 2014, such as the Forum Mall in Ústí nad Labem or the Retail Park Campus Square in Brno. In addition, we participated in a number of residential projects, mainly in Prague and Brno. In 2014 the Bank intensified its activities in Slovakia. Examples include the financing of the City Arena Plus mall in Trnava and several residential projects in Bratislava.

The Bank further intensified its activities in commercial property financing in 2014, which was already apparent in 2013. Most competitors continued to prefer completed projects with superior clients and long-term contracts. There was also a considerable increase in the pressure exerted on trading margins. Larger projects were financed through a club comprising several banks.

Private banking

The year 2013 was very successful for UniCredit Bank Private Banking, despite the adverse impact of low interest rates. Growth was reported in the amount of managed assets (Total Financial Assets – TFA) owing to (including, but not limited to) our successful internal cooperation with UniCredit corporate banking and the further development of our relationships with the Bank's existing and new clients.

We further developed our offer of services in the area of GIS investments (Global Investment Strategy), particularly within the open architecture of best-in-class products. The quality of UniCredit Bank's investment solutions was appreciated in the results of the global Euromoney survey, under which private banks themselves vote to elect the best providers of competitive services in this segment. UniCredit's private banking was awarded in two categories: Best Private Banking in the Czech Republic as to the offer of investment products and Best Private Banking in Slovakia in fixed-income investments.

Retail banking

In 2014, UniCredit Bank's retail banking continued in the implementation of the medium-term business strategy, aimed at building new distribution channels with a main focus on franchises and alternative distribution In 2014, we opened 3 new franchise points of sale named UniCredit Bank Express. Similarly to 2013, fast growth was seen in the concept based on cooperation with Partners, a financial and consulting company, – in 2014, we opened 17 new points of sale. Presently our franchise-based business model involves 51 branches. Our priority for the future is to develop and stabilize the operation of the existing points of sale.

We further aimed at improving our clients' impression of UniCredit Bank's branches in the Czech Republic and in Slovakia. We reconstructed 15 branches, renovated or modernised a further 26 and at 13 branches we improved their external visibility. Additionally, we extended our ATM network, to 225 in the Czech Republic and 150 in Slovakia.

All new points of sale have modern premises and are equipped with a new generation of "smart ATMs" which, besides usual services, enable depositing cash 24 hours a day. Such deposits are credited forthwith after the amount is deposited, which can be checked immediately on the account statement generated directly by the ATM. When withdrawing money from these ATMs, clients can select combinations of banknotes. Clients also have at their disposal innovative and secure products in the field of direct mobile phone and internet banking.

Under the internal project CEE2020, our bank strived mainly to simplify and improve effectiveness of internal processes and products, such as simplification of cash deposits to credit cards or overall optimisation of the product offer.

It was mainly owing to the new launched products that the Retail Division of UniCredit Bank Czech Republic and Slovakia saw a significant increase in number of clients, which exceeded 550 thousand. Our goal for 2015 remains the acquisition of new clients, under closer cooperation between the retail and corporate divisions. Additionally, we want to maintain our existing clients and further provide them with unique products and services so that we remain their No. 1 bank.

Loans

In 2014, the Retail Division continued strengthening its position in the field of consumer financing and launched new products with competitive prices and, to meet the clients' expectations, with prompt and simple processes.

Moreover, at the end of the year, we introduced the Card balance Transfer concept allowing clients to transfer their credit cards to UniCredit Bank and thus win a zero interest rate for the first 6 months and a preferential interest rate thereafter. In this case, the processes are simple and transparent as well.

In mortgage loans, we launched a new type of an interest rate – a guaranteed floating rate. This is a unique type of interest bearing, as we guarantee that the client gets the maximum level of the guaranteed floating rate for 3 years from signing the loan agreement. Thus UniCredit Bank again confirmed its role as an innovator in the banking market.

We considerably accelerated the process of assessing and approving mortgages for individuals, mainly for loans refinanced from other banks and, moreover, we relaxed the rules for simplified refinancing.

In 2014, we focused on supporting the sale of real estate from development projects financed by the bank. Clients who acquire a mortgage loan for a property under any of the projects financed through UniCredit Bank can get preferential terms.
In residential project financing we cooperate with a number of leading real estate development companies operating on the market.

Investments and Deposits

Our clients were again offered new opportunities for their funds to appreciate in the area of investments in unit trusts. In particular, the Pioneer Investments Group introduced new dividend funds – Pioneer S.F. – Emerging Market Bond 2019 and Pioneer Funds – Global Multi-Asset Target Income, and also the equity fund – Pioneer All-Star Selection. The existing funds were then extended to include new classes.
Insurance and investments were dominated by new individual tranches of investment life insurance. In February, we were the first to offer our clients the investment life insurance GIGANTI II, as a follow up on investment life insurance GIGANTI launched in 2013, which was based on a basket of equities of 10 of the biggest companies in the world where independent analysts expect a high probability of growth in the years to come. In September 2014 we launched the sale of investment life insurance ACTIVE STAR with the five-star fund ETHNA AKTIV E as the underlying asset. Both these products enjoyed great selling success.

Individual Accounts

In 2014 UniCredit Bank decided to take a radical step on the Czech and Slovak retail banking market and introduced the unique U Account tailored to needs of most clients. It is an attractive, transparent and understandable product. The account is maintained by the bank free of charge, including free withdrawals from all ATMs locally and all around the world. All common online transactions are also free of charge. Additionally, the bank guarantees the terms for 10 years. There is only one requirement that has to be met by the client to make use of all aforementioned benefits – to make deposits to the account in the amount of at least CZK 12 000/EUR 400 per month. Students and young people, under the age of 26, can use the benefits of the U Account without any requirements to be met. Additionally, the Bank significantly intensified its support to clients' mobility from their former bank. For that purpose, the Bank established a website explaining the term mobility and leading the clients through all the steps. The websites www.prejdusnadno.cz / www.prejdemhladko.sk were communicated through TV commercials in the spring.

Direct banking

During 2014, UniCredit Bank kept further improving the operation of the banking e-shop unicreditshop.cz, including simplification and improvement of processes. Presently, new clients can acquire a U Account or an overdraft through an end-to-end process.

Additionally, the Bank continued in modifications of Online Banking, allowing the clients to request payment of the pre-approved PRESTO Loan or to have Smart Banking activated. We also automated the card activation process in Online Banking. A number of novelties, such as credit charging for prepaid cards, came along with mobile banking (Smart Banking). We were the first bank on the Czech market to introduce a novelty for Online Banking clients – a Smart Mobile Safety Key, in which clients can generate codes to access Online Banking and sign payments. All that can be done simply in their smart mobile phone.

The popularity of electronic channels is proven by the significant increase in the number of Online Banking and Smart Banking clients and the increase in the number of transactions made through those channels.

Payment cards

We substantially simplified our offer of payment cards and we made it more transparent. The newly launched products were: Visa Basic, Debit Master Card and Debit MasterCard Gold.

Small Business

In February, we launched a new concept of service for selected clients – a virtual branch by phone. We saved a lot of time as we were able to make certain contracts with clients via electronic banking channels. Presently, clients do not need to visit the branch in person for that purpose.

Half way through 2014, we launched new packages which were based on the actual needs of our clients. One of the reasons why the packages met with great interest was the fact that after meeting a simple condition, ACTIVE and MASTER packages are kept free of charge.

We kept further strengthening our traditionally strong position in the freelance segment. We launched a new account designed for freelance jobs, and we are gradually launching products designed for freelance jobs in Slovakia.

For our clients in Prague and Ostrava, we continued implementing the Small Business concept for commercial centres focused specifically on clients from that segment, aiming to provide above-standard and individual services.

Retail banking

- Individual accounts – 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; since 14 April: U Account and innovated Konto PREMIUM and Konto EXCLUSIVE CORPORATE;
- Business accounts and packages – Konto PRO PODNIKATELE, BUSINESS Konto, BUSINESS Konto Exklusive, Konto DOMOV (an account for housing co-operatives and owners associations), Konto PROFESE, Freelancer Professions Current Account; since 1 October: new Business Accounts: START, ACTIVE, MASTER, GOLD and PROFESE Plus;
- 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 products or in co-operation with Pioneer Investments);
- Insurance products (property insurance, life insurance, credit insurance in cooperation with Allianz, BNP Paribas Cardif and Generali insurance companies and ERGO insurance companies in Slovakia;
- Internet, telephone and mobile banking;
- Cash and money changing operations and ancillary services.

Launching new products and activities

In 2014, we continued our successful loan optimisation concept, which was further enhanced by the new benefit system for our clients. For proper repayments, our clients were given the chance of a refund of as much as 18 instalments. Moreover, no monthly fees were charged on those loans.

Additionally, we improved the conditions for granting an overdraft. We can provide an overdraft to new clients in an amount equal to the one granted by the client's present/former lender. Moreover, the client does not have to prove his/her income.

We were the first bank on the Czech and Slovak market to launch a product named Card Balance Transfer, allowing the transfer of credit cards from other financial institutions to UniCredit Bank under matchless conditions. During the first six months, no interest is charged on the transferred amount. Thus, our clients can save hundreds of CZK each year, and thanks to low interest rate applied to further transactions they also save money in the years that follow.

In mortgage loans for individuals, we launched a new type of interest rate – a guaranteed floating rate. This is a unique type of interest bearing as we guarantee that the client gets the maximum level of the guaranteed floating rate for 3 years from signing the loan agreement. Thus UniCredit Bank again confirmed its role of innovator in the banking market. Additionally, we considerably accelerated the process of assessing and approving mortgages for individuals, mainly for loans refinanced from other banks and, moreover, we relaxed the rules for simplified refinancing

We continued improving the Small Business service model and on 1 February 2014, we opened the client centre serving approximately 10 000 Small Business clients. It is a separate branch operating under the marketing title BUSINESS EASY. The communication with clients is made by phone and via direct banking channels (Online Banking / BusinessNet).

Accounts

In April, we launched a brand new concept of the U Account package. It allows for free withdrawals from ATMs in the Czech Republic and abroad, i.e., not only within UniCredit Group. Further, it includes an embossed payment card, Internet banking including Smart banking in a mobile phone and all electronic transactions (outgoing and incoming). There is only one requirement that has to be met to make use of all the aforementioned benefits – to make deposits to the account in the amount of at least CZK 12 000/EUR 400 per month. Students and young people under the age of 26 can use the benefits of the U Account free of charge without any requirements having to be met. Another exclusive benefit is that the bank guarantees the terms for 10 years.

In October, UniCredit Bank came up with a new offer of accounts also for traders and businesses with a turnover below CZK 50 mil. Besides significantly cheaper services related to maintenance of the account, the offer is enhanced by accounts in foreign currencies. That results in simplified and cheaper deposits and withdrawals in foreign currencies. The account for top clients are associated with prestigious MasterCard or VISA GOLD Business payment cards.

UniCredit Bank further intensified its support for starting businesses and firms which, under the new conditions, can be granted an overdraft up to CZK 150 thousand. Moreover, active clients can have the account kept free of charge. The only thing they need to do is to comply with requirements for average balance and/or sum of credit entries specific for each Account type.

Investments and Deposits

The Bank further expanded its offer of unit trusts. Examples may include the Pioneer Funds – European Equity Target Income or the Pioneer S.F. – Emerging Market Bond 2019. The family of Czech funds under Pioneer Investments group was enlarged by Pioneer All-Star Selection equity fund allowing investments in selected "star" funds of first-class global asset managers such as JP Morgan, Blackrock, Franklin Templeton, Pioneer Investments, Goldman Sachs or Vontobel. Another fund launched by UniCredit Bank in cooperation with Pioneer Investments is Pioneer Funds – Global Multi-Asset Target Income – a unique balanced fund with regular dividend payments.

In cooperation with Allianz insurance company, we introduced the investment life insurance GIGANTI II, as a follow up on a very popular GIGANTI product. Again, the basket of equities included companies ranking among the largest firms and leaders in their business and the most valuable global trademarks.

Based on the cooperation with BNP Paribas Cardif, owners of current accounts had the opportunity to acquire a new product MOBILEO Premium. It is an insurance covering theft and damage to mobile household electronic equipment (such as mobile phones, tablet, laptop, camera, video camera, DVD, Blue-Ray, TV set, GPS, e-reader and other pocket devices).

In September 2014, we launched another tranche of the one-off life insurance in cooperation with AXA insurance company;
The underlying asset to ACTIVE STAR life insurance was the five-star ETHNA AKTIV E fund.

Another key product became the variable life insurance Bella Vita launched in cooperation with Generali. This product includes a number of complementary insurance options, and it can be set up either as risk insurance or as risk insurance with an investment component.

In Slovakia, in cooperation with ERGO insurance company, we launched another tranche of the one-off life insurance – Next Energy, which is focused on leading companies in solutions for a sustainable energy supply and Stellar Funds, allowing clients to participate in the performance of top-class funds.

Online channels

The online sales channel UniCredit Shop.cz underwent a series of improvements as regards functionalities and available products. A number of novelties, such as credit charging for prepaid cards, came along with mobile banking (Smart Banking). We were the first bank on the Czech market to introduce a novelty for Online Banking clients – a Smart Mobile Safety Key. It is a simple application in a smart mobile phone allowing the generation of codes to access Online Banking and to sign payments. This application is a substitute for codes sent by SMSs or physical token, and it is available to clients free of charge.

During the last year, the International Markets section continued the implementation of its successful strategy from previous years. The year 2014 can definitely be defined as very successful. INM as a whole, significantly surpassed the year-long plan. In the area of trading in treasury products on the bank's own account, the results were somewhat lower than those achieved in the last few years; however in deals with end clients we reported strong growth.

Thanks to our acquisition initiatives, 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 hedging of all market risks (foreign exchange, interest, and commodity).

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, which strongly contributes to growth and good results achieved by UniCredit Bank's retail banking. The key pillar to these achievements are structured bonds, however, we continue to strengthen our position in corporate emissions arrangement.

The excellent business results achieved by the International Markets section are also driven by positive effects of the merger between The Czech and the Slovak UniCredit Bank in 2013, which resulted in a significant expansion of the client base and allowed for sharing the: best practices: between the two markets and business teams.

Sponsoring and charity

UniCredit Bank Czech Republic and Slovakia 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, during 2014 the Bank supported a number of projects focused on the development of arts and cultural heritage, and activities supporting sports, education and financial literacy.

Support for culture and the arts

Through a long-time partnership, the Bank is associated with 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

In music, the Bank continued its great cooperation with the **Dvořák Festival**, which connects artists of various genres and presents Dvořák's music in unexpected arrangements and styles. This year, UniCredit Bank also supported the **Czech Culture Festivities**, a series of festivals aimed at the maintenance and systematic support of key spiritual values of the Czech nation.

Charity and education

During the last few years, the Bank, in cooperation with UniCredit Foundation, has participated in charitable projects and projects focused on social business in the Czech Republic and Slovakia. The Bank's employees are also largely involved in these projects, aiming to encourage them to participate in addressing social problems and develop a proactive approach to philanthropy.

One of the key activities in this area is the **Gift Matching Program** allowing the Bank's employees to support any non-profit organization of their choice. The UniCredit Foundation then then matches the amount of the employees' donation. This charitable collection usually culminates before Christmas and each year hundreds of employees participate. As a rule, in Slovakia, the support is directed to the social area, to help handicapped people and children or entities dealing with environmental protection.

Another project, which the Bank's employees participate in, is the UniCredit Foundation's program "Your Choice, Your Project". It is based on internet voting by employees and their active involvement in the selection of non-profit organisations, which can in this way obtain funds to finance their activities. This is an effective method of involving UniCredit employees as active partners of local communities. In 2014, it was the second time that the Program was held in the Czech Republic and in Slovakia, and the Bank's employees in an internal vote decided on providing support to one of the socially beneficial business plans. Besides considerable financial support, the projects selected by the employees were also awarded the Social Impact Award.

The candidates for the award were eight projects from the Czech Republic and four projects from Slovakia. The projects were the winners of the investment program organised in Slovakia by the Provida foundation under the heading **"Can Fish Fly?"** In the Czech Republic, the program **"Lepší byznys" ("Better Business")** was implemented by Via Foundation. In both countries, financial support to the program was provided by UniCredit Foundation; the eight projects in the Czech Republic were supported by CZK 1 600 000, and the four winning projects in Slovakia were supported by EUR 48 000.

In the area of charity, the Bank cooperates with Konto Bariéry foundation, the foundation fund of Livia and Vaclav Klaus and auction of artists' houses, which have been organised since 1993. The artists' houses are attended by both artists and by the broad public. In 2014, UniCredit Bank supported VIZE 97 Foundation.

It has been a long time since Slovak branch of UniCredit Bank supports projects focused on helping children in need. Through **Návrat ("Return")**, the association supporting substitute parenting, the Bank supports the permanent return of children from social institutions to substitute families. Our assistance is also focused on humanitarian activities for children living in developing countries via Magna Children at Risk. The Bank's employees actively participate in supporting both civic associations by regular voluntary financial contributions.

Besides the aforementioned charitable and socially beneficial projects, the Bank organizes free blood drives in the Czech Republic and Slovakia. In the Czech Republic the blood drives are organised in cooperation with Czech Radio in Brno and in Slovakia; the blood drives are organised in cooperation with the Slovak National Transfusion Station.

A very popular activity among Slovak employees is the Christmas Market where employees can purchase Christmas decorations, postcards or calendars made at protected workshops and thus support further non-profit organizations in their activities.

We also help in the prevention of difficult financial situations and consumers' problems with payment via Advisory Service In Financial Need. The Advisory Service provided free consulting to people in difficult financial situations and, if necessary, the Advisory Service can help in the preparation of a draft discharge schedule. In cooperation with Czech Banking Association, we support further projects aimed at improving financial literacy.

Side by side with the UEFA Champions League

For the whole period from July 2009 to June 2015, UniCredit Group is the official bank of the UEFA Champions League – the most prestigious football league in the world. Sponsoring the UEFA Champions League has helped UniCredit in strengthening its position as one of Europe's leading banks. During the first two seasons since the launch of the 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.

Environment

Sustainability is an everyday commitment of UniCredit Bank. Environmental protection is a matter of priority for our bank. Therefore, UniCredit group decided on the gradual implementation of the **Environmental Sustainability Program** into each of its banks' day-to-day activities. The Group has already signed the United Nations Environment Programme Finance Initiative (UNEP-FI), based on which the bank incorporated environmental protection goals in its internal processes. Those goals include, for instance, reduction of emissions, involvement in Carbon Disclosure project, financing of renewable energy sources or granting loans for reconstructions aimed at energy savings.

Considering the aforementioned goals, in 2014, UniCredit Bank Czech Republic and Slovakia decided to certify the environmental management system in terms of Management System of Environment, Health & Safety, Energy (MS EHSE) and other ISO standards. The purpose of implementation of this certified integrated management system is to improve the environmental management, improving the safety and reduced energy consumption. For instance, we have already redesigned lighting in Filadelfia building in Prague and presently we are in the process of installation of LED lights at branches, and we are replacing the technology (heating, cooling) under energy-saving options. Our employees also think in an environmentally friendly way; they separate waste at all workplaces, they save paper by avoiding printing and they use energy-saving lights.

Employment 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, fresh water in the workplace, sick days and recovery days, and can also use UniCredit Bank products with special benefits, or use the company cottage in Horní Malá Úpa. They also appreciate an extra week of holiday or the opportunity to purchase employee shares 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. UniCredit Bank was awarded the prestigious certificate Top Employer 2014.

Report of the Board of Directors

on the Bank's and the Group's business activities and assets UniCredit Bank Czech Republic and Slovakia, a.s. for 2014

Our Vision, Mission and Corporate Values
Our long-term vision remains unchanged also for the merged bank. UniCredit Bank generates significant and sustainable values for its clients and shareholders and is deemed by the clients as the bank of first option in both traditional and new strategic segments. On the Czech and Slovak markets, we are the bank with the most satisfied clients and, at the same time, we are a very sought-after employer.

We are a member of UniCredit Group. In the Group, we rank among strategic countries of the CEE region, together with Russia, Poland and Turkey. In the group, our bank is perceived as an example of dynamic and organic growth.

UniCredit's Mission
We, the people of UniCredit, undertake to generate sustainable values for our clients. As a leading European bank, we support the development of local communities, which we live and work in.
Additionally, we strive to have a great workplace for our employees. We strive for excellence, led by our constant effort to simplify, as much as possible, business transactions and communication. These commitments will allow us to generate a sustainable value for our shareholders.

Corporate values, which we believe in and which we observe in our everyday practice, lay emphasis on Respect, Trust, Fairness, Freedom to Act, Reciprocity and Transparency.

Economic Development of the Market in the Czech Republic and in Slovakia in 2014
In 2014, the Czech market was characterised by growth of the GDP in the amount of +2.0% which was preceded by two years of decline. Short-term interest rates were kept close to zero and long-term rates were falling until they reached their historical lows. The Czech National Bank's intervention on the CZK exchange rate resulted in reduction of the bank's revenues from FX trading and hedging. The year-on-year increase in the amount of loans decelerated to 2.6% on the retail market and 2.2% on the corporate market. Moreover, banks were affected by the pressure on interest margins and lower demand for loans, which was falling behind the nominal GDP growth rate.

On the Slovak market, the economy was driven by the recovery in local demand, mainly consumption of households encouraged by growth of wages and minimum inflation. The growth of the GDP accelerated to reach the three-year maximum of +2.4%. The monetary policy remained stable, the ECB squeezed the basic interest rate to its historical low of 0.05% and approved certain non-conventional measures (TLTRO). The year-on-year increase in the amount of loans jumped up to 12.1% in retail banking, while the volume of corporate loans decreased by 1.3%. The profitability of the banking sector was driven by the improving interest income. The profit after tax experienced a year-on-year increase of 1.3%.

Evaluation of the UniCredit Bank Czech Republic and Slovakia Merger
2014 was the first year of operation of the merged UniCredit Bank in the Czech Republic and Slovakia.
The key reason for the merger of the bank operating on the aforementioned markets are the synergies resulting from operation of a single entity. More precisely, the synergies can be identified in the following areas:
- Creation of a common entity to improve both return on investments and quality of client service in both countries.
- Economies of scale and cost synergies encourage positive trends in profitability and liquidity.
- Lean organization structure enables simplification of management processes and establishing a strong management team for both markets.
- Making use of the growing strength of the UniCredit Bank brand on both markets and confirming the nature of a dynamic universal bank with a comprehensive selection of products for both corporate and retail clients.

Further step concluding the merger of the banks on both markets will be the migration of IT systems to a common platform over the next year. A common architecture of IT systems will enable a significant reduction in expenses for investments and maintenance. Additionally, both countries will have the opportunity to use each other's skills in the development and implementation of new services, mainly in the area of retail.

CEE 2020 Program
CEE 2020 is the program of UniCredit Group, focused on development of new pro-growth initiatives and creation of added value in the CEE division. Activities under this program are mostly focused on improvement and transformation of business activities.

CEE 2020 Program is comprised of the following key areas:
- Investments, supporting growth and making use of market opportunities at the most attractive Central and Eastern Europe markets.
- Transformation of retail banking into a flexible multichannel model, responding to the clients' needs.
- Transformation of corporate banking to a less capital intense model.
- Improving comprehensive advisory skills in serving private banking clients.
- Improving the performance of supporting units and the bank's competence lines – IT, human resources, risk management and finance.

In 2014, CEE 2020 program brought the following results:
- Improving the offer for the SME segment and growth of revenues in this area, development of the target SME/MID service model, expansion within SME segment in Slovakia, development of a new

cooperation model between the bank and lease companies and raising new instruments to finance receivables.
- In implementating a less capital intense model, the Bank managed to complete the pilot project phase and both the activity rate and the identified opportunity exceeded expectations.
- Simplification of retail products and processes.

The Bank's activities in corporate banking

The Bank's strategic objective is to confirm the position of a key player in the segment of financing large international and local companies along with a focus on increasing the market share in the segment. SME (the Bank defines the sales as CZK 50–250 million). In this area, the Bank activities are based on the use of the existing service model and tailoring thereof to fit the SME segment and making use of the know-how and skills in client orientation. These objectives are common for markets in both countries of the Bank's operation, i.e., in the Czech Republic and Slovakia.

Additionally, the Bank intends to strengthen its position in the provision of sophisticated and individual solutions for clients with a high yield potential and thus contribute to keeping the leading position in property financing (development projects financing) and being for the clients the best bank in cash management, foreign payments, treasury services, foreign trade financing or project, structured and acquisition financing.

The growth orientation is based on the full use of the potential of the existing clients, acquisition of new clients and expansion of cooperation within UniCredit Bank on markets of both countries. Besides better coverage of the territory by our network of branches, the source for acquisition of new clients is also in reaching critical mass in a number of smaller regions, which allows the Bank to allocate human resource more efficiently.

In 2014, in the corporate banking segment:

- The Bank won almost 1500 new clients.
- The number of clients in SME segment and the amount of loans in the Czech Republic experienced a significant growth and the Bank managed to expand the well-established client service model to Slovakia.
- The amount of deposits increased in all corporate banking segments in the total amount of CZK 16 billion.
- The Bank confirmed its leading position on the market in Large Corporates, Structured Financing, Financial Institutions and Real Estate segments.
- The Bank was awarded a prestigious Best Trade Finance Bank certification.

The Bank's standardized products remained open to client groups from among SME, MID and Large Corporates segments, which are expected to appreciate the high quality of services and international parameters of banking services provided by the merged bank.

The Bank's Retail and Private Banking Activities

The Bank's strategic objective is to strengthen its position as a universal provider of banking and financial services, ranking as a strong No. 4 bank on both markets. Through the strong orientation on retail clients in selected profitable market segments, we aim to significantly increase our market share in the next three years.

On the retail market, the Bank provides a full scope of banking products – current and saving accounts, saving and investment products, payment cards, housing financing products and consumer loans.

The focus on growth is based mainly on the full use of the potential of existing clients, including acquisition of new clients from target segments and implementation of synergies in business and operating area.

In 2014, the Bank launched a new product – U Account (U konto), providing clients with all benefits of modern transaction banking and under meeting the condition of minimum sum of movements on the account it is free of charge for the client. This appeared to be a very significant driver of the acquisition, just for 2014 it attracted more than 86 thousand of new clients to the Bank. The amount of client deposits increased by CZK 6 billion. Despite growing pressure from competition, the Bank managed to increase the amount of the provided retail loans by CZK 11 billion owing to successful innovations in consolidation of loans for consumers.

In the private banking segment, the Bank managed to attract more than 400 new clients and to increase the amount of assets managed by the bank by CZK 2.4 billion. The areas where the Bank built on experience from recent success, included mainly service to religious institutions and freelance clients in the Czech Republic, agriculture in the Slovak Republic and a traditionally high quality of client service in private banking. UniCredit Bank ranked among innovation leaders also in mobile and internet banking and in management of distribution channels; the Bank intends to further systematically strengthen its position.

Acquisitions of UniCredit Leasing in the Czech Republic and in Slovakia

In accordance with the new model of UniCredit Group's leasing activities, in March 2014 UniCredit Bank Czech Republic and Slovakia completed acquisition of UniCredit Leasing companies in the Czech Republic and in Slovakia.

After completion of the cross-border merger with UniCredit Bank Slovakia, a further important step in the Bank's history was the acquisition of lease companies. Additionally, the balance sheet sum increased by CZK 40 billion. In 2014, the integration of UniCredit Leasing in the Czech Republic and in Slovakia enabled the use of synergies and providing all clients with lease products in accordance with their business needs.

Upon completion of the acquisition, UniCredit Bank's balance sheet sum exceeded the amount of CZK 500 billion. All these steps are an integral part of the strategic plan aimed at creating a strong financial group operating on both Czech and Slovak markets.

For UniCredit Leasing, the completed acquisition means a significant improvement of the business potential and, last but not least, broader access to financing sources providing benefits to both the existing and potential clients on both markets.

Acquisition of Transfinance

In January 2015, UniCredit Bank completed the acquisition of Transfinance, a. s. Transfinance's scope of activities includes financing, collection and securing of client short-term receivables from various areas of manufacturing and business. For UniCredit Bank, the purpose of the acquisition was mainly further expansion of the offered corporate banking products and services to include factoring, intended mainly for small and middle-sized companies.

In relation to the aforementioned acquisition, the Bank plans not only to provide the factoring services to the existing and new clients, but also to launch further products, such as reverse factoring.

The Bank's Activities in Supporting Units

Risk Management

This area retains a high standard of risk management applied in both merged banks. The emphasis is further laid on a consistent separation of conflicting positions in the organisation structure of the new bank. The credit strategies, tools and processes of the merged bank are chosen to comply, as much as possible, with the business strategy, and to reflect the best level of knowledge concerning management of the faced risks.

As to the models used for credit risk management, during the reported period, the Bank obtained an approval from the Czech national bank to use the Advanced IRB approach a thus, presently the Bank uses own estimates for all risk parameters. This change has also brought a considerable drop in risk-weighted assets (RWA) in the amount of almost CZK 10 billion, as the basis for a more efficient and less capital intense growth in loans in the future.

Back-Office Services

The Group strategy involves the outsourcing of back office services to a fellow subsidiary UBIS, which is a member of the UniCredit Group. In this area, the Bank prefers a balanced approach i.e. cost savings owing to specialisation and the scope of services resulting from merger of certain positions, accompanied by retained availability of services in both languages to avoid a negative impact on quality of services provided to clients. Critical factors for effective operation of all distribution networks are the started optimisation of banking processes, utmost simplification and centralisation of administrative activities and automated data entry.

Assets and Liabilities Management

This year, the Bank achieved a better balanced liquidity position, as in the Czech Republic, UniCredit Bank recognised a surplus of own funds, which means that it finances the growth in credit exposure using local funds, while in the Slovak Republic UniCredit Bank relied on group financing when addressing the existing "commercial gap". Improved liquidity management in the merged bank and centralised treasury function resulted in cost synergies, with a more efficient use of capital funds, encouraged growth of business activities accompanied by lower dependence from financing by UniCredit Group. The optimization involved also LLSFR ratios on the combined market in both countries (Loan-to Local Stable Funding Ratio), expressing the level of conformity between the growth of business activities with the ability of their funding from local sources.

A considerable contribution in this area was the replacement of EIB loans by a covered EUR bond issued by UCB CZSK – EIB bought EUR 478M of rated secured bonds, which means a further improvement of liquidity ratios in Slovakia, including consolidation-based liquidity ratios.

Human Resources

The key success factor for a business strategy is to achieve a high quality of services and consulting activities. In implementation of the bank business strategy, the key role is played not only by the bank staff being in direct contact with clients but also by back-office staff whose activities have a significant impact on quality of services and thus also satisfaction and loyalty of clients, and, consequently, total business results.

Therefore, the Bank pays maximum attention to the selection, education and development of its employees both in professional knowledge and communication skills and overall corporate culture profiling so that it results in improvement of personal integrity of all employees. The effectiveness of this approach was confirmed by the Top Employer 2014 certification awarded to the Bank.

Social Responsibility

Sustainability

Sustainability is UniCredit's everyday commitment.
We believe that sustainable banking requires making our everyday decisions and defining our long-term strategy with an economic, social and environmental responsibility. We strive to achieve comprehensive solutions, beneficial for all stakeholders in the long run.

Anti-Corruption Rules

UniCredit Bank applies the rule of zero tolerance to corruption.
The Bank will not tolerate involvement of its employees or third parties being in any relationship to the Bank in any (whether direct or indirect) corruption activities.

Sponsoring and charity

UniCredit Bank's sponsoring activities are focused mainly on arts, cultural heritage and sports. The Bank maintains a long-term cooperation with a number of art institutions and projects. The Bank also participates in a number of charity projects and projects supporting financial literacy.

Business Results for 2014

Consolidated business results of UniCredit Bank Czech Republic and Slovakia, a. s., for 2014[1] were as follows:

- Net profit of UniCredit Bank Czech Republic and Slovakia experienced a year-on-year increase by 55% compared to overall results of UniCredit Bank in the Czech Republic and Slovakia for comparable period of the prior year.
- Client deposits experienced a year-on-year increase by 7.3%.
- Loans granted to bank clients increased by 7.7%.
- Loans granted to clients of lease companies experienced a year-on-year increase by 4.9%.
- The year-on-year increase in assets amounted to 9.5%.
- Capital adequacy equals to 14.35%.
- Equity increased by 15.1% compared to similar period of the prior year.
- UniCredit Bank obtained a prestigious award of Global Finance magazine for achievements in business financing. In the Private Banking Survey 2014, UniCredit Bank was awarded a Euromoney prize in the scope of investment products category for its top-quality private banking. Additionally, UniCredit Bank was also awarded a prestigious certificate Top Employer 2014.

The consolidated profit after tax recognised by UniCredit Bank Czech Republic and Slovakia increased from CZK 3 170 million (as at 31. 12. 2013) to CZK 4 911 million (as at 31. 12. 2014).

In the lending segment, the amount of loans granted to clients increased mainly owing to the 14% year-on-year increase in consumer and mortgage loans. With reference to the launch of the revolutionary U Account (U konto) with a ten-year guarantee of terms and free withdrawals from any ATM both locally and globally, the Bank's **retail** segment managed to more than double the number of new client acquisitions. In the **corporate** segment, the emphasis was further laid on structured financing, and during the past year UniCredit Bank was involved in most of the largest transactions carried out in the Czech Republic and in Slovakia. The Bank also experienced considerable growth in financing of small and middle-sized enterprises, achieving thus a year-on-year 25% growth in his segment. In lease companies, the Bank further promoted brand financing of vehicles, credit financing in corporate loans and operating leases for corporations and individuals.

Income Statement

Net interest income of UniCredit Bank Czech Republic and Slovakia increased to reach CZK 10,049 million, which is a 41.5% growth compared to similar period of prior year (31.12.2013: CZK 7 100 million). Net fee and commission income experienced a year-on-year growth by 25.4% to reach CZK 3,557 million (as at 31.12.2013: CZK 2 836 million).
General administrative costs increased by 22.3% to reach CZK 7 170 million (31.12.2013: CZK 5 865 million). Credit risk costs amounted to CZK 2 236 million (31.12.2013: CZK 2 129 million).

Balance Sheet

As at 31 Dec 2014 total assets of UniCredit Bank Czech Republic and Slovakia amounted to CZK 508 616 million, which means a growth by 9.5% compared to the closing balance as at 31.12.2013 (CZK 464 622 million).

On the asset side of the Balance Sheet, receivables from bank clients increased by 7.7% to reach the final CZK 312 133 million compared to the closing balance as of 31.12.2013 (CZK 289 945 million).

On the liabilities side, liabilities to clients grew by 7.3% to reach CZK 328 585 million (31.12.2013: CZK 306,298 million). Liabilities from debt securities rose by 9.9% to CZK 47 285 million (31.12.2013: CZK 43,041 million). Equity grew by 15.1% to reach CZK 58 410 million (31.12.2013: CZK 50 747 million).

Note:
*[1] **All figures stated above are consolidated, audited and compiled in accordance with IFRS EU.** The 2014 consolidated net profit of UniCredit Bank Czech Republic and Slovakia, a.s. includes the profit/loss of UniCredit Bank in the Czech Republic and in Slovakia, including the profit/loss of UniCredit Leasing CZ and UniCredit Leasing Slovakia and their subsidiaries. The 2013 comparables include aggregate results of UniCredit Bank in the Czech Republic and in Slovakia excluding UniCredit Leasing CZ and UniCredit Leasing Slovakia and their subsidiaries*

Statement of the persons responsible for the annual report

To the best of our knowledge, this Annual Report gives a true and fair view of the financial situation, business activities and results of operations of the Bank and the Bank's consolidation group for 2014 and of the outlook of future development of financial situation, business activities and results of operations of the Bank and the Bank's consolidation group.

In Prague on 30 April 2015

Ing. Jiří Kunert
Chairman of the Board of Directors

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

Report of the Supervisory Board

The Supervisory Board reviewed the statutory individual and consolidated financial statements prepared as at 31st December 2014 together with the Auditor's Reports by the company Deloitte Audit s.r.o., which is the independent auditor of UniCredit Bank for the year 2014, and the proposal for distribution of profit. The Supervisory Board acknowledges the conclusion drawn in the Auditor's Reports that the individual and consolidated financial statements clearly evidence the financial position of UniCredit Bank as at 31 December 2014 and its financial performance for the 2014 accounting period. The Supervisory Board acknowledges the conclusions of the Auditor's Report that the statutory financial statements truly reflect assets, liabilities and the profit for the year of UniCredit Bank in all substantial matters and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations and the Articles of Association of UniCredit Bank. Furthermore, the Supervisory Board reviewed the statutory individual financial statements prepared for the period from July 1st, 2013 until December 31st, 2013, together with the Auditor's Reports, all without reservations.

In compliance with the Czech laws, Provisions of the CNB and the Articles of Association of the Bank, the Supervisory Board has been supervising the implementation of the Bank's business policy and the exercise of authorities by the Management Board. The Supervisory Board held five sessions and always asked for information from all spheres of the Bank's activities which had a relevant impact on the financial position and the financial management of the Bank. The Supervisory Board further states that, based on the statutory financial statements and other documents provided to the Supervisory Board in 2014, it did not identify any material deficiencies or incorrectness which could lead to the conclusion that the Bank's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the situation of UniCredit Bank. The Supervisory Board reviewed the Report on Relations between the Affiliated Persons as prepared by the Management Board of UniCredit Bank for the year 2014 and provided to the Supervisory Board. The Supervisory Board have no material objections to the Report.

March 2015

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 2014, the basis for calculating the contribution to the Guarantee Fund was CZK 549,094,029.97. The contribution to the Guarantee Fund is 2% of this amount, i.e. CZK 10,981,880.60

Hospitality is important.

But the welcome is crucial.

The real star is the customer.

Going to the branch becomes a unique experience.
A **revolutionary branch format**, combining technological innovation and design to guide the customer in an easy, enjoyable and interactive world. A branch tailored to the customer where opening hours are no longer a constraint, with multiple access channels and ways to use the services.
A multifunctional space where Customers and consultants sit side by side to experience the bank service in total comfort.
Because reliability is part of our way of doing things.

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 December 2014

	Note	2014 MCZK	2013 MCZK	*Of which** *1 Jan-30 June 2013*	*1 Jul-31 Dec 2013*
Interest income and similar income	5	13 232	9 687	*4 188*	*5 499*
Interest expense and similar charges	5	(3 183)	(2 587)	*(1 127)*	*(1 460)*
Net interest income and similar income		**10 049**	**7 100**	***3 061***	***4 039***
Fee and commission income	6	4 703	3 763	*1 422*	*2 341*
Fee and commission expenses	6	(1 146)	(927)	*(395)*	*(532)*
Net fee and commission income		**3 557**	**2 836**	***1 027***	***1 809***
Dividend income	7	1	26	*–*	*26*
Net income/loss from financial assets and liabilities held for trading	8	1 621	1 758	*744*	*1 014*
Net income/loss from hedging against risk of changes in fair value	9	(15)	13	*20*	*(7)*
Net income/loss from the sale of financial assets and liabilities	10	(18)	432	*(8)*	*440*
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	11	(8)	(2)	*(3)*	*1*
Operating income		**15 187**	**12 163**	***4 841***	***7 322***
Impairment losses on financial assets	12	(2 236)	(2 129)	*(789)*	*(1 340)*
Administrative expenses	13	(7 170)	(5 865)	*(2 292)*	*(3 573)*
Creation and release of provisions		(81)	(10)	*2*	*(12)*
Depreciation and impairment of property and equipment		(355)	(194)	*(64)*	*(130)*
Amortisation and impairment of intangible assets		(22)	(28)	*–*	*(28)*
Other operating income and expenses	14	635	21	*19*	*2*
Operating expenses		**(6 993)**	**(6 076)**	***(2 335)***	***(3 741)***
Profit/loss from investments in associates		71	–	*–*	*–*
Profit/loss from the sale of non-financial assets		1	(2)	*(2)*	*–*
Profit before income tax		**6 030**	**3 956**	***1 715***	***2 241***
Income tax	32	(1 119)	(786)	*(315)*	*(471)*
Net profit		**4 911**	**3 170**	***1 400***	***1 770***
Net profit attributable to the Group's shareholders		**4 908**	**3 168**	***1 400***	***1 768***
Net profit attributable to minority shareholders		**3**	**2**		***2***
Other comprehensive income					
Items that can be subsequently derecognised to profit or loss					
Reserve from revaluation of hedging instruments:		**1 310**	**(774)**	***(813)***	***39***
Changes in net fair values of derivatives in cash flow hedges		1 068	(747)	*(778)*	*31*
Net fair value of derivatives in cash flow hedges transferred to profit or loss		242	(27)	*(35)*	*8*
Reserve from revaluation of available-for-sale securities		**1 271**	**(1 150)**	***(1 107)***	***(43)***
Change in revaluation of available-for-sale securities		1 211	(966)	*(1 083)*	*117*
Revaluation of available-for-sale securities transferred to profit or loss		60	(184)	*(24)*	*(160)*
Foreign exchange rate gains from the consolidation of a foreign branch		141	685	*–*	*685*
Other comprehensive income after tax		**2 722**	**(1 239)**	***(1 920)***	***681***
Other comprehensive income attributable to the Group's shareholders		**2 720**	**(1 238)**	***(1 920)***	***682***
Other comprehensive income attributable to minority shareholders		**2**	**(1)**		***(1)***
Total comprehensive income		**7 633**	**1 931**	***(520)***	***2 451***
Total comprehensive income attributable to the Group's shareholders		**7 628**	**1 930**	***(520)***	***2 450***
Total comprehensive income attributable to the minority shareholders		**5**	**1**	***–***	***1***

The notes on pages 29–74 form a part of these financial statements.

* See Note 2 to the financial statements

Consolidated statement of financial position as of 31 December 2014

	Note	31 Dec 2014 MCZK	31 Dec 2013 MCZK
ASSETS			
Cash in hand and cash balances	15	4 135	3 969
Financial assets at fair value through profit or loss including:		12 979	15 474
– held for trading	16	11 707	8 909
– not held for trading	16	1 272	6 565
Available-for-sale securities	17	88 345	74 535
Securities held to maturity	18	191	1 128
Receivables from banks	19	48 782	71 460
Receivables from clients	20	339 510	289 945
Positive fair value of hedging derivatives	22	5 423	3 336
Equity investments in associates	21	542	–
Property and equipment	23	4 682	1 917
Intangible assets	24	97	12
Tax receivables, including:		1 102	853
– current income tax	33	115	210
– deferred tax	33	987	643
Other assets	25	2 828	1 993
Total assets		**508 616**	**464 622**
LIABILITIES			
Deposits from banks	26	54 742	49 798
Deposits from clients	27	328 585	306 298
Debt securities issued	28	47 285	43 041
Financial liabilities held for trading	29	7 552	5 388
Negative fair value of hedging derivatives	30	3 445	3 157
Tax liabilities, including:		1 735	215
– current income tax	33	393	–
– deferred tax	33	1 342	215
Other liabilities	31	5 549	4 671
Provisions	32	1 313	1 307
Total liabiliites		**450 206**	**413 875**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		5 635	2 951
Retained earnings, reserve funds and other capital funds	36	35 614	32 376
Profit for the period		4 911	3 170
Total shareholder's equity		**58 410**	**50 747**
Total liabilities and shareholder's equity		**508 616**	**464 622**

The notes on pages 29–74 form a part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2014

	2014 MCZK	2013 MCZK	*Of which** *1 Jan-30 June 2013*	*1 Jul-31 Dec 2013*
Net profit for the period	**4 911**	**3 170**	***1 400***	***1 770***
Adjustments for non-cash items:				
Impairment of loans and receivables and financial investments	2 236	2 129	*789*	*1 340*
Revaluation of securities and derivatives	725	55	*37*	*18*
Creation and release of other provisions	25	10	*(162)*	*172*
Depreciation and amortisation of property and equipment, and intangible assets	377	222	*64*	*158*
Profit (loss) from property and equipment and intangible assets sold	(1)	2	*2*	*–*
Taxes	1 119	787	*315*	*472*
Other non-monetary changes	(115)	1 541	*(694)*	*2 235*
Operating profit before change in operating assets and liabilities	**9 277**	**7 916**	***1 751***	***6 165***
Financial assets and liabilities held for trading	(1 361)	(1 132)	*(566)*	*(566)*
Receivables from banks	23 163	(33 693)	*(3 801)*	*(29 892)*
Loans and receivables from clients	(19 297)	(29 750)	*(6 008)*	*(23 742)*
Other assets	(480)	12	*212*	*(200)*
Deposits from banks	(24 125)	(2 144)	*(6 924)*	*4 780*
Deposits from clients	22 189	45 027	*2 381*	*42 646*
Other liabilities	(20)	360	*2 364*	*(2 004)*
Income tax paid	(700)	(1 172)	*(96)*	*(1 076)*
Net cash flows from operating activities	**8 646**	**(14 576)**	***(10 687)***	***(3 889)***
Changes in securities available for sale and other financial investments	(6 594)	12 128	*8 532*	*3 596*
Acquisition of a subsidiary	(3 645)	–	*–*	*–*
Gains from the sale of property and equipment and intangible assets	315	16	*18*	*(2)*
Acquisition of property and equipment and intangible assets	(1 390)	(134)	*(109)*	*(25)*
Dividends received	107	26	*–*	*26*
Net cash flows from investment activities	**(11 207)**	**12 036**	***8 441***	***3 595***
Dividends paid	(1 585)	(1 763)	*–*	*(1 763)*
Debt securities issued	4 312	3 229	*2 223*	*1 006*
Net cash flows from financial activities	**2 727**	**1 466**	***2 223***	***(757)***
Cash and other highly liquid funds at the start of the period	**3 969**	**1 662**	***1 662***	***1 639***
Addition arising from the merger	–	3 381	*–*	*3 381*
Net cash flows from operating activities	8 646	(14 576)	*(10 687)*	*(3 889)*
Net cash flows from investment activities	(11 207)	12 036	*8 441*	*3 595*
Net cash flows from financial activities	2 727	1 466	*2 223*	*(757)*
Cash and other highly liquid funds at the end of the period	**4 135**	**3 969**	***1 639***	***3 969***
Interest received	12 904	9 408	*4 209*	*5 199*
Interest paid	(3 599)	(2 200)	*(788)*	*(1 412)*

The notes on pages 29–74 form a part of these financial statements.

* See Note 2 to the financial statements

Consolidated statement of changes in equity for the year ended 31 December 2014

MCZK	Issued capital	Share premium	Reserve from revaluation: hedging instru-ments	Reserve from revaluation: securities available for sale	exchange rate gains or losses of a foreign branch	Retained earnings, reserve funds and other capital funds: Reserve fund and other cap. f.	Retained earnings, reserve funds and other capital funds: Special-purpose reserve f.	Retained earnings, reserve funds and other capital funds: FX differen-ces from consolidat.	Retained earnings	Profit for the period	Equity
Balance as at 31 December 2012	**8 750**	**3 483**	**1 636**	**2 542**	**–**	**3 057**	**–**	**–**	**16 312**	**3 157**	**38 937**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2012 profit						157			3 000	(3 157)	–
Dividend payment									(1 763)		(1 763)
Impact of the cross-border merger with UniCredit Bank Slovakia a.s.	5	12	(11)	23			11 611		2		11 642
Total comprehensive income for the period											
Net profit for 2013										3 170	3 170
Other comprehensive income											
Change in revaluation of available-for-sale securities											
Change in revaluation of available-for-sale securities reported in other comprehensive income				(1 184)							(1 184)
Revaluation of available-for-sale securities transferred to profit or loss				(228)							(228)
Deferred tax				263							263
Changes in net fair values of derivatives in cash flow hedges											
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			(925)								(925)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			(32)								(32)
Deferred tax			182								182
Foreign exchange rate gains or losses from the consolidation of a foreign branch					685						685
Total comprehensive income for the period			**(775)**	**(1 149)**	**685**						**(1 239)**
Balance as at 31 December 2013	**8 755**	**3 495**	**850**	**1 416**	**685**	**3 214**	**11 611**	**–**	**17 551**	**3 170**	**50 747**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2013 profit						158			3 012	(3 170)	–
Dividend payment									(1 585)		(1 585)
Consolidation impact			(38)			1 647		6			1 615
Total comprehensive income for the period											
Net profit for 2014										4 911	4 911
Other comprehensive income											
Change in revaluation of available-for-sale securities											
Change in revaluation of available-for-sale securities reported in other comprehensive income				1 475							1 475
Revaluation of available-for-sale securities transferred to profit or loss				75							75
Deferred tax				(279)							(279)
Changes in net fair values of derivatives in cash flow hedges											
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			1 327								1 327
Net fair value of derivatives in cash flow hedges transferred to profit or loss			289								289
Deferred tax			(306)								(306)
Foreign exchange rate gains or losses from the consolidation of a foreign branch					141						141
Total comprehensive income for the period			**1 310**	**1 271**	**141**						**2 722**
Balance as at 31 December 2014	**8 755**	**3 495**	**2 122**	**2 687**	**826**	**5 019**	**11 611**	**6**	**18 978**	**4 911**	**58 410**

The notes on pages 29–74 form a part of these financial statements.

Notes to the financial statements (consolidated)

year ended 31 December 2014

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.
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.

Through its subsidiaries and an associate, the Bank additionally provides the following types of services:
- Lease and instalment sale of machinery and equipment;
- Lease to own (lease purchase);
- Lease of cars and instalment sale of cars;
- Consumer and commercial loans granted for the purchase of cars, machinery and equipment;
- Mediation of services and sales;
- Mediation of insurance policies conclusion;
- Purchase, sale and lease of real estate;
- Real estate activities; and
- Real estate administration and maintenance.

2. Basis for the preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
Certain subsidiaries maintain their accounts under Czech Accounting Standards and the Group makes reclassifications and adjustments to figures under IFRS.

(a) Consolidation

These financial statements are consolidated financial statements and include the parent company and its subsidiaries (the "Group"). 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.
On 14 February 2014, the Bank signed a contract for the purchase of the 100% equity investment in UniCredit Leasing CZ, a.s. of MCZK 3,211 and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. with the cost of MEUR 16. Principal activities of both entities include leases and instalment sale. The contracts were signed between the Bank and UniCredit Leasing SpA.; these are transactions under common control. At the same time, both lease companies purchased Czech and Slovak real estate project companies from their original owner UniCredit Leasing SpA, these are also transactions under common control. Both entities were sold within the UniCredit Group due to the reorganisation of the equity investments in the UniCredit Group in order to create a strong financial group on local markets with a stronger sales potential.
The Bank subsequently transferred a 91.2% equity investment in UniCredit Leasing Slovakia, a.s. (the purchased equity investment of 71.3% and the equity investment of 19.9% that was held by the Bank already at the end of 2013 and reported as part of 'Available-for-sale securities') as a non-cash investment in the share capital of UniCredit Leasing CZ, a.s. and the investment of the Bank in UniCredit Leasing CZ, a.s. consequently increased by MCZK 570 on 18 April 2014.

As of 31 December 2014, the consolidation group includes the following entities:

Name of the entity	Business activities office	Registered	Owner percentage	Ownership method	Consolidation
UniCredit Leasing CZ, a.s.	Leases	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredti pojišťovací makléřská spol. s r.o.	Mediation of services	Prague	UniCredit Leasing CZ, a.s.	100%	Full
RCI Financial Services, s.r.o.	Financing of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	50%	Equity
ALLIB Leasing s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
BACA Leasing Alfa s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
BACA Leasing Gama s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CAC Real Estate, s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CA-Leasing EURO, s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CA-Leasing OVUS s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
HVB Leasing Czech Republic s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
INPROX Chomutov, s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
INPROX Kladno, s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Leasing Slovakia, a.s.	Leases	Bratislava	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Broker, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Leasing Real Estate s.r.o.	Real estate project company	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
INPROX Poprad, spol. s r.o.	Real estate project company	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
INPROX SR I., spol. s r.o.	Real estate project company	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full

As part of the purchase of real estate project companies, UniCredit Leasing CZ, a.s. acquired CA-Leasing Praha s.r.o. and CAC IMMO, s.r.o. that were merged with HVB Leasing Czech Republic s.r.o. on 1 November 2014.

RCI Financial Services, s.r.o. is an associate that is consolidated using the equity method of accounting. The Group holds 49.9% of voting rights in this entity and does not exercise control over this entity.

As of the acquisition date, the Group took over the following significant assets and liabilities:

MCZK	
Assets	
Receivables from clients (gross)	41 074
Impairment losses on receivables from clients	(2 288)
Property and equipment	2 320
Liabilities	
Deposits from banks	29 081
Deposits from clients	750

(b) Merger Project

In 2013, the Bank prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where the Bank was the successor company and UniCredit Bank Slovakia a.s. is the dissolving company. The merger effective date was determined at 1 July 2013.
These consolidated financial statements were prepared for the reporting period from 1 January 2014 to 31 December 2014. The comparative period presented in the statement of financial position includes the information for UniCredit Bank Czech Republic and Slovakia as of 31 December 2013, the comparative period in the statement of comprehensive income and the statement of cash flows includes 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.
For better comparability of the 2013 full reporting period and an understanding of the events in 2013, the Bank has decided to present the 2013 year split into the full year, the pre-merger period and the post-merger period.

We set out below individual financial statements issued for 2013:

- **The extraordinary financial statements of UniCredit Bank Czech Republic, a.s. as of 30 June 2013** – these financial statements were prepared solely for the purposes of the merger and its registration in the Register of Companies. The financial statements included the information of UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013.
- **The financial statements of UniCredit Bank Slovakia a.s. as of 30 June 2013** – these financial statements were prepared for the purposes of the merger and due to the discontinuance of the bank's activities as a standalone entity. The financial statements included the information for UniCredit Bank Slovakia a.s. for the period from 1 January 2013 to 30 June 2013.
- **The financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013** – these financial statements were prepared for the period from 1 January 2013 to 31 December 2013. The reason for this presentation is the fact that the Bank proceeds in line with IFRS. In terms of IFRS, the merger was an acquisition, giving rise to no reason to interrupt the reporting period. The statement of comprehensive income and the statement of cash flows includes 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. This information is presented as comparative information in the financial statements as of 31 December 2014.

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

MCZK	1. Jul 2013
Assets	
Securities available for sale	14 121
Receivables from clients (gross)	80 756
Impairment losses on receivables from clients	(1 968)
Liabilities	
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 a profit of TEUR 287. For the first half of 2013, UniCredit Bank Slovakia a.s. reported operating income of MEUR 63 and a profit of MEUR 1.2.

- **Financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013** – these financial statements have been prepared for the period from 1 July 2013 to 31 December 2013. The reason for preparing these financial statements was the Czech National Bank's requirement for the presentation of information from the merger date (ie from 1 July 2013) to the reporting period-end (ie to 31 December 2013). These financial statements have been prepared in accordance with the IFRS as adopted by the EU.

All presented amounts are in millions Czech crowns (CZK million) unless stated otherwise. The Czech crown is the functional currency of the Bank and the entities based in the Czech Republic. Euro is the functional currency of the Slovak branch and the entities based in the Slovak Republic. The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the branch are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch". Figures in brackets represent negative amounts.
These financial statements were prepared based on the going concern assumption.
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 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 Group as at fair value through profit or loss upon initial recognition.

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

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

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

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

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

(ii) Recognition of Financial Assets

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

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

Held-to-maturity assets are recognised on the settlement date in the Group's accounting books.

The Group initially recognises loans and receivables on their origination dates.

(iii) Measurement of Financial Assets

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

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

In the context of the situation on the financial markets during the years 2013 and 2014, the Group paid increased attention to monitoring the development of market factors and prices having an impact on the valuations of all the instruments in the Group's portfolio.

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

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

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

Market quotations are again available;

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

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

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

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

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

(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 revenues".

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 revenues". 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 Group loses the contractual rights to the cash flow from an asset or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is settled.
Available-for-sale assets and assets recognised at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised at the settlement date. The Group uses accounting methods to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognised on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

(c) Principles of Consolidation

Subsidiaries
Subsidiaries are entities controlled by the Group. An entity is controlled when the Group has the power (direct or indirect) to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date of on which control originates to the date on which control ceases to exist.

Associates
Associates are entities over which the Group has significant (but not controlling) influence on the management or operations of the entity (ie the Group's power to participate in the financial and operating policy decisions of the investee but not control over those policies).
The consolidated statement of comprehensive income includes the Group's share in total reported profits or losses of associates using the equity method of accounting, from the date of on which significant influence originates to the date on which significant influence ceases to exist. The consolidated statement of financial position reflects the value of the investment in an associate determined using the equity method of accounting.

Unconsolidated Subsidiaries and Associates
Unconsolidated subsidiaries and associates are reported in the balance sheet at cost less impairment losses.
Mutual balances and transactions among the entities in the Group and unrealised profits arising from intragroup relations are eliminated upon the preparation of the consolidated financial statements.
Unrealised profits arising from transactions with associates are eliminated in the amount of the Group's share in the entity and are eliminated against the investments in associates.

Transactions Under Common Control
A business combination between entities or companies under common control is a business combination where all combining entities or companies are ultimately controlled by the same party or parties as prior to and post the business combination and this control is not temporary. For business combinations under common control the Group has adopted the method of carrying amounts of the acquired business and concurrently reports these transactions prospectively, ie without adjustments in comparative periods.

(d) Derivatives

(i) Hedging Derivatives
Hedging derivatives are carried at fair value. The method of recognising fair value depends on the model of hedge accounting applied.
Hedge accounting can be applied if:
- The hedge is in line with the Group's risk management strategy;
- The hedge relationship is formally documented at the inception of the hedge;
- It is expected that the hedge relationship will be highly effective throughout its life;
- The effectiveness of the hedge relationship can be objectively measured;
- The hedge relationship is highly effective throughout the accounting period; and
- In the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in profit or loss in "Net income from hedging against risk of changes in fair value". Realised interest income and expenses are reported on a net basis in "Interest income and similar revenues" or "Interest expense and similar charges".
If the derivative hedges an exposure to the variability of cash flows related to recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in other comprehensive income and becomes the equity item "Reserves from revaluation of hedging instruments".
The ineffective part of the hedge is recognised in profit or loss.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.

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

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

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

(e) Borrowing and Lending of Securities
Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.
As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Group recognises a liability to either banks or customers in the amount of this compensation.
Financial assets borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognised in the Group's statement of financial position.
As a result of the cash collateral provided in respect of securities borrowed/purchased under securities lending arrangements or resale agreements, the Group recognises loans and advances to either banks or customers. The receivables are recorded as collateralised by the underlying security.
In the case of the sale of a security acquired on the basis of securities lending arrangements or repurchase agreements, the Group derecognises the securities acquired in such manner from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the balance sheet. This payable is reported under "Financial liabilities held for trading".
Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognised on an accrual basis over the period of the transactions and are recognised in profit or loss in "Interest income and similar revenues" or "Interest expense and similar charges".

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

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

(i) Loans and Receivables and Held-to-Maturity Assets
Loans and receivables and held-to-maturity assets are presented 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 may be used for a period 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	3–10 years
• Bank vaults	20 years
• Fixtures and fittings	5–10 years
• Motor vehicles	4–5 years
• IT equipment	4 years
• Software and intangible assets	2–6 years or in accordance with the contract
• Low value tangible assets	2–3 years

Both tangible and intangible assets are assessed for potential impairment or a reduction in useful life. If events or changes in the conditions occur that could result in the carrying amount not being recoverable, the carrying amount is written down to the recoverable amount if the carrying amount is higher than the estimated recoverable value. The recoverable amount is the higher of fair value less costs of disposal and the value in use. The gains and losses on disposal are determined based on the net book value and are included in other operating income or expenses. The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalised. Property and equipment, which the Group intends to sell within 12 months, is classified as "Non-current assets held for sale". Such property and equipment is reclassified at the lower of its carrying amount or its sales value less disposal costs.

Leases

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

Provided Operating Leases
Other leases are classified as operating leases, the leased asset remains to be owned by the lease company after the termination of the lease contract.
Income from operating leases is reported in "Other operating income".

Received Operating Leases
Payments under contracts for received operating leases are included in "General administrative expenses" evenly over the period of the lease contract.
In the case of contract cancellation before the end of the lease contract, all required penalty payments are accounted for as a period cost at the time of cancelling the lease.

(j) 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 base in the Czech Republic, which is further adjusted by tax allowances and relevant credits. The tax payable or receivable is calculated using the tax rate valid at the year-end and reported in the expected amount of the settlement with the tax authorities.

The income tax of entities based in Slovakia is calculated in line with the regulations applicable in the Slovak Republic.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(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 Group, that decision-maker is the Board of Directors.

The Group's primary segment reporting is broken down by types of clients, which correspond to the Group'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 Group'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 Group has evaluated the impact of standards, interpretations and amendments to valid standards which are not yet in force and were not used in preparing these financial statements but which are already approved and will have an impact on the Group's financial statements in the future. The Group is currently analysing the impacts arising from the adoption of these standards. The Group plans to implement these standards at the date they become effective.

- Amendments to various standards "*Improvements to IFRSs (cycle 2010-2012)"* resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- Amendments to various standards "*Improvements to IFRSs (cycle 2011-2013)*" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015); and
- Amendments to *IAS 19 "Employee Benefits"* – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).

The below standards and interpretations were published by the IASB, but not yet adopted by the European Union.

- *IFRS 9 "Financial Instruments*" effective for annual periods beginning on or after 1 January 2018, The Standard issued by the IASB on 24 July 2014 is the replacement of *IAS 39 Financial Instruments*: *Recognition and Measurement*. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.
Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
Hedge accounting – IFRS 9 introduces a reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.
Own credit risk – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- *IFRS 14 "Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016);
- *IFRS 15 "Revenue from Contracts with Customers"* (effective for annual periods beginning on or after 1 January 2017);
- Amendments to *IFRS 10 "Consolidated Financial Statements"* and *IAS 28 "Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities"* and *IAS 28 "Investments in Associates and Joint Ventures"* – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IFRS 11 "Joint Arrangements"* – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 1 "Presentation of Financial Statements"* – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 16 "Property, Plant and Equipment"* and *IAS 38 "Intangible Assets"* – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 16 "Property, Plant and Equipment"* and *IAS 41 "Agriculture"* – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 27 "Separate Financial Statements"* – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016); and
- Amendments to various standards *"Improvements to IFRSs (cycle 2012-2014)"* resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

4. Critical accounting estimates and judgements

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

The presentation of the consolidated financial statements in conformity with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions, are based on the information available at the balance sheet date.

(a) Key Sources of Estimation Uncertainty

(i) Impairment

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

(ii) Determining Fair Values

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy 3(b) (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 Group's Accounting Policies

(i) Financial Asset and Liability Classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances; the Group confirms that the assumptions disclosed in Note 3(b) (i) have been met.

(ii) Hedge Accounting

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

(iii) Change in Accounting Policy

There were no changes in accounting policies during the year ended 31 December 2014 and the year ended 31 December 2013.

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

In the years ended 31 December 2014 and 31 December 2013, the Group did not identify any changes of financial reporting standards that would significantly affect the Group's financial statements.

5. Net interest income and similar income

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	*Of which* 1 Jul–31 Dec 2013
Interest income and similar revenues				
Balances with central banks	22	10	*3*	*7*
Receivables from banks	131	104	*43*	*61*
Receivables from clients	10 958	7 470	*3 122*	*4 348*
Available-for-sale securities	1 504	1 544	*739*	*805*
Securities held to maturity	12	7	*–*	*7*
Financial assets at fair value through profit or loss held for trading	36	41	*15*	*26*
Financial assets at fair value through profit or loss not held for trading	14	36	*23*	*13*
Hedging derivatives	555	475	*243*	*232*
Interest income and similar revenues	**13 232**	**9 687**	***4 188***	***5 499***
Interest expense and similar charges				
Deposits from central bank	(1)	(1)	*–*	*(1)*
Deposits from banks	(799)	(183)	*(71)*	*(112)*
Deposits from clients	(1 176)	(1 272)	*(535)*	*(737)*
Debt securities issued	(1 198)	(1 109)	*(510)*	*(599)*
Financial liabilities held for trading	(9)	(22)	*(11)*	*(11)*
Interest expense and similar charges	**(3 183)**	**(2 587)**	***(1 127)***	***(1 460)***
Net Interest Income and similar income	**10 049**	**7 100**	***3 061***	***4 039***

6. Net fee and commission income

MCZK	2014	2013	Of which 1 Jan–30 Jun 2013	Of which 1 Jul–31 Dec 2013
Fee and commission income from				
Securities transactions	9	13	*7*	*6*
Management, administration, deposit and custody services	617	447	*204*	*243*
Loans	1 648	1 303	*411*	*892*
Payment services	731	632	*262*	*370*
Account administration	537	469	*185*	*284*
Payment cards	986	847	*348*	*499*
Other	175	52	*5*	*47*
Fee and commission income	**4 703**	**3 763**	***1 422***	***2 341***
Fee and commission expenses from				
Securities transactions	(2)	(1)	–	*(1)*
Management, administration, deposit and custody services	(75)	(70)	*(33)*	*(37)*
Loans	(241)	(199)	*(83)*	*(116)*
Payment services	(38)	(19)	*(3)*	*(16)*
Payment cards	(729)	(610)	*(256)*	*(354)*
Other	(61)	(28)	*(20)*	*(8)*
Fee and commission expenses	**(1 146)**	**(927)**	***(395)***	***(532)***
Net fee and commission income	**3 557**	**2 836**	***1 027***	***1 809***

7. Dividend income

MCZK	2014	2013	Of which 1 Jan–30 Jun 2013	Of which 1 Jul–31 Dec 2013
Dividend income				
Shares classified as available-for-sale securities	1	1	–	*1*
Investment certificates classified as securities designated at fair value upon initial recognition through profit or loss	–	25	–	*25*
Total dividend income	**1**	**26**	**–**	***26***

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

MCZK	2014	2013	Of which 1 Jan–30 Jun 2013	Of which 1 Jul–31 Dec 2013
Net realised and unrealised gain/(loss) from securities held for trading	101	19	*–3*	*22*
Net realised and unrealised gain/(loss) from derivatives held for trading	1 505	658	*207*	*451*
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	15	1 081	*540*	*541*
Net trading income	**1 621**	**1 758**	***744***	***1 014***

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

MCZK	2014	2013	Of which 1 Jan–30 Jun 2013	Of which 1 Jul–31 Dec 2013
Hedging instruments	(503)	148	*53*	*95*
Hedged instruments	488	(135)	*(33)*	*(102)*
Net gain from hedging against risk of changes in fair value	**(15)**	**13**	***20***	***(7)***

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

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Receivables from clients	(1)	(19)	*(18)*	*(1)*
Available-for-sale securities	(12)	461	*18*	*443*
Debt securities issued	(5)	(10)	*(8)*	*(2)*
Net income from the sale of financial assets and liabilities	**(18)**	**432**	***(8)***	***440***

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

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Debt securities	(8)	(2)	*(3)*	*1*
Net income from financial assets and liabilities at fair value through profit or loss not held for trading	**(8)**	**(2)**	***(3)***	***1***

12. Impairment losses on financial assets

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Receivables from clients	(2 095)	(2 139)	*(794)*	*(1 345)*
Provision for off-balance sheet items	(53)	79	*29*	*50*
Available-for-sale securities	(88)	(69)	*(24)*	*(45)*
Total impairment losses on financial statements	**(2 236)**	**(2 129)**	***(789)***	***(1 340)***

13. Administrative expenses

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Personnel expenses				
Wages and salaries paid to employees	(2 367)	(1 792)	*(722)*	*(1 070)*
Social costs	(787)	(613)	*(253)*	*(360)*
Other	(75)	(176)	*(40)*	*(136)*
	(3 229)	(2 581)	*(1 015)*	*(1 566)*
Including wages and salaries paid to:				
Members of the Board of Directors	(62)	(79)	*(45)*	*(34)*
Other executives directly reporting to the Board of Directors	(105)	(121)	*(58)*	*(63)*
	(167)	**(200)**	***(103)***	***(97)***
Other administrative expenses				
Rent and building maintenance	(650)	(461)	*(175)*	*(286)*
Information technologies	(1 181)	(1 005)	*(395)*	*(610)*
Promotion and marketing	(429)	(339)	*(145)*	*(194)*
Consumables used	(103)	(116)	*(37)*	*(79)*
Audit, legal and advisory services	(189)	(148)	*(69)*	*(79)*
Administrative and logistic services	(440)	(292)	*(143)*	*(149)*
Deposits and transactions insurance	(409)	(289)	*(132)*	*(157)*
Services	(264)	(260)	*(113)*	*(147)*
Other	(276)	(374)	*(68)*	*(306)*
	(3 941)	**(3 284)**	***(1 277)***	***(2 007)***
Total administrative expenses	**(7 170)**	**(5 865)**	***(2 292)***	***(3 573)***

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

2014 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	346	1 385	–
2013 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	302	1 155	–
30. 6. 2013 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	292	1 122	–

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

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

	2014	2013	*30. 6. 2013*
Employees	3 294	3 071	*1 952*
Members of the Board of Directors	7	10	*6*
Members of the Supervisory Board	3	6	*3*
Other executives directly reporting to the Board of Directors	36	52	*24*

The "Employees" line item includes all employees of the Group; the "Members of the Board of Directors", "Members of the Supervisory Board", and "Other executives directly reporting to the Board of Directors" line items include only the information for the Bank.
The information for 2013 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	2014	2013	*Of which* *1 Jan–30 Jun 2013*	 *1 Jul–31 Dec 2013*
Income from rent	503	33	*11*	*22*
Other income relating to lease	219	–	–	–
Other income	460	33	*14*	*19*
Total other operating income	**1 182**	**66**	***25***	***41***
Fines and penalties	(16)	(9)	–	*(9)*
Other expenses relating to lease	(96)	–	–	–
Other	(467)	(36)	*(6)*	*(30)*
Total other operating expenses	**(547)**	**(45)**	***(6)***	***(39)***
Total other operating income and expenses	**635**	**21**	***19***	***2***

15. Cash in hand and cash balances

MCZK	31 Dec 2014	31 Dec 2013
Cash in hand	4 065	3 792
Other balances with central banks	70	177
Total	**4 135**	**3 969**

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds.

16. Financial assets at fair value through profit or loss

(a) Held for Trading

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Debt securities	4 337	–	–	4 337
Shares	–	–	–	–
Derivatives	27	7 343	–	7 370
Total	**4 364**	**7 343**	**–**	**11 707**
31 Dec 2013				
Debt securities	4 426	12	–	4 438
Shares	23	–	–	23
Derivatives	32	4 416	–	4 448
Total	**4 481**	**4 428**	**–**	**8 909**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Government sector	4 337	4 438
Shares		
Financial services	–	16
Other	–	7
Total	**4 337**	**4 461**

(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
31 Dec 2014				
Debt securities	–	1 084	188	1 272
Total	**–**	**1 084**	**188**	**1 272**
31 Dec 2013				
Debt securities	99	6 466	–	6 565
Total	**99**	**6 466**	**–**	**6 565**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Financial services	–	–
Government sector	1 084	6 371
Other	188	194
Total	**1 272**	**6 565**

17. Available-for-sale securities

The Group 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
31 Dec 2014				
Debt securities	61 411	26 824	108	88 343
Shares	–	–	2	2
Total	**61 411**	**26 824**	**110**	**88 345**
31 Dec 2013				
Debt securities	48 693	23 452	4	72 149
Shares	–	2 248	138	2 386
Total	**48 693**	**25 700**	**142**	**74 535**

(b) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Banking	15 505	10 827
Governments and central banks	67 257	56 605
Other public sector	2 243	1 126
Other	3 338	3 591
Shares		
Investment funds	–	2 248
Other	2	138
Total	**88 345**	**74 535**

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2014	Net book value 2013	Share of the Group at 31 Dec 2014	Share of the Group at 31 Dec 2013
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10 October 2001	0,24	0,24	0,24	20%	20%
Total			**0,24**	**0,24**	**0,24**	**–**	**–**

18. Securities held to maturity

(a) By type of security

MCZK	31 Dec 2014	31 Dec 2013
Debt securities	191	1 128
Total	**191**	**1 128**

(b) Securities by activities of issuers

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Governments and central banks	191	189
Other	–	939
Total	**191**	**1 128**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2014	31 Dec 2013
Current accounts	575	5 328
Term deposits	40 909	30 651
Loans	943	856
Repurchase commitments (see Note 37)	630	29 140
Obligatory minimum reserves	5 725	5 485
Total	**48 782**	**71 460**

(b) Subordinated Loans Due from Banks

Receivables from banks as of 31 December 2013 included a subordinated loan of MCZK 206 that was disclosed in the above table under 'Loans'. This loan was provided in 2004 in the amount of TEUR 7,500 with the contractual term of 10 years and was repaid in 2014.

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

MCZK	31 Dec 2014	31 Dec 2013
Czech Republic	37 342	50 791
Other EU countries	10 190	19 271
Other	1 250	1 398
Total receivables from banks	**48 782**	**71 460**

20. Receivables from clients

(a) Analysis of Receivables from Clients, by Type

MCZK	Not impaired	Impaired	Total
31 Dec 2014			
Current accounts (overdrafts)	30 559	2 148	32 707
Repurchase commitments (see Note 37)	–	–	–
Resident mortgage loans	71 145	3 251	74 396
Other mortgage loans	54 896	4 273	59 169
Leases	26 135	1 669	27 804
Credit cards and consumer loans	8 735	1 110	9 845
Factoring	2 976	154	3 130
Bills of exchange	1 302	–	1 302
Other loans	122 865	8 292	131 157
Total	**318 613**	**20 897**	**339 510**
31 Dec 2013			
Current accounts (overdrafts)	31 247	1 625	32 872
Repurchase commitments (see Note 37)	12	–	12
Resident mortgage loans	62 450	3 910	66 360
Other mortgage loans	56 864	4 456	61 320
Credit cards and consumer loans	3 951	492	4 443
Factoring	1 734	20	1 754
Other loans	118 169	5 015	123 184
Total	**274 427**	**15 518**	**289 945**

(b) Classification of Receivables from Clients and Impairment

MCZK	Gross value	Impairment of individual receivables	Impairment of portfolios of receivables	Net value
31 Dec 2014				
Standard	320 156	–	(1 543)	318 613
Watch	11 111	(675)	–	10 436
Substandard	7 930	(1 822)	–	6 108
Doubtful	3 463	(1 473)	–	1 990
Loss	9 321	(6 958)	–	2 363
Total	**351 981**	**(10 928)**	**(1 543)**	**339 510**
31 Dec 2013				
Standard	275 413	–	(986)	274 427
Watch	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
Total	**300 073**	**(9 142)**	**(986)**	**289 945**

MCZK	31 Dec 2014	31 Dec 2013
Receivables not impaired		
Internal rating 1	5 206	2 896
Internal rating 2	12 383	20 113
Internal rating 3	31 124	29 504
Internal rating 4	87 253	79 399
Internal rating 5	83 649	71 005
Internal rating 6	70 429	51 415
Other internal rating	19 331	17 012
Receivables without internal rating	10 781	4 069
Total	**320 156**	**275 413**
Receivables impaired	31 825	24 660
Total	**351 981**	**300 073**

The Group regularly classifies its receivables. The categories used for classification consider the Group's analysis as to the probability of repayment and analysis of the borrower's behaviour (number of days payments are past due, financial performance, payment discipline, etc.). The Group assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realised collateral); in respect of 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 Group only classifies receivables past due having reached the amount of TCZK 1 per client.

MCZK	31 Dec 2014	31 Dec 2013
Receivables not impaired, gross		
Due receivables	312 898	274 628
1–30 days past due	7 258	785
31–90 days past due	–	–
91–180 days past due	–	–
More than 180 days past due	–	–
Total	**320 156**	**275 413**

(c) Analysis of Receivables from Clients, by Sector

MCZK	31 Dec 2014	31 Dec 2013
Financial institutions	13 731	21 654
Non-financial institutions	240 748	195 484
Government sector	1 102	1 145
Individuals and others	83 929	71 662
Total	**339 510**	**289 945**

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

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
At 31 Dec 2014						
Bank and similar guarantee	10 601	15	2	–	–	10 618
Real estate	78 999	2 489	2 270	495	1 075	85 328
Corporate guarantee	1 330	16	–	–	–	1 346
Movable assets	20 015	868	270	106	756	22 015
Other security	3 936	882	504	3	676	6 001
Unsecured	209 173	7 803	4 725	2 833	6 174	230 708
Total	**320 156**	**11 111**	**7 930**	**3 463**	**9 321**	**351 981**
At 31 Dec 2013						
Bank and similar guarantee	11 635	17	214	–	–	11 866
Real estate	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
Total	**275 413**	**10 155**	**4 829**	**2 612**	**7 064**	**300 073**

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 45,724 (as of 31 December 2013: MCZK 53,035). 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 2014	31 Dec 2013
Czech Republic	207 514	187 317
Slovakia	102 636	84 588
Other EU countries	23 402	10 894
Other	5 958	7 176
Total	**339 510**	**289 945**

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

MCZK	31 Dec 2014	31 Dec 2013
Real estate services	69 645	66 730
Financial services	13 650	21 654
Wholesale	29 505	20 918
Household services	78 562	69 504
Retail	4 602	4 613
Leasing and rental	2 880	1 996
Automotive industry	5 282	5 425
Power industry	31 894	30 400
Other	103 490	68 705
Total receivables from clients	**339 510**	**289 945**

(g) Impairment of Receivables from Clients

MCZK	
Balance as of 1 Jan 2013	**(7 331)**
Creation during the period	(1 571)
Release during the period	777
Net effect on profit or loss	(794)
Receivables written off – use	972
FX differences	18
Balance at 30 Jun 2013	(7 135)
Addition arising from the merger	(1 968)
Creation during the period	(1 784)
Release during the period	439
Net effect on profit or loss	(1 345)
Receivables written off – use	380
FX differences	(60)
Total impairment of receivables from clients as of 31 Dec 2013	**(10 128)**
Balance as of 1 Jan 2014	**(10 128)**
Addition arising from the merger	(2 288)
Creation during the period	(3 588)
Release during the period	1 493
Net effect on profit or loss	(2 095)
Receivables written off – use	2 062
FX differences	(22)
Total impairment of receivables from clients as of 31 Dec 2014	**(12 471)**

(h) Receivables from Finance Leases

	Minimum lease payment		Present value of the minimum lease instalment	
MCZK	**31 Dec 2014**	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Receivables from finance leases:				
Within 1 year	8 694	–	7 681	–
From one year to five years	15 160	–	13 311	–
More than five years	7 866	–	6 812	–
	31 720	–	27 804	–
Minus: unrealised income	(3 916)	–	–	–
Present value of the receivable from the minimum lease instalment	**27 804**	**–**	**27 804**	**–**

21. Equity investments

MCZK	Assets	Operating income	Profit/ (loss)	Equity	Net book value
31 Dec 2014					
RCI Financial Services, s.r.o.	2 392	235	144	746	542
Total					**542**

Changes in Investments in Associates

MCZK	
Balance as of 1 Jan 2014	**–**
Addition arising from consolidation	489
Change in profit or loss	71
Change in equity	(18)
Total	**542**

22. Positive fair value of hedging derivatives

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Fair value hedging	–	353	–	353
Cash flow hedging	–	5 070	–	5 070
Total	**–**	**5 423**	**–**	**5 423**
31 Dec 2013				
Fair value hedging	–	439	–	439
Cash flow hedging	–	2 897	–	2 897
Total	**–**	**3 336**	**–**	**3 336**

23. Property and equipment

MCZK	31 Dec 2014	31 Dec 2013
Property and equipment for operations		
Buildings and land	1 928	1 649
Office equipment	77	88
IT equipment	202	156
Other	1 492	24
Property and equipment held as an investment		
Buildings and land	983	–
Total	**4 682**	**1 917**

(a) Movements in Property and Equipment Held for Operations

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2013	**2 159**	**227**	**411**	**86**	**2 883**
Accumulated depreciation and impairment at 1 Jan 2013	(1 285)	(154)	(319)	(40)	(1 798)
Net Book Value at 1 Jan 2013	**874**	**73**	**92**	**46**	**1 085**
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 sale	–	–	–	–	–
Other and FX rate gains or losses	51	6	–	4	61
Net Book Value at 31 Dec 2013	**1 649**	**88**	**156**	**24**	**1 917**
Cost at 31 Dec 2013	3 681	503	694	30	4 908
Accumulated depreciation and impairment at 31 Dec 2013	(2 032)	(415)	(538)	(6)	(2 991)

The impairment loss as of 31 December 2013 included the decrease in the net book value of the buildings of MCZK 250 that was released in 2014.

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2014	**3 681**	**503**	**694**	**30**	**4 908**
Accumulated depreciation and impairment at 1 Jan 2014	(2 032)	(415)	(538)	(6)	(2 991)
Net Book Value at 1 Jan 2014	**1 649**	**88**	**156**	**24**	**1 917**
Additions arising from consolidation	1	3	2	1 163	1 169
Additions	229	12	137	963	1 341
Disposals	–	(2)	–	(307)	(309)
Depreciation charges	102	(12)	(64)	(335)	(309)
Transfers to assets held for sale	–	–	–	–	–
Other and FX rate gains or losses	(53)	(12)	(29)	(16)	(110)
Net Book Value at 31 Dec 2014	**1 928**	**77**	**202**	**1 492**	**3 699**
Cost at 31 Dec 2014	3 766	483	1 016	2 167	7 742
Accumulated depreciation and impairment at 31 Dec 2014	(1 838)	(406)	(814)	(675)	(3 733)

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

MCZK	Buildings and land	Total
Cost at 1 Jan 2014	**–**	**–**
Accumulated depreciation and impairment at 1 Jan 2014	–	–
Net Book Value at 1 Jan 2014	**–**	**–**
Additions arising from the consolidation	1 151	1 151
Additions	–	–
Disposals	(122)	(122)
Depreciation charges	(46)	(46)
Transfers to assets held for sale	–	–
Other and FX rate gains or losses	–	–
Net Book Value at 31 Dec 2014	**983**	**983**
Cost at 31 Dec 2014	1 395	1 395
Accumulated depreciation and impairment at 31 Dec 2014	(412)	(412)

24. Intangible assets

Movements in Intangible Assets

MCZK	Software	Other	Total
Cost at 1 Jan 2013	**7**	**5**	**12**
Accumulated amortisation and impairment at 1 Jan 2013	(5)	(5)	(10)
Net Book Value at 1 Jan 2013	**2**	**–**	**2**
Additions arising from the merger	33	1	34
Additions	4	–	4
Disposals	–	–	–
Amortisation charges	(28)	–	(28)
Net Book Value at 31 Dec 2013	**11**	**1**	**12**
Cost at 31 Dec 2013	854	8	862
Accumulated amortisation and impairment as of 31 Dec 2013	(843)	(7)	(850)
Cost at 1 Jan 2014	**854**	**8**	**862**
Accumulated amortisation and impairment at 1 Jan 2014	(843)	(7)	(850)
Net Book Value at 1 Jan 2014	**11**	**1**	**12**
Additions arising from consolidation	59	–	59
Additions	49	–	49
Disposals	–	(1)	(1)
Amortisation charges	(22)	–	(22)
Net Book Value at 31 Dec 2014	**97**	**–**	**97**
Cost at 31 Dec 2014	1 286	8	1 294
Accumulated amortisation and impairment at 31 Dec 2013	(1 189)	(8)	(1 197)

25. Other assets

MCZK	31 Dec 2014	31 Dec 2013
Deferred expenses and accrued income	523	251
Prepayments made in relation to cash additions to ATMs and cash registers	1 226	1 023
Receivables from securities	2	3
Other taxes	136	–
Suspense accounts	481	535
Other	483	203
Total	**2 851**	**2 015**
Impairment of other assets	(23)	(22)
Net other assets	**2 828**	**1 993**

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2014	31 Dec 2013
Deposits from central banks	4 105	–
Current accounts	9 020	4 197
Loans	33 671	13 807
Term deposits	5 023	19 336
Repurchase commitments (see Note 37)	2 920	12 454
Other	3	4
Total	**54 742**	**49 798**

27. Deposits from clients

Analysis of Deposits from Clients by Type

MCZK	31 Dec 2014	31 Dec 2013
Current accounts	264 936	233 269
Term deposits	51 217	59 233
Repurchase commitments (see Note 37)	8 996	11 827
Other	3 436	1 969
Total	**328 585**	**306 298**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2014	31 Dec 2013
Mortgage bonds	35 675	29 853
Structured bonds	6 773	4 990
Zero coupon bonds	3 803	5 176
Other issued debt securities	1 034	3 022
Total	**47 285**	**43 041**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 7,228 (at 31 December 2013: MCZK 5,236). The positive fair value of these derivatives of MCZK 55 is reported under “Financial assets held for trading” (at 31 December 2013: MCZK 20); the negative fair value of these derivatives of MCZK 339 is recognised under “Financial liabilities held for trading” (at 31 December 2013: MCZK 180).

29. Financial liabilities held for trading

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Liabilities from short sales	783	–	–	783
Derivatives	–	6 769	–	6 769
Total	**783**	**6 769**	**–**	**7 552**
31 Dec 2013				
Liabilities from short sales	858	–	–	858
Derivatives	–	4 530	–	4 530
Total	**858**	**4 530**	**–**	**5 388**

30. Negative fair value of hedging derivatives

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Fair value hedging	–	1 288	–	1 288
Cash flow hedging	–	2 157	–	2 157
Total	**–**	**3 445**	**–**	**3 445**
31 Dec 2013				
Fair value hedging	–	905	–	905
Cash flow hedging	–	2 252	–	2 252
Total	**–**	**3 157**	**–**	**3 157**

31. Other liabilities

MCZK	31 Dec 2014	31 Dec 2013
Deferred income and accrued expenses	924	825
Trade payables	330	147
Payables to employees	560	446
Unsettled security transactions	35	80
Suspense accounts	3 354	3 109
Other	346	64
Total other liabilities	**5 549**	**4 671**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2014	31 Dec 2013
Provisions for off-balance sheet credit items	1 173	1 129
Legal disputes	100	77
Provision for restructuring	30	87
Other	10	14
Total provisions	**1 313**	**1 307**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
Balance at 1 Jan 2013	611
Charge during the period	42
Release during the period	(71)
Balance at 30 Jun 2013	***582***
Addition arising from the merger	565
Charge during the period	121
Release during the period	(171)
Other – FX rate gains or losses	32
Total provisions for off-balance sheet credit items at 31 Dec 2013	**1 129**
Balance at 1 Jan 2014	1 129
Charge during the period	163
Usage during the period	(20)
Release during the period	(110)
Other – foreign exchange rate gains or losses	11
Total provisions for off-balance sheet credit items at 31 Dec 2014	**1 173**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance at 1 Jan 2013	57	–	48	105
Charge during the period		–		–
Release during the period		–	(20)	(20)
Release of redundant provisions and other	(1)	–	(28)	(29)
Balance at 30 Jun 2013	***56***	***–***	***–***	***56***
Addition arising from the merger	9	7	145	161
Charge during the period	12	80	14	106
Release during the period	–	–	(126)	(126)
Release of redundant provisions and other	–	–	(19)	(19)
Total other provisions at 31 Dec 2013	**77**	**87**	**14**	**178**
Balance at 1 Jan 2014	77	87	14	178
Additions arising from consolidation	16	–	–	16
Charge during the period	83	5	–	88
Use during the period	(1)	(54)	(4)	(59)
Release of redundant provisions and other	(75)	(8)	–	(83)
Total other provisions at 31 Dec 2014	**100**	**30**	**10**	**140**

In 2014 the Bank reclassified the provision that was held for bonuses and outstanding vacation days to other liabilities.

33. Income tax

(a) Tax in Profit or Loss

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Current tax payable	(1 256)	(767)	*(575)*	*(192)*
Deferred tax	137	(19)	*260*	*(279)*
Total income tax	**(1 119)**	**(786)**	***(315)***	***(471)***

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	2014	2013	*Of which* *1 Jan–30 Jun 2013*	*1 Jul–31 Dec 2013*
Profit/loss for the year before tax	6 030	3 956	*1 715*	*2 241*
Tax calculated using the tax rate of 19%	(1 146)	(752)	*(326)*	*(426)*
Impact of prior years	15	(17)	*(15)*	*(2)*
Non-taxable income	542	684	*143*	*541*
Tax non-deductible expenses	(557)	(657)	*(378)*	*(279)*
Differences in fiscal rules	(198)	–	–	–
Change in deferred tax as part of the profit/loss	137	(19)	*260*	*(279)*
Other	88	(25)	*1*	*(26)*
Total income tax	**(1 119)**	**(786)**	***(315)***	***(471)***

The effective tax rate of the Group is 18.6% (2013: 19.9%, *of which 18.4% for the period to 30 June 2013 and 21% for the period from 1 July 2013 to 31 December 2013).*

(b) Deferred Tax Asset/Liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method under the application of the appropriate tax rate. In calculating net tax assets and liabilities, the Group offsets deferred tax assets against deferred tax liabilities arising from income tax paid to the same tax institution in the same tax category. Management of the Group believes that the Group will be able to fully recover deferred tax assets reported as of 31 December 2014 based on the current and anticipated future level of taxable profits.

Net Deferred Tax Asset

MCZK	31 Dec 2014 Deferred tax asset	31 Dec 2014 Deferred tax liability	31 Dec 2013 Deferred tax asset	31 Dec 2013 Deferred tax liability
Tax non-deductible provisions	19	–	33	–
Impairment of loans and off-balance sheet items	936	–	609	–
Differences arising from the net book values of assets	7	–	–	–
Reserve from revaluation of hedging instruments	25	–	6	–
Reserve from revaluation of available-for-sale securities	–	(19)	–	(7)
Tax loss	51			
Other	12	(44)	2	
Deferred tax liability/asset	1 050	(63)	650	(7)
Net deferred tax asset	**987**	**–**	**643**	**–**

The Group 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 92 (at 31 December 2013: MCZK 164), which was not recognised by the Group on the grounds of prudence.

(ii) Net Deferred Tax Liability

MCZK	31 Dec 2014 Deferred tax asset	31 Dec 2014 Deferred tax liability	31 Dec 2013 Deferred tax asset	31 Dec 2013 Deferred tax liability
Tax non-deductible provisions	101	–	82	–
Impairment of loans and off-balance sheet items	220	–	240	–
Leases	–	(510)	–	–
Differences arising from the net book values of assets	3	(18)	–	(9)
Reserve from revaluation of hedging instruments	–	(520)	–	(205)
Reserve from revaluation of available-for-sale securities	–	(591)	–	(323)
Other	–	(27)	–	–
Deferred tax liability/asset	324	(1 666)	322	(537)
Net deferred tax liability	**–**	**(1 342)**	**–**	**(215)**

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 2014 (MCZK 8,755 as of 31 December 2013).

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2014				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99,94
Minority shareholders		5	12	0,06
Total		**8 755**	**3 495**	**100,00**
At 31 Dec 2013				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99,94
Minority shareholders		5	12	0,06
Total		**8 755**	**3 495**	**100,00**

(b) Capital Breakdown

	31 Dec 2014 Počet akcií	31 Dec 2014 MCZK	31 Dec 2013 Počet akcií	31 Dec 2013 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Bank's governance and the entitlement to a share on profit. Both at 31 December 2014 and 31 December 2013, the Bank held no treasury shares.

35. Equity-based bonuses

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

36. Retained earnings, reserve funds and other capital funds

The following table shows the breakdown of the reserve funds:

MCZK	31 Dec 2014	31 Dec 2013
Reserve funds	3 372	3 214
Other capital funds	1 647	–
Special-purpose reserve fund	11 611	11 611
Retained earnings	18 978	17 551
Foreign exchange rate gains or losses from consolidation	6	–
Total	**35 614**	**32 376**

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

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

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

(a) Reverse Repurchase Transactions

MCZK	31 Dec 2014	31 Dec 2013
Receivables from banks	630	29 140
Fair value of securities received	615	28 567
Receivables from clients	–	12
Fair value of securities received	–	11

Securities received as collateral as part of reverse repurchase transactions of MCZK 679 are further provided as collateral under repurchase transactions.

(b) Repurchase Transactions

MCZK	31 Dec 2014	31 Dec 2013
Deposits from banks	2 920	12 454
Fair value of securities provided	2 827	11 678
Deposits from clients	8 996	11 827
Fair value of securities provided	11 822	12 264

38. Contingent liabilities, contingent assets and financial derivatives

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

(a) Contingent Liabilities

Legal Disputes
As of 31 December 2014, the Group assessed the legal disputes in which it acted as a defendant. The Group established provisions for these legal disputes (see Note 32). In addition to these disputes, legal actions arising from ordinary business activities were taken against the Group. The management does not anticipate the result of these legal disputes to have a material impact on the Group's financial position.

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

Liabilities arising from Guarantees, Credit Commitments and Other Contingent Liabilities
Contingent liabilities predominantly include amounts of undrawn credit commitments. Credit commitments issued by the Group include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include credits and guarantees that may be revoked by the Group at any time without stating the reason. On the contrary, irrevocable commitments represent the Group's liability to provide a credit or issue a guarantee, the performance of which, even though bound on meeting the contractual terms by the client, is to a certain extent independent of the Group's will. Liabilities arising from financial guarantees include irrevocable confirmations made by the Group

to perform payments, under the condition that the terms defined under individual guarantee certificates are met. As such confirmations bear similar risk as credits, the Group creates the relevant provisions using a similar algorithm as for credits (see Note 40).
Documentary letters of credit represent a written irrevocable commitment of the Group issued based on a client's request (orderer), to provide a third party or to its order (recipient, beneficiary), with certain performance, under the condition that the terms of the letter of credit are met by a specified deadline. For these financial instruments, the Group creates provisions using a similar algorithm as applied for credits (see Note 40).
The Group created provisions for off-balance sheet items to cover losses incurred and arising from the impairment of the off-balance sheet items due to credit risk. As of 31 December 2014, the aggregate provisions amounted to MCZK 1,173 (as of 31 December 2013: MCZK 1,129, as of 31 December 2012: MCZK 611), see Note 32 (a).

MCZK	31 Dec 2014	31 Dec 2013
Letters of credit and financial guarantees	35 635	40 470
Other contingent liabilities (undrawn credit facilities)	108 242	101 076
Total	**143 877**	**141 546**

Values Taken into Administration and Management

MCZK	31 Dec 2014	31 Dec 2013
Bonds	514 507	432 671
Shares	182 931	211 831
Depository notes	20 531	18 063
Total values taken into administration and management	**717 969**	**662 565**

(b) Contingent Assets

As of 31 December 2014, the Group had an option to draw a credit line provided by the European Investment Bank (EIB) amounting to MCZK 2,329 (MEUR 84) 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. The Group has additionally an option to draw a credit line from the Council of Europe Development Bank of MCZK 970 (MEUR 35) with the latest maturity of nine years from the time of drawing and a credit line from The Export-Import Bank of The Republic of China of MCZK 184 (MUSD 8) with the latest maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2014			
Trading instruments – interbank market (OTC)			
Options	44 735	814	(797)
Interest rate swap contracts	213 783	3 876	(3 856)
Forward rate agreements (FRA)	200	–	–
Cross currency swap contracts	27 543	1 661	(1 578)
Term currency transactions	57 380	720	(269)
Other instruments	2 325	272	(269)
Total	**345 966**	**7 343**	**(6 769)**
Trading instruments – stock exchange			
Futures	1 802	27	–
Total trading instruments	**347 768**	**7 370**	**(6 769)**
Hedging instruments			
Interest rate swap contracts	150 099	5 290	(3 421)
Cross currency swap contracts	21 805	133	(24)
Total hedging instruments	**171 904**	**5 423**	**(3 445)**

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2013			
Trading instruments – interbank market (OTC)			
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)
Total	**336 576**	**4 416**	**(4 530)**
Trading instruments – stock exchange			
Futures	1 070	32	–
Total trading instruments	**337 646**	**4 448**	**(4 530)**
Hedging instruments			
Interest rate swap contracts	138 476	3 221	(2 477)
Cross currency swap contracts	26 688	115	(680)
Total hedging instruments	**165 164**	**3 336**	**(3 157)**

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

MCZK	Up to 1 year	1–5 years	Over 5 years	Total
31 Dec 2014				
Trading instruments				
Interest rate instruments	34 482	135 188	56 299	225 969
Equity instruments	2 419	9 779	1 442	13 640
Currency instruments	69 939	15 627	18 466	104 032
Other	2 042	283	–	2 325
Total	**108 882**	**160 877**	**76 207**	**345 966**
Hedging instruments				
Interest rate instruments	15 557	73 738	60 804	150 099
Currency instruments	1 660	8 189	11 956	21 805
Total	**17 217**	**81 927**	**72 760**	**171 904**

MCZK	Up to 1 year	1–5 years	Over 5 years	Total
31 Dec 2013				
Trading instruments				
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	1 520	756	–	2 276
Total	**138 458**	**137 859**	**60 259**	**336 576**
Hedging instruments				
Interest rate instruments	24 146	66 190	48 140	138 476
Currency instruments	6 078	7 564	13 046	26 688
Total	**30 224**	**73 754**	**61 186**	**165 164**

39. Segment reporting

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

(a) Segment Information by Client Category

MCZK	Retail banking (retail) / small and medium-sized businesses	Private, corporate and investment banking	Other	Total
At 31 Dec 2014				
Net interest and dividend income	2 753	6 900	397	10 050
Other net income	1 829	3 382	(74)	5 137
Depreciation/impairment losses of property and equipment and intangible assets	(170)	(441)	234	(377)
Impairment of assets and provisions	(646)	(1 563)	(108)	(2 317)
Segment expenses	(3 452)	(2 500)	(511)	(6 463)
Profit before tax	314	5 778	(62)	6 030
Income tax	–	–	(1 119)	(1 119)
Result of segment	314	5 778	(1 181)	4 911
Segment assets	83 804	416 959	7 853	508 616
Segment liabilities	112 145	308 919	29 142	450 206

Total assets amount to CZK 112 billion relating to the Slovak branch (2013: CZK 107 billion). The Slovak branch reported operating income of CZK 3.7 billion for 2014 (CZK 1.7 billion for the second half of 2013).

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

MCZK	Retail banking (retail) / small and medium-sized businesses	Private, corporate and investment banking	Other	Total
At 31 Dec 2013				
Net interest and dividend income	2 142	4 736	248	7 126
Other net income	1 724	2 778	535	5 037
Depreciation/impairment losses 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

40. Financial risk management

(a) Introduction

The Group is exposed to the following types of risk:
- Credit risk;
- Market risk; and
- Operational risk.

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

The Board of Directors has established the Assets and Liabilities Committee (ALCO), the Credit Committee and the Committee for Operational Risk Management. These committees are in charge of monitoring and managing individual risks with regard to individual specific fields. The committees report to the Board of Directors on a regular basis.
During the year ended 31 December 2014, the Group started to gradually align risk management methods within the Group.
The principal part of the Group is the Bank; for this reason, the below description primarily relates to the risk management in the Bank.
Risk management in subsidiaries is described in Note 40b (v).

(b) Credit Risk

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

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

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. All these departments are organisationally independent of the business divisions and are directly accountable to a member of the Board of Directors in charge of the risk management division.

Under its credit policy, the Bank defines the general principles, methods and instruments applied in identifying, measuring and managing credit risk. The definition of the Bank's credit policy is rendered by the Strategic Credit Risk Management department. The policy is reviewed by this department on a regular basis, minimally once a year.

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

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

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

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc).

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

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

The Bank likewise sets and regularly updates the probability of client default – natural entities, using the behavioural scoring method.

A client's final rating combines both application and behavioural components.

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

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

(ii) Credit Risk Management on the Portfolio Level

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

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

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

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a monthly basis, in accordance with the applicable decree of the Czech National Bank. The Bank assesses on a regular basis whether any impairment of receivables has occurred. If any such impairment is identified, the Bank reports impairment losses for individual accounts receivable or receivable portfolios, in accordance with IFRS.

<u>Impairment Losses on Individual Receivables</u>

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 and the discounted value of estimated future cash flows.

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, ie 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).

(v) Risk Management in Subsidiaries

The risk management in subsidiaries follows similar principles as the risk management in the Bank taking into account specific features of products provided by subsidiaries and their portfolios. These specific features primarily include the following:

- Determination of the fair value of financed assets when deciding on the provision of funding;
- Management of risk of a market value change of financed assets during financing;
- Valuation and selling activities after an extraordinary termination of a contract (or due termination of a contract in respect of operating leases) and management of the risk arising from these operations;
- Control activities to prove the connection of the purpose of financing with the existence of the financed asset before the conclusion of the contract and during the contract period (including the prevention against fraudulent activities); and
- Management of the risk of concentration in relation to types of financed assets (classes of assets).

The organisational structure of risk management, risk decision-making committees and system for the allocation of authorities are adjusted to reflect the specific features or products and risks of subsidiaries. This ensures both the independence of risk management from business activities and independence of the persons participating in the valuation of assets and their realisation from the persons having the decision-making authority in the provision of funding.

(c) Market Risks

(i) Trading

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

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

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

(ii) Market Risk Management

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

Value at Risk

Value at Risk represents the main method for managing the market risks arising from the Bank's open positions. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. Value at Risk is measured based on a 1-day holding period and a confidence level of 99%. The pre-conditions for the Value at Risk model have the following limitations:

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

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

Back Testing – Value at Risk

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

MCZK	At 31 Dec 2014	Average for 2014	At 31 Dec 2013	Average for 2013
Aggregate VaR	109,4	164,5	162,5	169
VaR of currency instruments	2,34	2,5	3,95	3,44
VaR of equity instruments	0	0,95	0,03	0,84

Interest Rate Risk

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

The Group's overall interest rate position as of 31 December 2014 is characterised by greater interest rate sensitivity on the assets side as compared to the liabilities side. This can be seen in the negative aggregate basis point value (BPV) – if the interest rates under individual currencies increased in parallel, there would be a decrease in market revaluation. The Group's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

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

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

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

Stress Testing of Interest Rate Risk

The Group carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the Group's financial results. Given that the Group 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 Group's results. The Group uses the euro as the base currency for stress testing. The values as of 31 December 2014 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 2014 and 31 December 2013 (2014: 27.725 CZK/EUR; 2013: 27.425 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 2014: 27.533 CZK/EUR; average 2013: 25.976 CZK/EUR).

	Basic stress test		MM stress test
MCZK	**–200bp**	**+200bp**	**+250bp**
Value at 31 Dec 2014	383	(2 070)	(1 149)
Average for the period	181	(1 298)	(584)
Maximum value	388	(681)	19
Minimum value	35	(2 070)	(1 149)
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)

In line with the Group's resolution, the methodology used to quantify interest rate risk changed which led to an increase in the BPV value.

Hedge Accounting

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

Fair Value Hedging

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

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

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

Cash Flow Hedging

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

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

The Group monitors whether the absolute value of future variable interest cash flows from hedged deals for specific time periods exceeds the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedging derivatives.

The time periods are defined as follows: up to 2 years by months, further by individual years, 10-15 years, and more than 15 years.

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

Currency Risk

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

The Group has established a system of currency risk limits based on its net currency exposure in individual currencies. The Group has determined a currency risk limit of MEUR 45 with respect to the total net currency exposure and to individual main currencies (CZK, EUR), and of MEUR 25 to the USD. For other currencies, the limits from MEUR 2 to MEUR 9 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
At 31 Dec 2014						
Cash in hand and cash balances	1 778	2 005	221	32	99	4 135
Financial assets at fair value through profit or loss, including	6 157	5 153	892	0	777	12 979
of which:						
– held for trading	5 099	4 939	892	0	777	11 707
– not held for trading	1 058	214	–	–	–	1 272
Available-for-sale securities	52 051	36 294	–	–	–	88 345
Securities held to maturity	–	191	–	–	–	191
Receivables from banks	37 502	10 656	301	16	307	48 782
Receivables from clients	162 485	169 531	3 354	1 868	2 272	339 510
Positive fair value of hedging derivatives	3 893	1 530	–	–	–	5 423
Investments in associates	542	–	–	–	–	542
Property and equipment	3 075	1 607	–	–	–	4 682
Intangible assets	31	66	–	–	–	97
Tax receivables	112	990	–	–	–	1 102
Other assets	1 642	780	336	16	54	2 828
Total assets	269 268	228 803	5 104	1 932	3 509	508 616
Deposits from banks	18 614	34 110	1 042	950	26	54 742
Deposits from clients	185 628	123 576	13 071	1 064	5 246	328 585
Debt securities issued	33 325	13 837	123	–	–	47 285
Financial liabilities held for trading	4 429	2 696	403	–	24	7 552
Negative fair value of hedging derivatives	1 682	1 763	–	–	–	3 445
Tax liabilities	1 500	235	–	–	–	1 735
Other liabilities	1 672	3 542	230	12	93	5 549
Provisions	1 268	45	–	–	–	1 313
Equity	44 847	13 561	2	–	–	58 410
Total liabilities and equity	292 965	193 365	14 871	2 026	5 389	508 616
Gap	(23 967)	35 438	(9 767)	(94)	(1 880)	–
At 31 Dec 2013						
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	12 253	3 160	26	20	15	15 474
of which:						
– 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
Securities held to maturity	–	1 128	–	–	–	1 128
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
Total assets	253 294	204 283	4 824	1 152	1 069	464 622
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	2 557	–	9	–	3 157
Tax liabilities	215	–	–	–	–	215
Other liabilities	1 611	2 717	281	7	55	4 671
Provisions	1 134	173	–	–	–	1 307
Equity	38 499	12 256	1	2	(11)	50 747
Total liabilities and equity	270 766	182 289	8 337	775	2 455	464 622
Gap	(17 472)	21 994	(3 513)	377	(1 386)	–

Equity Risk

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

Liquidity Risk

Liquidity risk arises as a result of the manner of financing the Group's activities and managing its positions. It includes both the risk that the Group would be unable to finance its assets using instruments with appropriate maturity and the risk that the Group would be unable to dispose of its assets for an appropriate price within the necessary time period. The Group has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Group flexible and limits its dependency on any single funding source. The Group regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Group's liquidity risk management strategy, which is approved by the Board of Directors. The Group also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds. Liquidity risk is evaluated regularly by the Group using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Group monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If limits are breached, the Group takes action to reduce the liquidity risk. In the long-term (structural) perspective, the Group monitors the difference between the maturity of assets and liabilities in periods longer than one year. For products with non-specified maturity (i.e. current accounts) the Group has developed a model for their expected residual maturity. The Group again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing). The Group has drawn up a contingency plan for the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation. Stress tests of short-term liquidity are performed by the Group on a weekly basis. The stress tests verify the Group's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Group. The stress scenarios' results are presented to the ALCO.

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

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2014							
Cash in hand and cash balances	4 135	4 135	4 135	–	–	–	–
Financial assets at fair value through profit or loss, including	12 979	13 489	833	2 291	4 550	5 780	35
of which:							
– held for trading	11 707	12 206	652	1 194	4 545	5 780	35
– not held for trading	1 272	1 283	181	1 097	5	–	–
Available-for-sale securities	88 345	96 661	2 014	20 467	41 461	32 712	7
Securities held to maturity	191	233	2	7	224	–	–
Receivables from banks	48 782	48 814	44 595	1 486	2 710	–	23
Receivables from clients	339 510	378 924	46 085	60 364	140 333	129 639	2 503
Positive fair value of hedging derivatives	5 423	5 423	9	150	2 225	3 039	–
Equity investments	542	542	–	–	–	–	542
Property and equipment	4 682	4 682	–	–	–	–	4 682
Intangible assets	97	97	–	–	–	–	97
Tax receivables	1 102	1 102	–	1 102	–	–	–
Other assets	2 828	2 828	34	–	–	–	2 794
Deposits from banks	54 742	54 822	24 428	5 214	17 685	7 495	–
Deposits from clients	328 585	328 989	300 649	20 610	4 652	362	2 716
Debt securities issued	47 285	51 836	1 021	13 088	31 909	5 506	312
Financial liabilities held for trading	7 552	7 552	395	704	2 295	4 158	–
Negative fair value of hedging derivatives	3 445	3 445	21	118	1 500	1 806	–
Tax liabilities	1 735	1 735	–	1 735	–	–	–
Other liabilities	5 549	5 549	281	21	–	–	5 247
Provisions	1 313	1 313	–	–	–	–	1 313
Equity	58 410	58 410	–	–	–	–	58 410
Undrawn loan facilities	108 242	108 242	16 252	56 032	18 149	17 809	–
Bank guarantees	35 635	35 635	4 152	11 293	16 268	3 917	5

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2013							
Cash in hand and cash balances	3 969	3 969	3 969	–	–	–	–
Financial assets at fair value through profit or loss, including	15 474	17 364	3 392	5 029	5 455	3 416	72
of which:							
– 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	4 671	4 671	157	–	–	–	4 514
Provisions	1 307	1 307	714	–	–	–	593
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	–

(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 2014, the Group 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 2014, the Bank analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances the overall awareness of operational risk within the Bank and trains the Bank's staff both by means of training sessions and e-learning courses.

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

(e) Capital Management

Management of the Group monitors the development of the Group's capital adequacy on a consolidated basis and its capital position. The regulator of the banking market, the Czech National Bank, established rules for the calculation of capital requirements and monitors their development. Since 1 January 2014, the Group has met the requirements of Basel III (Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms) that was implemented by the Czech National Bank through Decree No. 163/2004 Coll. on the performance of the activity of banks, credit unions and investment firms. The Basel III rules were established in response to the financial crisis and introduce requirements for increased capital quality, requirement for an increased coverage of risks, the minimum standard for liquidity management, rules for the leverage ratio and improve risk management and corporate governance.

The transfer to the Basel III rules did not have a significant impact on the capital adequacy. The original capital (Tier 1) is currently part of Tier 1 common capital (CET1) which is the supreme quality capital. The Group has newly included the capital requirement relating to the risk of the credit valuation adjustment in the capital adequacy; this has no significant impact on the total capital.

Several new requirements were introduced in relation to risk-weighted assets which, in aggregate, had no significant impact on risk-weighted assets. The impact of the increase in the correlation coefficient in exposures to large entities in the financial sector and unregulated financial entities was balanced by the impact of the reduction factor for exposures to small and medium-sized companies.

The Bank's regulatory capital consists of the following:

- Tier 1 capital which comprises paid up registered capital, share premium, reserve funds, retained earnings, foreign exchange rate gains or losses from consolidation, post-tax profit for the period if audited at the time of reporting; minus intangible assets; and
- Tier 2 capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

The Group complies with the newly defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

(f) Market Development in 2014

Throughout 2014, the Czech National Bank kept its commitment not to allow the Czech crown to strengthen below CZK 27/EUR. The Czech crown oscillated slightly above this intervention zone (approximately CZK 27.40/EUR) during the first half of the year. In August, it temporarily weakened to CZK 27.80/EUR in relation to the escalation of the political situation in the Ukraine and increased geopolitical risk in the CEE region. During Autumn, the situation partially calmed down and the rate was CZK 27.725/EUR by the end of the year.

Another factor that influenced both the exchange rate of CZK and interest rates was the decrease in crude oil prices in the third and last quarter. Crude oil (WTI contract) decreased from its maximum balances of USD 106/barrel in mid-2014 to USD 53/barrel at the end of 2014. The rapid decline in prices resulted in downward pressure in consumer prices (CPI index), both in the EU and in the Czech Republic, which resulted in concerns on the part of certain investors about the delay in foreign exchange intervention or even its move to CZK 30/EUR. The Czech National Bank subsequently assessed that the disinflation process itself, resulting from the decline in crude oil prices, does not call for a change in the currency policy setting.

A more significant decrease in the CZK/USD rate resulted from concerns about the start of quantitative easing in EMU. In the latter half of 2014, the EUR started to weaken in respect of the USD which had an impact on CZK, weakening from levels around CZK 20/USD to CZK 23/USD at the year-end.

The year ended 31 December 2014 saw a decline in interest rates. The 10-year interest rate swap declined from 2% to 0.85% at the year-end. The principal reasons were continuing concerns about deflation and excess liquidity in bank balances that resulted in a high demand for government bonds, as safe instruments for the placement of excess liquidity throughout the year. Czech government bonds saw a significant decline in yields and consequently an increase in prices. The Credit Spread of the 10-year government bond (CZGB 5,7/24), in respect of the IRS, declined from a balance ranging around 40bps at the beginning of 2014 to –40bps at the year-end. This development has had a positive impact on the Bank's bond portfolio, which saw a positive development in the fair value due to the decrease in interest rates and credit spreads.

The macroeconomic environment in the Czech Republic continued to improve throughout the year. The industrial production bounced from the bottom and increased by 4.9% in 2014. Due to low inflation and a decrease in the unemployment rate (a year-on-year decrease from 8.2 to 7.5% at the end of 2014), the available income of households increased and led to a rise in retail sales in 2014 by solid 5.4% (as compared to a moderate increase of 1.2% in 2013). Household consumption was one the principal drivers of economic growth in 2014. The anticipated growth in GDP for 2014, at around 2%, will very likely be confirmed.

The year-on-year increase in the volume of client deposits in 2014 continued to be higher than the increase in provided client loans. The Bank invested the excess 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 2014, the Bank continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk

- More accurate specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
- Change in selected product parameters and credit products in retail banking;
- Strengthening of the procedure for credit fraud identification, monitoring the process related to the loan portfolio (timely identification of the warning signals) and of the process for recovery of loan receivables);
- Continuous improvement of the Bank's own estimates of risk parameters (PD, LGD, EAD); and
- Start of 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 successfully completed the implementation of a new IT system for treasury (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 of the Czech market.
- In the second quarter of 2014, the Bank launched a new IT platform for the calculation of VaR and BPV, which resulted in aligning the methodology and calculation results in the entire CEE division.
- In the first quarter of 2014, the Bank introduced reporting in line with the requirements of the European Market Infrastructure Regulation (EMIR).

(iii) Liquidity

- The Bank continued to improve the calculation methodology for the Basel III LCR indicators and continued to prepare for regular LCR reporting to regulatory authorities.

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.

MCZK	31 Dec 2014	31 Dec 2013
Assets		
Financial assets held for trading	13	3
Receivables from banks	3 756	9 318
Securities available for sale	4 793	4 793
Total	**8 562**	**9 321**
Liabilities		
Deposits from banks	7 423	15 660
Financial liabilities held for trading	1	9
Total	**7 424**	**15 669**
Off-balance sheet items		
Issued guarantees	609	334
Irrevocable credit facilities	44	283
Total	**653**	**617**
Interest and similar income	116	78
Interest and similar expenses	(36)	(30)
Income from fees and commissions	18	8
Expenses for fees and commissions	(17)	(16)
Net profit from financial assets and liabilities held for trading	19	(6)
General administrative expenses	56	29
Total	**156**	**63**

(b) Transactions with other related parties

MCZK	31 Dec 2014	31 Dec 2013
Assets		
Financial assets held for trading	927	611
of which:		
UniCredit Bank AG	913	598
Receivables from banks	3 231	2 181
of which:		
UniCredit Bank AG	1 354	940
UniCredit Bank Serbia Jsc	–	403
UniCredit Bank Hungary Zrt.	290	248
UniCredit S.p.A.	561	515
ZAO UniCredit Bank	1 012	–
Receivables from clients	374	5 665
of which:		
UniCredit Leasing Group	–	5 229
UCTAM CZ	282	222
Board of Directors	7	8
Other executives	77	96
Positive fair value of hedging derivatives	2 140	1 500
of which:		
UniCredit Bank AG	2 140	1 500
Total	**6 672**	**9 957**

MCZK	31 Dec 2014	31 Dec 2013
Liabilities		
Deposits from banks	1 933	3 453
of which:		
UniCredit Luxembourg S.A.	20	342
UniCredit Bank AG	1 796	3 026
UniCredit Bank Hungary Zrt.	2	29
UniCredit S.p.A.	104	45
Deposits from clients	874	1 304
of which:		
UniCredit Leasing Group	–	233
Pioneer Asset Management a.s.	404	403
Pioneer Investment Company	114	97
UniCredit Business Integrated Solutions S.p.A.	158	348
Board of Directors	91	70
Other executives	61	53
Financial liabilities held for trading	3 249	1 644
of which:		
UniCredit Bank AG	3 248	1 643
Negative fair value of hedging derivatives	2 355	1 822
of which:		
UniCredit Bank AG	2 355	1 822
Total	**8 411**	**8 223**

MCZK	31 Dec 2014	31 Dec 2013
Off-balance sheet items		
Issued guarantees	1 417	968
of which:		
UniCredit Bank AG	407	471
UniCredit S.p.A.	559	199
UniCredit Bank Hungary Zrt.	20	99
ZAO UniCredit Bank	400	93
Irrevocable credit facilities	437	2 186
of which:		
UniCredit Leasing Group	–	1 724
UniCredit Bank AG	148	113
Yapi ve Kredi Bankasi AS	–	122
UniCredit S.p.A.	108	94
Board of Directors	1	1
Other executives	4	3
Total	**1 854**	**3 154**

MCZK	2014	2013
Interest income and similar revenues	139	187
of which:		
UniCredit Bank AG	112	79
UniCredit Leasing Group	–	85
Interest expenses and similar charges	(1)	(2)
of which:		
UniCredit Bank Hungary Zrt.	–	(1)
UniCredit Leasing Group	–	–
Fee and commission income	80	24
of which:		
UniCredit Bank AG	59	7
UniCredit Leasing Group	–	4
Fee and commission expenses	(5)	(8)
of which:		
UniCredit Bank AG	(1)	(1)
UniCredit S.p.A.	–	(5)
Net income from financial assets and liabilities held for trading	(2 117)	(287)
of which:		
UniCredit Bank AG	(2 122)	(275)
Net income from hedging against risk of changes in fair value	(230)	350
of which:		
UniCredit Bank AG	(230)	350
General administrative expenses	(1 337)	(1 202)
of which:		
UniCredit S.p.A.	(54)	(53)
UniCredit Business Integrated Solutions S.p.A.	(1 252)	(1 107)
Total	**(3 471)**	**(938)**

42. Fair value of financial assets and financial liabilities

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

MCZK	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
Financial assets				
Receivables from banks	48 782	48 782	71 460	71 528
Receivables from clients	339 510	343 510	289 945	293 029
Financial liabilities				
Deposits from banks	54 742	54 432	49 798	49 693
Deposits from clients	328 585	328 941	306 298	306 622
Debt securities issued	47 285	50 330	43 041	44 189

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.
Financial assets at fair value based on Levels 1 a 2:

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Securities available for sale	Hedging derivatives	Total
31 Dec 2014					
Transfer from Level 1 to Level 2	–	–	62	–	62
Transfers from Level 2 to Level 1	155	–	5 019	–	5 174
31 Dec 2013					
Transfer from Level 1 to Level 2	12	–	–	–	12
Transfers from Level 2 to Level 1	764	99	18 169	–	19 032

For the year ended 31 December 2014 and for the period ended 31 December 2013, no financial liabilities reported at fair value were transferred between Levels 1 and 2. The following tables show transfers of financial assets and liabilities reported at fair value from and to Level 3.

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Securities available for sale	Hedging derivatives	Total
Opening balance at 1 Jan 2013	**1**	**–**	**20**	**–**	**21**
Revaluation gains and losses					
In profit or loss	–	–	(24)	–	(24)
In other comprehensive income	–	–	–	–	–
Purchases	1	–	8	–	9
Sales/maturity	(1)	–	–	–	(1)
Balance at 30 Jun 2013	***1***	***–***	***4***	***–***	***5***
Addition arising from the merger	–	–	136	–	136
Revaluation gains and losses					
In profit or loss	–	–	24	–	24
In other comprehensive income	–	–	–	–	–
Purchases	–	–	–	–	–
Sales/maturity	(1)	–	(3)	–	(4)
Transfers from/to other levels	–	–	(19)	–	(19)
Closing balance at 31 Dec 2013	**–**	**–**	**142**	**–**	**142**
Total revaluation gains and losses included in profit or loss for the period:					–
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end					–

MCZK	Financial assets at fair value through profit or loss		Securities available for sale	Hedging derivatives	Total
	Held for trading	Not held for trading			
Opening balance at 1 Jan 2014	**–**	**–**	**142**	**–**	**142**
Addition arising from the merger	–	–	–	–	–
Revaluation gains and losses					
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	–	–	–
Purchases	–	–	–	–	
Sales/maturity	–	–	–	–	–
Transfers from/to other levels	–	188	104	–	292
Other	–	–	(136)		(136)
Closing balance at 31 Dec 2014	**–**	**188**	**110**	**–**	**298**
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:

MCZK	Financial assets at fair value through profit or loss		Hedging derivatives	Total
	Held for trading	Not held for trading		
Opening balance at 1 Jan 2013	**7**	**–**	**–**	**7**
Revaluation gains and losses	–	–	–	–
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	7	–	–	7
Sales/maturity	(6)	–	–	(6)
Transfers to Level 3	(1)	–	–	(1)
Transfers from Level 3	–	–	–	–
Balance at 30 Jun 2013	***7***	***–***	***–***	***7***
Revaluation gains and losses	–	–	–	–
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	–	–	–	–
Sales/maturity	(6)	–	–	(6)
Transfers to Level 3	(1)	–	–	(1)
Transfers from Level 3	–	–	–	–
Closing balance at 31 Dec 2013	**–**	**–**	**–**	**–**
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 liabilities held at the period end				–
Opening balance at 1 Jan 2014	**–**	**–**	**–**	**–**
Revaluation gains and losses				
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	–	–	–	–
Sales/maturity	–	–	–	–
Transfers to Level 3	–	–	–	–
Transfers from Level 3	–	–	–	–
Closing balance at 31 Dec 2014	**–**	**–**	**–**	**–**
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 liabilities held at the period end				–

43. Offset of financial assets and financial liabilities

The Group does not offset financial assets and financial liabilities. The below tables provide information on potential offset of financial assets and financial liabilities.

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

MCZK	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Relating amounts that are not offset: Financial instruments	Relating amounts that are not offset: Obtained cash collateral	Net amount
31 Dec 2014						
Derivatives	2 134	–	2 134	1 560	–	574
31 Dec 2013						
Derivatives	1 954	–	1 954	935	–	1 019

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

MCZK	Gross reported financial liabilities	Gross reported financial assets	Net reported financial liabilities	Relating amounts that are not offset: Financial instruments	Relating amounts that are not offset: Provided cash collateral	Net amount
31 Dec 2014						
Derivatives	4 331	–	4 331	1 560	–	2 771
31 Dec 2013						
Derivatives	3 329	–	3 329	935	–	2 394

44. Subsequent events

On 20 January 2015, the acquisition of the 100% equity investment in Transfinance, a.s. was completed. The entity was acquired from an owner outside of the UniCredit Group. Its principal activities include the financing, collection and securing of short-term receivables of clients from various industry segments. The objective of this acquisition for the Group primarily involves further extending the range of products and services of corporate banking to include factoring that is intended primarily for small and medium sized companies.

Except for the matter referred to above, management is not aware of any other post balance sheet events that would require adjustment to these consolidated financial statements.

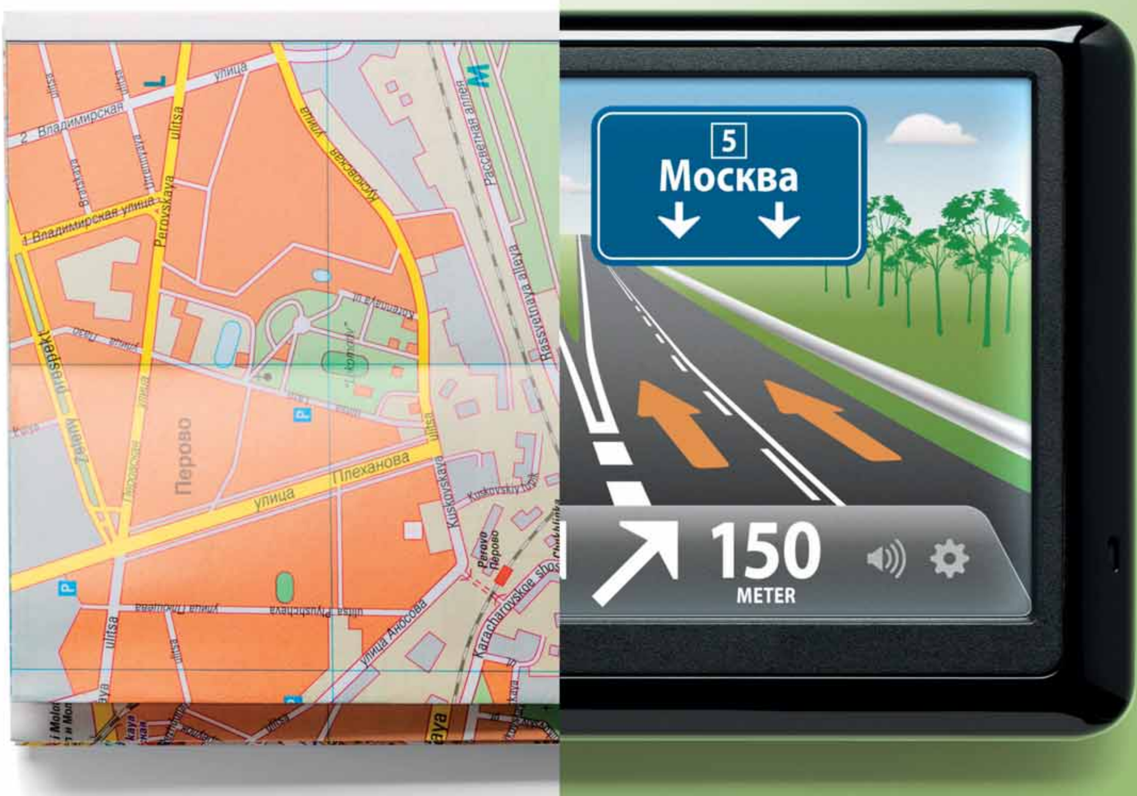
Approval date:	Stamp and signature of the statutory body:	Individual in charge of the accounting records (name, signature):	Individual in charge of the extraordinary financial statements (name, signature):
25 March 2015	Jiří Kunert Chairman of the Board of Directors Gregor Hofstaetter-Pobst Member of the Board of Directors	Jiří Kupec	Michaela Mrštíková

There is a whole world to discover.

Better discover it now.

At home when you're abroad.

Together, we can go far.
UniCredit has more than 8,500 branches and over 147,000 employees in roughly 50 markets across the world. That means we have the tools, the knowledge and the manpower to help your business go international. Our **UniCredit International Centers** gather our most experienced cross-border experts into a single, powerful network that can provide your business with the information and services it needs to succeed abroad. From evaluating investments, to identifying optimal financial solutions and, of course, providing basic banking services, UniCredit is always with you, anywhere you choose to be.



Non-consolidated financial statements

Statement of comprehensive income for the year ended 31 December 2014

	Note	2014 MCZK	2013 MCZK	*Of which** *1 Jan-30 June 2013*	*1 Jul-31 Dec 2013*
Interest income and similar income	5	11 576	9 687	*4 188*	*5 499*
Interest expense and similar charges	5	(2 592)	(2 587)	*(1 127)*	*(1 460)*
Net interest income and similar income		**8 984**	**7 100**	***3 061***	***4 039***
Fee and commission income	6	4 418	3 763	*1 422*	*2 341*
Fee and commission expenses	6	(1 070)	(927)	*(395)*	*(532)*
Net fee and commission income		**3 348**	**2 836**	***1 027***	***1 809***
Dividend income	7	1	26	*–*	*26*
Net income from financial assets and liabilities held for trading	8	1 626	1 758	*744*	*1 014*
Net income (loss) from hedging against risk of changes in fair value	9	(15)	13	*20*	*(7)*
Net income (loss) from the sale of financial assets and liabilities	10	(18)	432	*(8)*	*440*
Net loss from financial assets and liabilities at fair value through profit or loss not held for trading	11	(8)	(2)	*(3)*	*1*
Operating income		**13 918**	**12 163**	***4 841***	***7 322***
Impairment losses on financial assets	12	(1 904)	(2 129)	*(789)*	*(1 340)*
Administrative expenses	13	(6 646)	(5 865)	*(2 292)*	*(3 573)*
Creation and release of provisions		(83)	(10)	*2*	*(12)*
Depreciation and impairment of property and equipment		27	(194)	*(64)*	*(130)*
Amortisation and impairment of intangible assets		(5)	(28)	*–*	*(28)*
Other operating income and expenses	14	23	21	*19*	*2*
Operating expenses		**(6 684)**	**(6 076)**	***(2 335)***	***(3 741)***
Profit (loss) from the sale of non-financial assets		(4)	(2)	*(2)*	*–*
Profit before income tax		**5 326**	**3 956**	***1 715***	***2 241***
Income tax	32	(965)	(786)	*(315)*	*(471)*
Profit after tax		**4 361**	**3 170**	***1 400***	***1 770***
Net profit attributable to the Bank's shareholders		4 358	3 168	*1 400*	*1 768*
Net profit attributable to minority shareholders		3	2		*2*
Other comprehensive income					
Items that can be subsequently derecognised to profit or loss					
Reserve from revaluation of hedging instruments:		1 304	(774)	*(813)*	*39*
Changes in net fair values of derivatives in cash flow hedges		1 068	(747)	*(778)*	*31*
Net fair value of derivatives in cash flow hedges transferred to profit or loss		236	(27)	*(35)*	*8*
Reserve from revaluation of available-for-sale securities		1 271	(1 150)	*(1 107)*	*(43)*
Change in revaluation of available-for-sale securities		1 211	(966)	*(1 083)*	*117*
Revaluation of available-for-sale securities transferred to profit or loss		60	(184)	*(24)*	*(160)*
Foreign exchange rate gains from the consolidation of a foreign branch		141	685		*685*
Other comprehensive income after tax attributable to the Bank's shareholders		**2 716**	**(1 239)**	***(1 920)***	***681***
Other comprehensive income attributable to the Bank’s shareholders		2 714	(1 238)	*(1 920)*	*682*
Other comprehensive income attributable to minority shareholders		2	(1)		*(1)*
Total comprehensive income attributable to the Bank's shareholders		**7 077**	**1 931**	***(520)***	***2 451***
Total comprehensive income attributable to the Bank's shareholders		7 072	1 930	*(520)*	*2 450*
Total comprehensive income attributable to the minority shareholders		5	1		*1*

The notes on pages 80–122 form a part of these financial statements.

* See Note 2 of the Notes to financial statements

Statement of financial position as of 31 December 2014

	Note	31 Dec 2014 MCZK	31 Dec 2013 MCZK
ASSETS			
Cash in hand and cash balances	15	4 135	3 969
Financial assets at fair value through profit or loss, including FA		12 992	15 474
– held for trading	16	11 720	8 909
– not held for trading	16	1 272	6 565
Available-for-sale securities	17	88 345	74 535
Securities held to maturity	18	191	1 128
Receivables from banks	19	48 728	71 460
Receivables from clients	20	312 133	289 945
Positive fair value of hedging derivatives	21	5 423	3 336
Equity investments	22	3 781	–
Property and equipment	23	2 195	1 917
Intangible assets	24	6	12
Tax receivables, including:		814	853
– current income tax		–	210
– deferred tax	33	814	643
Other assets	25	2 167	1 993
Total assets		**480 910**	**464 622**
LIABILITIES			
Deposits from banks	26	30 358	49 798
Deposits from clients	27	328 712	306 298
Debt securities issued	28	47 285	43 041
Financial liabilities held for trading	29	7 552	5 388
Negative fair value of hedging derivatives	30	3 445	3 157
Tax liabilities, including:		1 178	215
– current income tax	33	391	–
– deferred tax	33	787	215
Other liabilities	31	4 847	4 671
Provisions	32	1 294	1 307
Total liabiliites		**424 671**	**413 875**
EQUITY			
Issued capital	34	8 755	8 755
Share premium	34	3 495	3 495
Reserve funds from revaluation of financial instruments		5 667	2 951
Retained earnings and reserve funds	36	33 961	32 376
Profit for the period		4 361	3 170
Total shareholder's equity		56 239	50 747
Total liabilities and shareholder's equity		**480 910**	**464 622**

The notes on pages 80–122 form a part of these financial statements.

Statement of cash flows for the Year Ended 31 December 2014

	2014 MCZK	2013 MCZK	*Of which** *1 Jan-30 June 2013*	*1 Jul-31 Dec 2013*
Net profit for the period	**4 361**	**3 170**	***1 400***	***1 770***
Adjustments for non-cash items				
Impairment of loans and receivables and financial investments	1 904	2 129	*789*	*1 340*
Revaluation of securities and derivatives	725	55	*37*	*18*
Creation and release of other provisions	(12)	10	*(162)*	*172*
Foreign exchange rate gains or losses from the foreign branch	141	685		*685*
Depreciation and amortisation of property and equipment, and intangible assets	(22)	222	*64*	*158*
Profit (loss) from property and equipment and intangible assets sold	4	2	*2*	*–*
Taxes	956	787	*315*	*472*
Other non-monetary changes	(177)	856	*(694)*	*1 550*
Operating profit before change in operating assets and liabilities	**7 880**	**7 916**	***1 751***	***6 165***
Financial assets and liabilities held for trading	(1 361)	(1 132)	*(566)*	*(566)*
Receivables from banks	22 735	(33 693)	*(3 801)*	*(29 892)*
Loans and receivables from clients	(24 184)	(29 750)	*(6 008)*	*(23 742)*
Other assets	(174)	12	*212*	*(200)*
Deposits from banks	(19 428)	(2 144)	*(6 924)*	*4 780*
Deposits from clients	22 750	45 027	*2 381*	*42 646*
Other liabilities	175	360	*2 364*	*(2 004)*
Income tax paid	(487)	(1 172)	*(96)*	*(1 076)*
Net cash flows from operating activities	**7 906**	**(14 576)**	***(10 687)***	***(3 889)***
Changes in securities available for sale and other financial investments	(6 569)	12 128	*8 532*	*3 596*
Acquisition of a subsidiary	(3 645)	–	*–*	*–*
Gains from the sale of property and equipment and intangible assets	2	16	*18*	*(2)*
Acquisition of property and equipment and intangible assets	(256)	(134)	*(109)*	*(25)*
Dividends received	1	26	*–*	*26*
Net cash flows from investment activities	**(10 467)**	**12 036**	***8 441***	***3 595***
Dividends paid	(1 585)	(1 763)	*0*	*(1 763)*
Debt securities issued	4 312	3 229	*2 223*	*1 006*
Net cash flows from financial activities	**2 727**	**1 466**	***2 223***	***(757)***
Cash and other highly liquid funds at the start of the period	**3 969**	**1 662**	***1 662***	***1 639***
Addition arising from the merger	–	3 381		*3 381*
Net cash flows from operating activities	7 906	(14 576)	*(10 687)*	*(3 889)*
Net cash flows from investment activities	(10 467)	12 036	*8 441*	*3 595*
Net cash flows from financial activities	2 727	1 466	*2 223*	*(757)*
Cash and other highly liquid funds at the end of the period	**4 135**	**3 969**	***1 639***	***3 969***
Interest received	11 248	9 408	*4 209*	*5 199*
Interest paid	(3 008)	(2 200)	*(788)*	*(1 412)*

The notes on pages 80–122 form a part of these financial statements.

* See Note 2 of the Notes to financial statements

Statement of changes in equity for the Year ended 31 December 2014

MCZK	Issued capital	Share premium	Reserve from revaluation: hedging instru-ments	Reserve from revaluation: securities available for sale	exchange rate gains or losses of a foreign branch	Retained earnings and reserve funds: Reserve funds	Retained earnings and reserve funds: Special-purpose res. fund	Retained earnings	Profit for the period	Equity
Balance as at 31 December 2013	**8 755**	**3 495**	**850**	**1 416**	**685**	**3 214**	**11 611**	**17 551**	**3 170**	**50 747**
Transactions with owners, contributions from and distributions to owners										
Allocation of the 2013 profit						158		3 012	(3 170)	–
Dividend payment								(1 585)		(1 585)
Total comprehensive income for the period										
Net profit for 2014									4 361	4 361
Other comprehensive income										
Change in revaluation of available-for-sale securities										
Change in revaluation of available-for-sale securities reported in other comprehensive income				1 475						1 475
Revaluation of available-for-sale securities transferred to profit or loss				75						75
Deferred tax				(279)						
Changes in net fair values of derivatives in cash flow hedges										
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income			1 327							1 327
Net fair value of derivatives in cash flow hedges transferred to profit or loss			281							281
Deferred tax			(304)							
Foreign exchange rate gains or losses from the consolidation of a foreign branch					141					141
Total comprehensive income for the period			**1 304**	**1 271**	**141**					**2 716**
Balance as at 31 December 2014	**8 755**	**3 495**	**2 154**	**2 687**	**826**	**3 372**	**11 611**	**18 978**	**4 361**	**56 239**

The notes on pages 80–122 form a part of these financial statements.

Notes to the financial statements (unconsolidated)

year ended 31 December 2014

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.
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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.1 Merger Project

In 2013, the Bank prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where the Bank was 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 2014 to 31 December 2014. The comparative period presented in the statement of comprehensive income and the statement of cash flows includes 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. For a better understanding and comparability of the 2014 reporting period and the 2013 year, the 2013 year was split into the period before the merger date and post the merger date. For better comparability of the 2013 full reporting period and an understanding of the events in 2013, the Bank has decided to present the 2013 year split into the full year, the pre-merger period and the post-merger period.

We set out below individual financial statements issued in 2013:

- **The extraordinary financial statements of UniCredit Bank Czech Republic, a.s. as of 30 June 2013** – these financial statements were prepared solely for the purposes of the merger and its registration in the Register of Companies. The financial statements included the information of UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013.
- **The financial statements of UniCredit Bank Slovakia a.s. as of 30 June 2013** – these financial statements were prepared for the purposes of the merger and due to the discontinuance of the bank's activities as a standalone entity. The financial statements included the information for UniCredit Bank Slovakia a.s. for the period from 1 January 2013 to 30 June 2013.
- **The financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013** – these financial statements were prepared for the period from 1 January 2013 to 31 December 2013. The reason for this presentation is the fact that the Bank proceeds in line with IFRS. In terms of IFRS, the merger was an acquisition, giving rise to no reason to interrupt the reporting period. The statement of comprehensive income and the statement of cash flows includes 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. This information is presented as comparative information in the financial statements as of 31 December 2014.

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

MCZK	1 Jul 2013
Assets	
Securities available for sale	14 121
Receivables from clients (gross)	80 756
Impairment losses on receivables from clients	(1 968)
Liabilities	
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 a profit of TEUR 287. For the first half of 2013, UniCredit Bank Slovakia a.s. reported operating income of MEUR 63 and a profit of MEUR 1.2.

- **Financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013** – these financial statements have been prepared for the period from 1 July 2013 to 31 December 2013. The reason for preparing these financial statements was the Czech National Bank's requirement for the presentation of information from the merger date (ie from 1 July 2013) to the reporting period-end (ie to 31 December 2013). These financial statements have been prepared in accordance with the IFRS as adopted by the EU.

2.2. Consolidation

The Bank also prepares the consolidated financial statements. On 14 February 2014, the Bank signed a contract for the purchase of the 100% equity investment in UniCredit Leasing CZ, a.s. of MCZK 3,211 and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. with the cost of MEUR 16. The contracts were signed between the Bank and UniCredit Leasing SpA.; these are transactions under common control. Both entities were sold to the Bank due to the reorganisation of the equity investments in the Group. Principal activities of both entities include lease and instalment sale.
The Bank subsequently transferred a 91.2% equity investment in UniCredit Leasing Slovakia, a.s. (the purchased equity investment of 71.3% and the equity investment of 19.9% that was held by the Bank already at the end of 2013 and reported as part of 'Available-for-sale securities') as a non-cash investment in the share capital of UniCredit Leasing CZ, a.s. and the investment of the Bank in UniCredit Leasing CZ, a.s. consequently increased by MCZK 570 on 18 April 2014 (refer to Note 21).
All presented amounts are in millions Czech crowns (CZK million) unless stated otherwise. The Czech crown is the functional currency in these financial statements. Euro is the functional currency of the Slovak branch. The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the branch are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate.
The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch". Figures in brackets represent negative amounts.
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.

(b) Financial Instruments (continued)

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 2013 and 2014, 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 revenues".
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 revenues". 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, expired or are surrendered. A financial liability is derecognised when it is settled.

Available-for-sale assets and assets recognised at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised at the settlement date. The Bank uses accounting methods to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognised on the maturity date, on the day they are transferred to another portfolio or on the day of sale.

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

(d) Derivatives

(i) Hedging Derivatives
Hedging derivatives are carried at fair value. The method of recognising fair value depends on the model of hedge accounting applied.
Hedge accounting can be applied if:
- The hedge is in line with the Bank's risk management strategy;
- The hedge relationship is formally documented at the inception of the hedge;
- It is expected that the hedge relationship will be highly effective throughout its life;
- The effectiveness of the hedge relationship can be objectively measured;
- The hedge relationship is highly effective throughout the accounting period; and
- In the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on the re-measurement of an interest-bearing hedged item and hedging derivative are recognised in profit or loss in "Net income from hedging against risk of changes in fair value".
Realised interest income and expenses are reported on a net basis in "Interest income and similar revenues" or "Interest expense and similar charges". If the derivative hedges an exposure to the variability of cash flows related to recognised assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognised in other comprehensive income and becomes the equity item "Reserves from revaluation of hedging instruments".
The ineffective part of the hedge is recognised in profit or loss.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from revaluation of the hedging derivative previously recognised in other comprehensive income are transferred to profit or loss at the same time as the hedged item affects the net profit or loss.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income remains in equity and is recognised in accordance with the aforementioned policy.
If the hedged transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately recognised in profit or loss.

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

(e) Borrowing and Lending of Securities
Financial assets lent under securities lending arrangements or sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.
As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the 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 revenues" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the 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 is currently analysing the impacts arising from the adoption of these standards. The Bank plans to implement these standards at the date they become effective.

- Amendments to various standards "*Improvements to IFRSs (cycle 2010-2012)"* resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- Amendments to various standards "*Improvements to IFRSs (cycle 2011-2013)*" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015); and
- Amendments to *IAS 19 "Employee Benefits"* – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

The below standards and interpretations were published by the IASB, but not yet adopted by the European Union.

- *IFRS 9 "Financial Instruments*" effective for annual periods beginning on or after 1 January 2018, The Standard issued by the IASB on 24 July 2014 is the replacement of *IAS 39 Financial Instruments*: *Recognition and Measurement*. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.
Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
Hedge accounting – IFRS 9 introduces a reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.
Own credit risk – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- *IFRS 14 "Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016);
- *IFRS 15 "Revenue from Contracts with Customers"* (effective for annual periods beginning on or after 1 January 2017);
- Amendments to *IFRS 10 "Consolidated Financial Statements"* and *IAS 28 "Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities"* and *IAS 28 "Investments in Associates and Joint Ventures"* – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IFRS 11 "Joint Arrangements"* – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 1 "Presentation of Financial Statements"* – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 16 "Property, Plant and Equipment"* and *IAS 38 "Intangible Assets"* – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 16 "Property, Plant and Equipment"* and *IAS 41 "Agriculture"* – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to *IAS 27 "Separate Financial Statements"* – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016); and
- Amendments to various standards *"Improvements to IFRSs (cycle 2012-2014)"* resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

(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 and concurrently reports these transactions prospectively, ie without adjustments in comparative periods.

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 40).
The presentation of the unconsolidated financial statements in conformity with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities

at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions, are based on the information available at the balance sheet date.

(a) Key Sources of Estimation Uncertainty

(i) Impairment

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

(ii) Determining Fair Values

The determination of fair value for financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy 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) Hedge Accounting

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

(iii) Change in Accounting Policy

There were no changes in accounting policies during the year ended 31 December 2014 and the year ended 31 December 2013.

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

In the years ended 31 December 2014 and 31 December 2013, the Bank did not identify any changes of financial reporting standards that would significantly affect the Bank's financial statements.

5. Net interest income and similar income

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Interest income and similar revenues				
Balances with central banks	22	10	*3*	*7*
Receivables from banks	118	104	*43*	*61*
Receivables from clients	9 315	7 470	*3 122*	*4 348*
Available-for-sale securities	1 504	1 544	*739*	*805*
Securities held to maturity	12	7	*–*	*7*
Financial assets at fair value through profit or loss held for trading	36	41	*15*	*26*
Financial assets at fair value through profit or loss not held for trading	14	36	*23*	*13*
Hedging derivatives	555	475	*243*	*232*
Interest income and similar revenues	**11 576**	**9 687**	***4 188***	***5 499***
Interest expense and similar charges				
Deposits from central bank	(1)	(1)	*–*	*(1)*
Deposits from banks	(221)	(183)	*(71)*	*(112)*
Deposits from clients	(1 163)	(1 272)	*(535)*	*(737)*
Debt securities issued	(1 198)	(1 109)	*(510)*	*(599)*
Financial liabilities held for trading	(9)	(22)	*(11)*	*(11)*
Interest expense and similar charges	**(2 592)**	**(2 587)**	***(1 127)***	***(1 460)***
Net Interest Income and similar income	**8 984**	**7 100**	***3 061***	***4 039***

6. Net fee and commission income

MCZK	2014	2013	*Of which* *1 Jan–30 Jun 2013*	*1 Jul–31 Dec 2013*
Fee and commission income from				
Securities transactions	9	13	*7*	*6*
Management, administration, deposit and custody services	617	447	*204*	*243*
Loans	1 473	1 303	*411*	*892*
Payment services	736	632	*262*	*370*
Account administration	550	469	*185*	*284*
Payment cards	986	847	*348*	*499*
Other	47	52	*5*	*47*
Fee and commission income	**4 418**	**3 763**	***1 422***	***2 341***
Fee and commission expenses from				
Securities transactions	(2)	(1)	*–*	*(1)*
Management, administration, deposit and custody services	(75)	(70)	*(33)*	*(37)*
Loans	(220)	(199)	*(83)*	*(116)*
Payment services	(26)	(19)	*(3)*	*(16)*
Payment cards	(729)	(610)	*(256)*	*(354)*
Other	(18)	(28)	*(20)*	*(8)*
Fee and commission expenses	**(1 070)**	**(927)**	***(395)***	***(532)***
Net fee and commission income	**3 348**	**2 836**	***1 027***	***1 809***

7. Dividend income

MCZK	2014	2013	*Of which* *1 Jan–30 Jun 2013*	*1 Jul–31 Dec 2013*
Dividend income				
Shares classified as available-for-sale securities	1	1	*–*	*1*
Investment certificates classified as securities designated at fair value upon initial recognition through profit or loss	–	25	*–*	*25*
Total dividend income	**1**	**26**	***–***	***26***

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

MCZK	2014	2013	*Of which* *1 Jan–30 Jun 2013*	*1 Jul–31 Dec 2013*
Net realised and unrealised gain/(loss) from securities held for trading	101	19	*–3*	*22*
Net realised and unrealised gain/(loss) from derivatives held for trading	1 509	658	*207*	*451*
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	16	1 081	*540*	*541*
Net trading income	**1 626**	**1 758**	***744***	***1 014***

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

MCZK	2014	2013	*Of which* *1 Jan–30 Jun 2013*	*1 Jul–31 Dec 2013*
Hedging instruments	(503)	148	*53*	*95*
Hedged instruments	488	(135)	*(33)*	*(102)*
Net gain from hedging against risk of changes in fair value	**(15)**	**13**	***20***	***(7)***

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

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Receivables from clients	(1)	(19)	*(18)*	*(1)*
Available-for-sale securities	(12)	461	*18*	*443*
Debt securities issued	(5)	(10)	*(8)*	*(2)*
Net income from the sale of financial assets and liabilities	**(18)**	**432**	***(8)***	***440***

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

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Debt securities	(8)	(2)	*(3)*	*1*
Net income from financial assets and liabilities at fair value through profit or loss not held for trading	**(8)**	**(2)**	***(3)***	***1***

12. Impairment losses on financial assets

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Receivables from clients	(1 763)	(2 139)	*(794)*	*(1 345)*
Provision for off-balance sheet items	(53)	79	*29*	*50*
Available-for-sale securities	(88)	(69)	*(24)*	*(45)*
Total	**(1 904)**	**(2 129)**	***(789)***	***(1 340)***

13. Administrative expenses

MCZK	2014	2013	*Of which* 1 Jan–30 Jun 2013	1 Jul–31 Dec 2013
Personnel expenses				
Wages and salaries paid to employees	(2 136)	(1 792)	*(722)*	*(1 070)*
Social costs	(712)	(613)	*(253)*	*(360)*
Other	(49)	(176)	*(40)*	*(136)*
	(2 897)	**(2 581)**	***(1 015)***	***(1 566)***
Including wages and salaries paid to:				
Members of the Board of Directors	(62)	(79)	*(45)*	*(34)*
Other executives directly reporting to the Board of Directors	(105)	(121)	*(58)*	*(63)*
	(167)	**(200)**	***(103)***	***(97)***
Other administrative expenses				
Rent and building maintenance	(601)	(461)	*(175)*	*(286)*
Information technologies	(1 124)	(1 005)	*(395)*	*(610)*
Promotion and marketing	(404)	(339)	*(145)*	*(194)*
Consumables used	(99)	(116)	*(37)*	*(79)*
Audit, legal and advisory services	(154)	(148)	*(69)*	*(79)*
Administrative and logistic services	(416)	(292)	*(143)*	*(149)*
Deposits and transactions insurance	(409)	(289)	*(132)*	*(157)*
Services	(281)	(260)	*(113)*	*(147)*
Other	(261)	(374)	*(68)*	*(306)*
	(3 749)	**(3 284)**	***(1 277)***	***(2 007)***
Total administrative expenses	**(6 646)**	**(5 865)**	***(2 292)***	***(3 573)***

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

2014 MCZK	Due within 1 year	Due in 1–5 years	Due in the following years
Minimum future payments	378	1 422	–
2013 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the following years**
Minimum future payments	302	1 155	–
30 Jun 2013 MCZK	**Due within 1 year**	**Due in 1–5 years**	**Due in the 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 was as follows:

	2014	2013	*30 Jun 2013*
Employees	2 941	3 071	*1 952*
Members of the Board of Directors	7	10	*6*
Members of the Supervisory Board	3	6	*3*
Other executives directly reporting to the Board of Directors	36	52	*24*

The information for 2013 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	2014	2013	*Of which* *1 Jan–30 Jun 2013*	 *1 Jul–31 Dec 2013*
Income from rent	162	33	*11*	*22*
Other income	25	33	*14*	*19*
Total other operating income	**187**	**66**	***25***	***41***
Fines and penalties	(16)	(9)	*–*	*(9)*
Other	(148)	(36)	*(6)*	*(30)*
Total other operating expenses	**(164)**	**(45)**	***(6)***	***(39)***
Total other operating income and expenses	**23**	**21**	***19***	***2***

15. Cash in hand and cash balances

MCZK	31 Dec 2014	31 Dec 2013
Cash in hand	4 065	3 792
Other balances with central banks	70	177
Total	**4 135**	**3 969**

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds.

16. Financial assets at fair value through profit or loss

(a) Held for Trading

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Debt securities	4 337	–	–	4 337
Shares	–	–	–	–
Derivatives	27	7 356	–	7 383
Total	**4 364**	**7 356**	**–**	**11 720**
31 Dec 2013				
Debt securities	4 426	12	–	4 438
Shares	23	–	–	23
Derivatives	32	4 416	–	4 448
Total	**4 481**	**4 428**	**–**	**8 909**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Government sector	4 337	4 438
Shares		
Financial services	–	16
Other	–	7
Total	**4 337**	**4 461**

(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
31 Dec 2014				
Debt securities	–	1 084	188	1 272
Total	**–**	**1 084**	**188**	**1 272**
31 Dec 2013				
Debt securities	99	6 466	–	6 565
Total	**99**	**6 466**	**–**	**6 565**

(ii) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Financial services	–	–
Government sector	1 084	6 371
Other	188	194
Total	**1 272**	**6 565**

17. Available-for-sale securities

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
31 Dec 2014				
Debt securities	61 411	26 824	108	88 343
Shares	–	–	2	2
Total	**61 411**	**26 824**	**110**	**88 345**
31 Dec 2013				
Debt securities	48 693	23 452	4	72 149
Shares	–	2 248	138	2 386
Total	**48 693**	**25 700**	**142**	**74 535**

(b) Securities by Type of Issuer

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Banking	15 505	10 827
Governments and central banks	67 257	56 605
Other public sector	2 243	1 126
Other	3 338	3 591
Shares		
Investment funds	–	2 248
Other	2	138
Total	**88 345**	**74 535**

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2013	Net book value 2012	Share of the Bank at 31 Dec 2014	Share of the Bank at 31 Dec 2013
CBCB – Czech Banking Credit Bureau, a.s. (bank register)	Prague	10 October 2001	0,24	0,24	0,24	20%	20%
Total			**0,24**	**0,24**	**0,24**	**–**	**–**

18. Securities held to maturity

(a) By type of security

MCZK	31 Dec 2014	31 Dec 2013
Debt securities	191	1 128
Total	**191**	**1 128**

(b) Securities by activities of issuers

MCZK	31 Dec 2014	31 Dec 2013
Debt securities		
Governments and central banks	191	189
Other	–	939
Total	**191**	**1 128**

19. Receivables from banks

(a) Analysis of Receivables from Banks, by Type

MCZK	31 Dec 2014	31 Dec 2013
Current accounts	521	5 328
Term deposits	40 909	30 651
Loans	943	856
Repurchase commitments (see Note 37)	630	29 140
Obligatory minimum reserves	5 725	5 485
Total	**48 728**	**71 460**

(b) Subordinated Loans Due from Banks

Receivables from banks as of 31 December 2013 included a subordinated loan of MCZK 206 that was disclosed in the above table under 'Loans'. This loan was provided in 2004 in the amount of TEUR 7,500 with the contractual term of 10 years and was repaid in 2014.

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

MCZK	31 Dec 2014	31 Dec 2013
Czech Republic	37 290	50 791
Other EU countries	10 188	19 271
Other	1 250	1 398
Total receivables from banks	**48 728**	**71 460**

20. Receivables from clients

(a) Analysis of Receivables from Clients, by Type

MCZK	Not impaired	Impaired	Total
31 Dec 2014			
Current accounts (overdrafts)	31 052	2 148	33 200
Repurchase commitments (see Note 37)	–	–	–
Resident mortgage loans	71 145	3 251	74 396
Other mortgage loans	54 896	4 273	59 169
Credit cards and consumer loans	8 735	1 110	9 845
Factoring	2 976	154	2 976
Bills of exchange	1 302	–	1 302
Other loans	122 973	8 118	131 091
Total	**293 079**	**19 054**	**312 133**
31 Dec 2013			
Current accounts (overdrafts)	31 247	1 625	32 872
Repurchase commitments (see Note 37)	12	–	12
Resident mortgage loans	62 450	3 910	66 360
Other mortgage loans	56 864	4 456	61 320
Credit cards and consumer loans	3 951	492	4 443
Factoring	1 734	20	1 754
Other loans	118 169	5 015	123 184
Total	**274 427**	**15 518**	**289 945**

(b) Classification of Receivables from Clients and Impairment

MCZK	Gross value	Impairment of individual receivables	Impairment of portfolios of receivables	Net value
31 Dec 2014				
Standard	294 296	–	(1 217)	293 079
Watch	11 111	(675)	–	10 436
Substandard	6 259	(1 498)	–	4 761
Doubtful	3 172	(1 362)	–	1 810
Loss	7 746	(5 699)	–	2 047
Total	**322 584**	**(9 234)**	**(1 217)**	**312 133**
31 Dec 2013				
Standard	275 413	–	(986)	274 427
Watch	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
Total	**300 073**	**(9 142)**	**(986)**	**289 945**

MCZK	31 Dec 2014	31 Dec 2013
Receivables not impaired		
Internal rating 1	5 206	2 896
Internal rating 2	12 188	20 113
Internal rating 3	28 376	29 504
Internal rating 4	92 788	79 399
Internal rating 5	78 993	71 005
Internal rating 6	60 195	51 415
Other internal rating	13 845	17 012
Receivables without internal rating	2 705	4 069
Total	**294 296**	**275 413**
Receivables impaired	28 288	24 660
Total	**322 584**	**300 073**

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 2014	31 Dec 2013
Receivables not impaired, gross		
Due receivables	292 004	274 628
1–30 days past due	2 292	785
31–90 days past due	–	–
91–180 days past due	–	–
More than 180 days past due	–	–
Total	**294 296**	**275 413**

(c) Analysis of Receivables from Clients, by Sector

MCZK	31 Dec 2014	31 Dec 2013
Financial institutions	26 992	21 654
Non-financial institutions	202 993	195 484
Government sector	1 095	1 145
Individuals and others	81 053	71 662
Total	**312 133**	**289 945**

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

MCZK	Standard	Watch	Substandard	Doubtful	Loss	Total
At 31 Dec 2014						
Bank and similar guarantee	10 601	15	2	–	–	10 618
Mortgage	69 256	2 395	1 028	336	896	73 911
Corporate guarantee	1 330	16	–	–	–	1 346
Other security	3 936	882	504	3	676	6 001
Unsecured	209 173	7 803	4 725	2 833	6 174	230 708
Total	**294 296**	**11 111**	**6 259**	**3 172**	**7 746**	**322 584**
At 31 Dec 2013						
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
Total	**275 413**	**10 155**	**4 829**	**2 612**	**7 064**	**300 073**

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 45,724 (as of 31 December 2013: MCZK 53,035). 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 2014	31 Dec 2013
Czech Republic	191 786	187 317
Slovakia	90 986	84 588
Other EU countries	23 402	10 894
Other	5 958	7 176
Total	**312 133**	**289 945**

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

MCZK	31 Dec 2014	31 Dec 2013
Real estate services	64 782	66 730
Financial services	26 992	21 654
Wholesale	20 013	20 918
Household services	78 562	69 504
Retail	4 602	4 613
Leasing and rental	2 880	1 996
Automotive industry	5 282	5 425
Power industry	31 894	30 400
Other	77 126	68 705
Total receivables from clients	**312 133**	**289 945**

(g) Impairment of Receivables from Clients

MCZK	
Balance as of 1 Jan 2013	(7 331)
Creation during the current year	(1 571)
Release during the current year	777
Net effect on profit or loss	(794)
Receivables written off – use	972
FX differences	18
Balance at 30 Jun 2013	***(7 135)***
Addition arising from the merger	(1 968)
Creation during the current year	(1 784)
Release during the current year	439
Net effect on profit or loss	(1 345)
Receivables written off – use	380
FX differences	(60)
Total impairment of receivables from clients as of 31 Dec 2013	**(10 128)**
Balance as of 1 Jan 2014	(10 128)
Addition arising from the merger	–
Creation during the current year	(2 729)
Release during the current year	966
Net effect on profit or loss	(1 763)
Receivables written off – use	1 515
FX differences	(75)
Total impairment of receivables from clients as of 31 Dec 2014	**(10 451)**

21. Equity investments

	Registered	Date of	Acquisition	Net book		Share of the Group at	
Name	office	acquisition	price	value 2014	value 2013	31 Dec 2014	31 Dec 2013
UniCredit Leasing CZ, a.s.	Prague	14 Feb 2014	3 211	3 781	–	100%	–
Total			**3 211**	**3 781**	**–**	**–**	**–**

22. Positive fair value of hedging derivatives

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Fair value hedging	–	353	–	353
Cash flow hedging	–	5 070	–	5 070
Total	**–**	**5 423**	**–**	**5 423**
31 Dec 2013				
Fair value hedging	–	439	–	439
Cash flow hedging	–	2 897	–	2 897
Total	**–**	**3 336**	**–**	**3 336**

23. Property and equipment

Movements in Property and Equipment

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2013	**2 159**	**227**	**411**	**86**	**2 883**
Accumulated depreciation and impairment at 1 Jan 2013	(1 285)	(154)	(319)	(40)	(1 798)
Net Book Value at 1 Jan 2013	**874**	**73**	**92**	**46**	**1 085**
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 sale	–	–	–	–	–
Other and FX rate gains or losses	51	6	–	4	61
Net Book Value at 31 Dec 2013	**1 649**	**88**	**156**	**24**	**1 917**
Cost at 31 Dec 2013	3 681	503	694	30	4 908
Accumulated depreciation and impairment at 31 Dec 2013	(2 032)	(415)	(538)	(6)	(2 991)

The impairment loss as of 31 December 2013 included the decrease in the net book value of the buildings of MCZK 250 that was released in 2014.

MCZK	Buildings and land	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 Jan 2014	**3 681**	**503**	**694**	**30**	**4 908**
Accumulated depreciation and impairment at 1 Jan 2014	(2 032)	(415)	(538)	(4)	(2 991)
Net Book Value at 1 Jan 2014	**1 649**	**88**	**156**	**24**	**1 917**
Additions	222	11	131	–	364
Disposals	–	–	–	–	–
Depreciation charges	102	(11)	(61)	(3)	27
Transfers to assets held for sale	–	–	–	–	–
Other and FX rate gains or losses	(52)	(12)	(30)	(19)	(113)
Net Book Value at 31 Dec 2014	**1 921**	**76**	**196**	**2**	**2 195**
Cost at 31 Dec 2014	3 758	476	882	6	5 122
Accumulated depreciation and impairment at 31 Dec 2014	(1 837)	(400)	(686)	(4)	(2 927)

24. Intangible assets

Movements in Intangible Assets

MCZK	Software	Other	Total
Cost at 1 Jan 2013	**7**	**5**	**12**
Accumulated amortisation and impairment at 1 Jan 2013	(5)	(5)	(10)
Net Book Value at 1 Jan 2013	**2**	**–**	**2**
Additions arising from the merger	33	1	34
Additions	4	–	4
Disposals	–	–	–
Amortisation charges	(28)	–	(28)
Net Book Value at 31 Dec 2013	**11**	**1**	**12**
Cost at 31 Dec 2013	854	8	862
Accumulated amortisation and impairment as of 31 Dec 2013	(843)	(7)	(850)

MCZK	Software	Other	Total
Cost at 1 Jan 2014	**854**	**8**	**862**
Accumulated amortisation and impairment at 1 Jan 2014	(843)	(7)	(850)
Net Book Value at 1 Jan 2014	**11**	**1**	**12**
Additions	–	–	–
Disposals	–	(1)	(1)
Amortisation charges	(5)	–	(5)
Net Book Value at 31 Dec 2014	**6**	**–**	**6**
Cost at 31 Dec 2014	859	8	867
Accumulated amortisation and impairment at 31 Dec 2013	(853)	(8)	(861)

25. Other assets

MCZK	31 Dec 2014	31 Dec 2013
Deferred expenses and accrued income	313	251
Prepayments made in relation to cash additions to ATMs and cash registers	1 226	1 023
Trade receivables	157	203
Receivables from securities	3	3
Suspense accounts	481	535
Other	11	–
Total	**2 190**	**2 015**
Impairment of other assets	(23)	(22)
Net other assets	**2 167**	**1 993**

26. Deposits from banks

Analysis of Deposits from Banks by Type

MCZK	31 Dec 2014	31 Dec 2013
Deposits from central banks	4 105	–
Current accounts	8 273	4 197
Loans	10 034	13 807
Term deposits	5 023	19 336
Repurchase commitments (see Note 37)	2 920	12 454
Other	3	4
Total	**30 358**	**49 798**

27. Deposits from clients

Analysis of Deposits from Clients by Type

MCZK	31 Dec 2014	31 Dec 2013
Current accounts	265 260	233 269
Term deposits	51 745	59 233
Repurchase commitments (see Note 37)	8 996	11 827
Other	2 711	1 969
Total	**328 712**	**306 298**

28. Issued debt securities

Analysis of Issued Debt Securities

MCZK	31 Dec 2014	31 Dec 2013
Mortgage bonds	35 675	29 853
Structured bonds	6 773	4 990
Zero coupon bonds	3 803	5 176
Other issued debt securities	1 034	3 022
Total	**47 285**	**43 041**

Structured bonds include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 7,228 (at 31 December 2013: MCZK 5,236). The positive fair value of these derivatives of MCZK 55 is reported under "Financial assets held for trading" (at 31 December 2013: MCZK 20); the negative fair value of these derivatives of MCZK 339 is recognised under "Financial liabilities held for trading" (at 31 December 2013: MCZK 180).

29. Financial liabilities held for trading

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Liabilities from short sales	783	–	–	783
Derivatives	–	6 769	–	6 769
Total	**783**	**6 769**	**–**	**7 552**
31 Dec 2013				
Liabilities from short sales	858	–	–	858
Derivatives	–	4 530	–	4 530
Total	**858**	**4 530**	**–**	**5 388**

30. Negative fair value of hedging derivatives

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

MCZK	Level 1	Level 2	Level 3	Total
31 Dec 2014				
Fair value hedging	–	1 288	–	1 288
Cash flow hedging	–	2 157	–	2 157
Total	**–**	**3 445**	**–**	**3 445**
31 Dec 2013				
Fair value hedging	–	905	–	905
Cash flow hedging	–	2 252	–	2 252
Total	**–**	**3 157**	**–**	**3 157**

31. Other liabilities

MCZK	31 Dec 2014	31 Dec 2013
Deferred income and accrued expenses	736	825
Trade payables	116	147
Payables to employees	543	446
Unsettled security transactions	35	80
Suspense accounts	3 354	3 109
Other	63	64
Total other liabilities	**4 847**	**4 671**

32. Provisions

Provisions include the following items:

MCZK	31 Dec 2014	31 Dec 2013
Provisions for off-balance sheet credit items	1 173	1 129
Legal disputes	86	77
Provision for restructuring	25	87
Other	10	14
Total provisions	**1 294**	**1 307**

(a) Provisions for Off-Balance Sheet Credit Items

MCZK	
Balance as of 1 Jan 2013	611
Charge during the year	42
Release during the year	(71)
Balance at 30 Jun 2013	***582***
Addition arising from the merger	565
Charge during the year	121
Release during the year	(171)
Other – FX rate gains or losses	32
Total provisions for off-balance sheet credit items at 31 Dec 2013	**1 129**
Balance as of 1 Jan 2014	1 129
Charge during the period	163
Usage during the period	(20)
Release during the period	(110)
Other – foreign exchange rate gains or losses	11
Total provisions for off-balance sheet credit items at 31 Dec 2014	**1 173**

(b) Other Provisions

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance as of 1 Jan 2013	57	–	48	105
Charge during the year		–		–
Release during the year		–	(20)	(20)
Release of redundant provisions and other	(1)	–	(28)	(29)
Balance at 30 Jun 2013	***56***	***–***	***–***	***56***
Addition arising from the merger	9	7	145	161
Charge during the year	12	80	14	106
Release during the year	–	–	(126)	(126)
Release of redundant provisions and other	–	–	(19)	(19)
Total other provisions at 31 Dec 2013	**77**	**87**	**14**	**178**

MCZK	Legal disputes	Restructuring provision	Other	Total
Balance as of 1 Jan 2014	77	87	14	178
Charge during the period	83	–	–	83
Use during the period	(1)	(54)	(4)	(59)
Release of redundant provisions and other	(73)	(8)	–	(81)
Total other provisions at 31 Dec 2014	**86**	**25**	**10**	**121**

In 2014 the Bank reclassified the provision that was held for bonuses and outstanding vacation days to other liabilities.

33. Income tax

(a) Tax in Profit or Loss

MCZK	2014	2013	*Of which*	
			1 Jan–30 Jun 2013	*1 Jul–31 Dec 2013*
Current tax payable	(1 140)	(767)	*(575)*	*(192)*
Deferred tax	175	(19)	*260*	*(279)*
Total income tax	**(965)**	**(786)**	***(315)***	***(471)***

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	2014	2013	*Of which*	
			1 Jan–30 Jun 2013	*1 Jul–31 Dec 2013*
Profit/loss for the year before tax	5 326	3 956	*1 715*	*2 241*
Tax calculated using the tax rate of 19%	(1 012)	(752)	*(326)*	*(426)*
Impact of prior years	10	(17)	*(15)*	*(2)*
Non-taxable income	374	684	*143*	*541*
Tax non-deductible expenses	(423)	(657)	*(378)*	*(279)*
Change in deferred tax as part of the profit/loss	175	(19)	*260*	*(279)*
Other	(89)	(25)	*1*	*(26)*
Total income tax	**(965)**	**(786)**	***(315)***	***(471)***

The effective tax rate of the Bank is 18.1% (2013: 19.9%, *of which 18.4% for the period to 30 June 2013 and 21% for the period from 1 July 2013 to 31 December 2013).*

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 740 (2013: MCZK 391), received an overpayment of MCZK 253 and reports an income tax receivable of MCZK 391 (at 31 December 2013, the Bank reported a tax receivable in the amount of MCZK 210).

(c) Deferred Tax Asset/Liability

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

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

Management of the Bank believes that the Bank will be able to fully recover deferred tax assets reported as of 31 December 2014 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

MCZK	31 Dec 2014 Deferred tax asset	31 Dec 2014 Deferred tax liability	31 Dec 2013 Deferred tax asset	31 Dec 2013 Deferred tax liability
Tax non-deductible provisions	19	–	33	–
Impairment of loans and off-balance sheet items	778	–	609	–
Differences arising from the net book values of assets	7	–	–	–
Reserve from revaluation of hedging instruments	17	–	6	–
Reserve from revaluation of available-for-sale securities	–	(19)	–	(7)
Other	12	–	2	
Deferred tax liability/asset	833	(19)	650	(7)
Net deferred tax asset	**814**	**–**	**643**	**–**

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 92 (at 31 December 2013: MCZK 164), which was not recognised by the Bank on the grounds of prudence.

(ii) Net Deferred Tax Liability

MCZK	31 Dec 2014 Deferred tax asset	31 Dec 2014 Deferred tax liability	31 Dec 2013 Deferred tax asset	31 Dec 2013 Deferred tax liability
Tax non-deductible provisions	101	–	82	–
Impairment of loans and off-balance sheet items	220	–	240	–
Differences arising from the net book values of assets	3	–	–	(9)
Reserve from revaluation of hedging instruments	–	(520)	–	(205)
Reserve from revaluation of available-for-sale securities	–	(591)	–	(323)
Other	–	–	–	–
Deferred tax liability/asset	324	(1 111)	322	(537)
Net deferred tax liability	**–**	**(787)**	**–**	**(215)**

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 2014 (MCZK 8,755 as of 31 December 2013).

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2014				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99.94
Minority shareholders		5	12	0.06
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2013				
UniCredit Bank Austria AG, Vienna	Austria	8 750	3 483	99.94
Minority shareholders		5	12	0.06
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2014 Number of shares	31 Dec 2014 MCZK	31 Dec 2013 Number of shares	31 Dec 2013 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Bank's governance and the entitlement to a share on profit. Both at 31 December 2014 and 31 December 2013, 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 2014	31 Dec 2013
Reserve funds	3 372	3 214
Special-purpose reserve fund	11 611	11 611
Retained earnings	18 978	17 551
Total	**33 961**	**32 376**

The Bank establishes the reserve fund (reported under "Reserve funds") from the net profit reported in the ordinary financial statements pursuant to the resolution of the general meeting. The established reserve fund can be used solely to cover the Bank's loss, pursuant to the resolution of the general meeting.
As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank.

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

(a) Reverse Repurchase Transactions

MCZK	31 Dec 2014	31 Dec 2013
Receivables from banks	630	29 140
Fair value of securities received	615	28 567
Receivables from clients	–	12
Fair value of securities received	–	11

Securities received as collateral as part of reverse repurchase transactions of MCZK 679 are further provided as collateral under repurchase transactions.

(b) Repurchase Transactions

MCZK	31 Dec 2014	31 Dec 2013
Deposits from banks	2 920	12 454
Fair value of securities provided	2 827	11 678
Deposits from clients	8 996	11 827
Fair value of securities provided	11 822	12 264

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.

Contingent Liabilities

Legal Disputes

As of 31 December 2014, 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 1,129 (as of 31 December 2012: MCZK 611), see Note 32 (a).

MCZK	31 Dec 2014	31 Dec 2013
Letters of credit and financial guarantees	35 635	40 470
Other contingent liabilities (undrawn credit facilities)	114 722	101 076
Total	**150 357**	**141 546**

Values Taken into Administration and Management

MCZK	31 Dec 2014	31 Dec 2013
Bonds	514 507	432 671
Shares	182 931	211 831
Depository notes	20 531	18 063
Total values taken into administration and management	**717 969**	**662 565**

(b) Contingent Assets

As of 31 December 2014, the Bank had an option to draw a credit line provided by the European Investment Bank (EIB) amounting to MCZK 2,329 (MEUR 84) 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. The Bank has additionally an option to draw a credit line from the Council of Europe Development Bank of MCZK 970 (MEUR 35) with the latest maturity of nine years from the time of drawing and a credit line from The Export-Import Bank of The Republic of China of MCZK 184 (MUSD 8) with the latest maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2014			
Trading instruments – interbank market (OTC)			
Options	44 735	814	(797)
Interest rate swap contracts	213 845	3 889	(3 856)
Forward rate agreements (FRA)	200	–	–
Cross currency swap contracts	27 543	1 661	(1 578)
Term currency transactions	57 380	720	(269)
Other instruments	2 325	272	(269)
Total	**346 028**	**7 356**	**(6 769)**
Trading instruments – stock exchange			
Futures	1 802	27	–
Total trading instruments	**347 830**	**7 383**	**(6 769)**
Hedging instruments			
Interest rate swap contracts	150 099	5 290	(3 421)
Cross currency swap contracts	21 805	133	(24)
Total hedging instruments	**171 904**	**5 423**	**(3 445)**

MCZK	Nominal value	Positive fair value	Negative fair value
31 Dec 2013			
Trading instruments – interbank market (OTC)			
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)
Total	**336 576**	**4 416**	**(4 530)**
Trading instruments – stock exchange			
Futures	1 070	32	–
Total trading instruments	**337 646**	**4 448**	**(4 530)**
Hedging instruments			
Interest rate swap contracts	138 476	3 221	(2 477)
Cross currency swap contracts	26 688	115	(680)
Total hedging instruments	**165 164**	**3 336**	**(3 157)**

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

MCZK	Up to 1 year	1–5 years	Over 5 years	Total
31 Dec 2014				
Trading instruments				
Interest rate instruments	34 482	135 188	56 361	226 031
Equity instruments	2 419	9 779	1 442	13 640
Currency instruments	69 939	15 627	18 466	104 032
Other	2 042	283	–	2 325
Total	**108 882**	**160 877**	**76 269**	**346 028**
Hedging instruments				
Interest rate instruments	15 557	73 738	60 804	150 099
Currency instruments	1 660	8 189	11 956	21 805
Total	**17 217**	**81 927**	**72 760**	**171 904**

MCZK	Up to 1 year	1–5 years	Over 5 years	Total
31 Dec 2013				
Trading instruments				
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	1 520	756	–	2 276
Total	**138 458**	**137 859**	**60 259**	**336 576**
Hedging instruments				
Interest rate instruments	24 146	66 190	48 140	138 476
Currency instruments	6 078	7 564	13 046	26 688
Total	**30 224**	**73 754**	**61 186**	**165 164**

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

MCZK	Retail banking (retail) / small and medium-sized businesses	Private, corporate and investment banking	Other	Total
At 31 Dec 2014				
Net interest and dividend income	2 753	5 835	397	8 985
Other net income	1 829	3 178	(74)	4 933
Depreciation/impairment losses of property and equipment and intangible assets	(170)	(42)	(234)	(22)
Impairment of assets and provisions	(646)	(1 233)	(108)	(1 987)
Segment expenses	(3 452)	(2 664)	(511)	(6 627)
Profit before tax	314	5 074	(62)	5 326
Income tax	–	–	(965)	(965)
Result of segment	314	5 074	(1 027)	4 361
Segment assets	83 804	389 253	7 853	480 910
Segment liabilities	112 145	283 384	29 142	424 671

Total assets amount to CZK 112 billion relating to the Slovak branch (2013: CZK 107 billion). The Slovak branch reported operating income of CZK 3.7 billion for 2014 (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.

MCZK	Retail banking (retail) / small and medium-sized businesses	Private, corporate and investment banking	Other	Total
At 31 Dec 2013				
Net interest and dividend income	2 142	4 736	248	7 126
Other net income	1 724	2 778	535	5 037
Depreciation/impairment losses 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

40. Financial risk management

(a) Introduction

The Bank is exposed to the following types of risk:
- Credit risk;
- Market risk; and
- Operational risk.

The Board of Directors is responsible for the overall risk management strategy which it approves and assesses on a regular basis.
The Board of Directors has established the Assets and Liabilities Committee (ALCO), the Credit Committee and the Committee for Operational Risk Management. These committees are in charge of monitoring and managing individual risks with regard to individual specific fields. The committees report to the Board of Directors on a regular basis.

(b) Credit Risk

The Bank is exposed to credit risks as a result of its trading activities, providing credits, hedging transactions, and investment and mediation activities.
Credit risk is managed both on the level of individual clients (transactions) and on the portfolio level.
The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. All these departments are organisationally independent of the business divisions and are directly accountable to a member of the Board of Directors in charge of the risk management division.
Under its credit policy, the Bank defines the general principles, methods and instruments applied in identifying, measuring and managing credit risk. The definition of the Bank's credit policy is rendered by the Strategic Credit Risk Management department. The policy is reviewed by this department on a regular basis, minimally once a year.
The Bank defines in its internal guidelines the approval competencies for credit deals, including the definition of responsibilities and competencies of the Credit Committee.

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

The credit risk on the level of individual clients is managed by analysing clients' financial health and determining the limits of credit exposure. The analysis is focused on clients' position in the relevant market, rating of their financial statements, prediction of future liquidity, and the like. The result of this analysis is, among other things, to establish a rating that reflects the probability of clients' default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is rendered both prior to granting a credit and during the credit arrangements with clients.
The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc).
To classify clients into individual rating classes, the Bank assesses (apart from the number of days past due with regard to overdue receivables, if any) the financial indicators related to the client (such as the structure of and proportion between the balance sheet, the income statement, and the cash flow statement), management quality, ownership structure, individual clients' market position, reporting quality, production equipment, account-use history, etc.
Clients with default receivables are always assigned to one of the classes from 8-, 9 or 10.
For receivables from individuals, the ability of the client to fulfil his or her obligations is determined using a standardised system of credit scoring based on risk-relevant features (credit application scoring).
The Bank likewise sets and regularly updates the probability of client default – natural entities, using the behavioural scoring method.
A client's final rating combines both application and behavioural components.

As an additional source of information for assessing a client's financial standing, the Bank uses information provided by credit registries.
In accordance with its credit risk management strategy, prior to providing credits, the Bank requires collateral for its credit receivables (according to the client's financial health and the character of the given transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of property. In determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing collateral and the nominal value of the collateral, ie expert appraisals made by a special department of the Bank. The realisable value of collateral is determined based on this value by applying the adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management on the Portfolio Level

This level of credit risk management principally includes reporting on the credit portfolio including analyses and monitoring of trends in individual credit sub-portfolios.
The Bank monitors its overall credit risk exposure, ie it takes into account all on-balance and off-balance sheet exposures and quantifies the anticipated losses from its credit exposure. The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.
The Bank assesses the concentration risk of the loan portfolio on a regular basis and establishes concentration limits as appropriate in relation to specific industries, countries, or economically-connected groups of debtors.

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a monthly basis, in accordance with the applicable decree of the Czech National Bank.
The Bank assesses on a regular basis whether any impairment of receivables has occurred. If any such impairment is identified, the Bank reports impairment losses for individual accounts receivable or receivable portfolios, in accordance with IFRS.

Impairment Losses on Individual Receivables

Impairment losses related to individual receivables 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 and the discounted value of estimated future cash flows.

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, ie 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 2014	Average for 2014	At 31 Dec 2013	Average for 2013
Aggregate VaR	109,4	164,5	162,5	169
VaR of currency instruments	2,34	2,5	3,95	3,44
VaR of equity instruments	0	0,95	0,03	0,84

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 2014 is characterised by greater interest rate sensitivity on the assets side as compared to the liabilities side. This can be seen in the negative aggregate basis point value (BPV) – if the interest rates under individual currencies increased in parallel, there would be a decrease in market revaluation. The Bank's interest rate position is diversified into individual time periods, due to which the sensitivity to interest rate volatility is not necessarily identical (positive, negative), and to a number of currencies, through which the different interest rate risks related to individual currencies are compensated under the aggregate asset and liability portfolio. The major sensitivity is connected to CZK and EUR.

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

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

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

Stress Testing of Interest Rate Risk

The Bank carries out weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on financial markets, internally defined improbable scenarios, and group macro scenarios and simulates their impact on the 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 2014 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 2014 and 31 December 2013 (2014: 27.725 CZK/EUR; 2013: 27.425 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 2014: 27.533 CZK/EUR; average 2013: 25.976 CZK/EUR).

	Basic stress test		MM stress test
MCZK	**–200 bp**	**+200 bp**	**+250 bp**
Value at 31 Dec 2014	383	(2 070)	(1 149)
Average for the period	181	(1 298)	(584)
Maximum value	388	(681)	19
Minimum value	35	(2 070)	(1 149)
Value at 31 Dec 2013	(240)	237	(32)
Average for the year	(210)	222	(95)
Maximum value	(80)	363	16
Minimum value	(347)	35	(217)

In line with the Group's resolution, the methodology used to quantify interest rate risk changed which led to an increase in the BPV value.

Hedge Accounting

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

Fair Value Hedging

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

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

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

Cash Flow Hedging

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

The effectiveness of a cash flow hedge is determined in accordance with the 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 monitors whether the absolute value of future variable interest cash flows from hedged deals for specific time periods exceeds the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedging derivatives.

The time periods are defined as follows: up to 2 years by months, further by individual years, 10-15 years, and more than 15 years.

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

Currency Risk

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

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 45 with respect to the total net currency exposure and to individual main currencies (CZK, EUR), and of MEUR 25 to the USD. For other currencies, the limits from MEUR 2 to MEUR 9 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
At 31 Dec 2014						
Cash in hand and cash balances	1 778	2 005	221	32	99	4 135
Financial assets at fair value through profit or loss, including FA	6 170	5 153	892	0	777	12 992
of which:						
– held for trading	5 112	4 939	892	0	777	11 720
– not held for trading	1 058	214	–	–	–	1 272
Available-for-sale securities	52 051	36 294	–	–	–	88 345
Securities held to maturity	–	191	–	–	–	191
Receivables from banks	37 449	10 655	301	16	307	48 728
Receivables from clients	153 267	152 618	3 354	622	2 272	312 133
Positive fair value of hedging derivatives	3 893	1 530	–	–	–	5 423
Equity investments	3 781	–	–	–	–	3 781
Property and equipment	1 249	946	–	–	–	2 195
Intangible assets	3	3	–	–	–	6
Tax receivables	–	814	–	–	–	814
Other assets	1 259	502	336	16	54	2 167
Total assets	260 900	210 711	5 104	686	3 509	480 910
Deposits from banks	6 633	22 657	1 042	–	26	30 358
Deposits from clients	185 552	124 139	13 071	704	5 246	328 712
Debt securities issued	33 325	13 837	123	–	–	47 285
Financial liabilities held for trading	4 429	2 696	403	–	24	7 552
Negative fair value of hedging derivatives	1 682	1 763	–	–	–	3 445
Tax liabilities	956	222	–	–	–	1 178
Other liabilities	1 315	3 197	230	12	93	4 847
Provisions	1 258	36	–	–	–	1 294
Equity	42 543	13 694	2	–	–	56 239
Total liabilities and equity	277 693	182 241	14 871	716	5 389	480 910
Gap	(16 793)	28 470	(9 767)	(30)	(1 880)	–
At 31 Dec 2013						
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
of which:						
– 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
Securities held to maturity	–	1 128	–	–	–	1 128
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
Total assets	253 294	204 283	4 824	1 152	1 069	464 622
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	2 557	–	9	–	3 157
Tax liabilities	215	–	–	–	–	215
Other liabilities	1 611	2 717	281	7	55	4 671
Provisions	1 134	173	–	–	–	1 307
Equity	38 499	12 256	1	2	(11)	50 747
Total liabilities and equity	270 766	182 289	8 337	775	2 455	464 622
Gap	(17 472)	21 994	(3 513)	377	(1 386)	–

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

Liquidity Risk
Liquidity risk arises as a result of the manner of financing the Bank's activities and managing its positions. It includes both the risk that the Bank would be unable to finance its assets using instruments with appropriate maturity and the risk that the Bank would be unable to dispose of its assets for an appropriate price within the necessary time period. The Bank has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans taken (including subordinated loans) and its own equity capital. This diversification makes the Bank flexible and limits its dependency on any single funding source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of funding and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Board of Directors. The Bank also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds. Liquidity risk is evaluated regularly by the Bank using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Bank monitors daily and in detail with a view to the next several weeks the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows. If limits are breached, the Bank takes action to reduce the liquidity risk. In the long-term (structural) perspective, the Bank monitors the difference between the maturity of assets and liabilities in periods longer than one year. For products with non-specified maturity (i.e. current accounts) the Bank has developed a model for their expected residual maturity. The Bank again sets limits, and appropriate action is taken if they are breached (e.g. by acquiring long-term sources of refinancing). The Bank has drawn up a contingency plan for the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation. Stress tests of short-term liquidity are performed by the Bank on a weekly basis. The stress tests verify the Bank's ability to overcome extreme situations such as systemic interruption of the inter-bank money market, a decrease in the Bank's credit rating, IT system breakdowns, and reputation risk to the Bank. The stress scenarios' results are presented to the ALCO.

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

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2014							
Cash in hand and cash balances	4 135	4 135	4 135	–	–	–	–
Financial assets at fair value through profit or loss, including FA	12 992	13 503	833	2 291	4 550	5 794	35
of which:							
– held for trading	11 720	12 220	652	1 194	4 545	5 794	35
– not held for trading	1 272	1 283	181	1 097	5	–	–
Available-for-sale securities	88 345	96 661	2 014	20 467	41 461	32 712	7
Securities held to maturity	191	233	2	7	224	–	–
Receivables from banks	48 728	48 760	44 541	1 486	2 710	–	24
Receivables from clients	312 133	351 548	58 536	51 206	127 871	113 935	–
Positive fair value of hedging derivatives	5 423	5 423	9	150	2 225	3 039	–
Equity investments	3 781	3 781	–	–	–	–	3 781
Property and equipment	2 195	2 195	–	–	–	–	2 195
Intangible assets	6	6	–	–	–	–	6
Tax receivables	814	814	–	814	–	–	–
Other assets	2 167	2 167	34	–	–	–	2 133
Deposits from banks	30 358	30 437	21 497	15	5 938	2 987	–
Deposits from clients	328 712	329 116	300 789	20 608	4 564	441	2 714
Debt securities issued	47 285	51 836	1 021	13 088	31 909	5 506	312
Financial liabilities held for trading	7 552	7 552	395	704	2 295	4 158	–
Negative fair value of hedging derivatives	3 445	3 445	21	118	1 500	1 806	–
Tax liabilities	1 178	1 178	–	1 178	–	–	–
Other liabilities	4 847	4 847	281	21	–	–	4 545
Provisions	1 294	1 294	–	–	–	–	1 294
Equity	56 239	56 239	–	–	–	–	56 239
Undrawn loan facilities	114 722	114 722	16 252	56 032	18 273	24 165	–
Bank guarantees	35 635	35 635	4 152	11 293	16 268	3 917	5

MCZK	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1–5 year	Over 5 years	Unspe-cified.
At 31 Dec 2013							
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
of which:							
– 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	4 671	4 671	157	–	–	–	4 514
Provisions	1 307	1 307	714	–	–	–	593
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	–

(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 2014, 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 2014, the Bank analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their

full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances the overall awareness of operational risk within the Bank and trains the Bank's staff both by means of training sessions and e-learning courses.
Based on the consent obtained from the regulatory body, the Bank calculates the capital requirement for operational risk under the advanced measurement approach (AMA). Under this approach, the group model is used based on internal and external data, the results of scenario analyses and risk indicator data.

(e) Capital Management

Management of the Bank monitors the development of the Bank's capital adequacy and its capital position. The regulator of the banking market, the Czech National Bank, established rules for the calculation of capital requirements and monitors their development. Since 1 January 2014, the Bank has met the requirements of Basel III (Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms) that was implemented by the Czech National Bank through Decree No. 163/2004 Coll. on the performance of the activity of banks, credit unions and investment firms. The Basel III rules were established in response to the financial crisis and introduce requirements for increased capital quality, requirement for an increased coverage of risks, the minimum standard for liquidity management, rules for the leverage ratio and improve risk management and corporate governance.
The transfer to the Basel III rules did not have a significant impact on the Bank's capital adequacy. The original capital (Tier 1) is currently part of Tier 1 common capital (CET1) which is the supreme quality capital. The Bank has newly included the capital requirement relating to the risk of the credit valuation adjustment in the capital adequacy; this has no significant impact on the total capital.
Several new requirements were introduced in relation to risk-weighted assets which, in aggregate, had no significant impact on risk-weighted assets. The impact of the increase in the correlation coefficient in exposures to large entities in the financial sector and unregulated financial entities was balanced by the impact of the reduction factor for exposures to small and medium-sized companies.

The Bank's regulatory capital consists of the following:

- Tier 1 capital which comprises paid up registered capital, share premium, reserve funds, retained earnings, foreign exchange rate gains or losses from consolidation, post-tax profit for the period if audited at the time of reporting; minus intangible assets; and
- Tier 2 capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

The Bank complies with the newly defined minimum requirements of Basel III rules for capital adequacy, including capital buffers.

(f) Market Development in 2014

Throughout 2014, the Czech National Bank kept its commitment not to allow the Czech crown to strengthen below CZK 27/EUR. The Czech crown oscillated slightly above this intervention zone (approximately CZK 27.40/EUR) during the first half of the year. In August, it temporarily weakened to CZK 27.80/EUR in relation to the escalation of the political situation in the Ukraine and increased geopolitical risk in the CEE region. During Autumn, the situation partially calmed down and the rate was CZK 27.725/EUR by the end of the year.
Another factor that influenced both the exchange rate of CZK and interest rates was the decrease in crude oil prices in the third and last quarter. Crude oil (WTI contract) decreased from its maximum balances of USD 106/barrel in mid-2014 to USD 53/barrel at the end of 2014. The rapid decline in prices resulted in downward pressure in consumer prices (CPI index), both in the EU and in the Czech Republic, which resulted in concerns on the part of certain investors about the delay in foreign exchange intervention or even its move to CZK 30/EUR. The Czech National Bank subsequently assessed that the disinflation process itself, resulting from the decline in crude oil prices, does not call for a change in the currency policy setting.
A more significant decrease in the CZK/USD rate resulted from concerns about the start of quantitative easing in EMU. In the latter half of 2014, the EUR started to weaken in respect of the USD which had an impact on CZK, weakening from levels around CZK 20/USD to CZK 23/USD at the year-end.
The year ended 31 December 2014 saw a decline in interest rates. The 10-year interest rate swap declined from 2% to 0.85% at the year-end. The principal reasons were continuing concerns about deflation and excess liquidity in bank balances that resulted in a high demand for government bonds, as safe instruments for the placement of excess liquidity throughout the year. Czech government bonds saw a significant decline in yields and consequently an increase in prices. The Credit Spread of the 10-year government bond (CZGB 5,7/24), in respect of the IRS, declined from a balance ranging around 40bps at the beginning of 2014 to –40bps at the year-end. This development has had a positive impact on the Bank's bond portfolio, which saw a positive development in the fair value due to the decrease in interest rates and credit spreads.
The macroeconomic environment in the Czech Republic continued to improve throughout the year. The industrial production bounced from the bottom and increased by 4.9% in 2014. Due to low inflation and a decrease in the unemployment rate (a year-on-year decrease from 8.2 to 7.5% at the end of 2014), the available income of households increased and led to a rise in retail sales in 2014 by solid 5.4% (as compared to a moderate increase of 1.2% in 2013). Household consumption was one the principal drivers of economic growth in 2014. The anticipated growth in GDP for 2014, at around 2%, will very likely be confirmed.
The year-on-year increase in the volume of client deposits in 2014 continued to be higher than the increase in provided client loans. The Bank invested the excess 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 2014, the Bank continuously enhanced its systems and processes under financial risk management as follows:

(i) Credit Risk

– More accurate specific credit policies for clients operating in selected industries (financing of commercial real estate, energy, automotive, construction, engineering, etc);
– Change in selected product parameters and credit products in retail banking;
– Strengthening of the procedure for credit fraud identification, monitoring the process related to the loan portfolio (timely identification of the warning signals) and of the process for recovery of loan receivables);
– Continuous improvement of the Bank's own estimates of risk parameters (PD, LGD, EAD); and
– Start of 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 successfully completed the implementation of a new IT system for treasury (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 of the Czech market.
– In the second quarter of 2014, the Bank launched a new IT platform for the calculation of VaR and BPV, which resulted in aligning the methodology and calculation results in the entire CEE division.
– In the first quarter of 2014, the Bank introduced reporting in line with the requirements of the European Market Infrastructure Regulation (EMIR).

(iii) Liquidity

– The Bank continued to improve the calculation methodology for the Basel III LCR indicators and continued to prepare for regular LCR reporting to regulatory authorities.

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 2014	31 Dec 2013
Assets		
Financial assets held for trading	13	3
Receivables from banks	3 756	9 318
Securities available for sale	4 793	4 793
Total	**8 562**	**9 321**
Liabilities		
Deposits from banks	7 423	15 660
Financial liabilities held for trading	1	9
Total	**7 424**	**15 669**
Off-balance sheet items		
Issued guarantees	609	334
Irrevocable credit facilities	44	283
Total	**653**	**617**
Interest and similar income	116	78
Interest and similar expenses	(36)	(30)
Income from fees and commissions	18	8
Expenses for fees and commissions	(17)	(16)
Net profit from financial assets and liabilities held for trading	19	(6)
General administrative expenses	56	29
Total	**156**	**63**

(b) Transactions with other related parties

MCZK	31 Dec 2014	31 Dec 2013
Assets		
Financial assets held for trading	927	611
of which:		
UniCredit Bank AG	913	598
Receivables from banks	3 231	2 181
of which:		
UniCredit Bank AG	1 351	940
UniCredit Bank Serbia Jsc	–	403
UniCredit Bank Hungary Zrt.	290	248
UniCredit S.p.A.	561	515
ZAO UniCredit Bank	1 012	–
Receivables from clients	13 716	5 665
of which:		
UniCredit Leasing Group	13 342	5 229
UCTAM CZ	282	222
Board of Directors	7	8
Other executives	77	96
Positive fair value of hedging derivatives	2 140	1 500
of which:		
UniCredit Bank AG	2 140	1 500
Total	**20 033**	**9 957**

MCZK	31 Dec 2014	31 Dec 2013
Liabilities		
Deposits from banks	1 933	3 453
of which:		
UniCredit Luxembourg S.A.	20	342
UniCredit Bank AG	1 796	3 026
UniCredit Bank Hungary Zrt.	2	29
UniCredit S.p.A.	104	45
Deposits from clients	1 726	1 304
of which:		
UniCredit Leasing Group	852	233
Pioneer Asset Management a.s.	404	403
Pioneer Investment Company	114	97
UniCredit Business Integrated Solutions S.p.A.	158	348
Board of Directors	91	70
Other executives	61	53
Financial liabilities held for trading	3 249	1 644
of which:		
UniCredit Bank AG	3 248	1 643
Negative fair value of hedging derivatives	2 355	1 822
of which:		
UniCredit Bank AG	2 355	1 822
Total	**9 263**	**8 223**

MCZK	31 Dec 2014	31 Dec 2013
Off-balance sheet items		
Issued guarantees	1 417	968
of which:		
UniCredit Bank AG	407	471
UniCredit S.p.A.	559	199
UniCredit Bank Hungary Zrt.	20	99
ZAO UniCredit Bank	400	93
Irrevocable credit facilities	6 917	2 186
of which:		
UniCredit Leasing Group	6 480	1 724
UniCredit Bank AG	148	113
Yapi ve Kredi Bankasi AS	–	122
UniCredit S.p.A.	108	94
Board of Directors	1	1
Other executives	4	3
Total	**8 334**	**3 154**

MCZK	2014	2013
Interest income and similar revenues	255	187
of which:		
UniCredit Bank AG	112	79
UniCredit Leasing Group	116	85
Interest expenses and similar charges	(9)	(2)
of which:		
UniCredit Bank Hungary Zrt.	–	(1)
UniCredit Leasing Group	(8)	–
Fee and commission income	86	24
of which:		
UniCredit Bank AG	59	7
UniCredit Leasing Group	6	4
Fee and commission expenses	(5)	(8)
of which:		
UniCredit Bank AG	(1)	(1)
UniCredit S.p.A.	–	(5)
Net income from financial assets and liabilities held for trading	(2 117)	(287)
of which:		
UniCredit Bank AG	(2 122)	(275)
Net income from hedging against risk of changes in fair value	(230)	350
of which:		
UniCredit Bank AG	(230)	350
General administrative expenses	(1 337)	(1 202)
of which:		
UniCredit S.p.A.	(54)	(53)
UniCredit Business Integrated Solutions S.p.A.	(1 252)	(1 107)
Total	**(3 357)**	**(938)**

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 Dec 2014 Carrying amount	31 Dec 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
Financial assets				
Receivables from banks	48 728	48 728	71 460	71 528
Receivables from clients	312 133	316 191	289 945	293 029
Financial liabilities				
Deposits from banks	30 358	30 109	49 798	49 693
Deposits from clients	328 712	329 040	306 298	306 622
Debt securities issued	47 285	50 330	43 041	44 189

The following table shows transfers of financial assets and liabilities at fair value between Levels 1 and 2.
Financial assets at fair value based on Levels 1 a 2:

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Securities available for sale	Hedging derivatives	Total
31 Dec 2014					
Transfer from Level 1 to Level 2	–	–	62	–	62
Transfers from Level 2 to Level 1	155	–	5 019	–	5 174
31 Dec 2013					
Transfer from Level 1 to Level 2	12	–	–	–	12
Transfers from Level 2 to Level 1	764	99	18 169	–	19 032

For the year ended 31 December 2014 and for the period ended 31 December 2013, no financial liabilities reported at fair value were transferred between Levels 1 and 2. The following tables show transfers of financial assets and liabilities reported at fair value from and to Level 3.

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Securities available for sale	Hedging derivatives	Total
Opening balance at 1 Jan 2013	**1**	**–**	**20**	**–**	**21**
Revaluation gains and losses					
In profit or loss	–	–	(24)	–	(24)
In other comprehensive income	–	–	–	–	–
Purchases	1	–	8	–	9
Sales/maturity	(1)	–	–	–	(1)
Balance at 30 Jun 2013	***1***	***–***	***4***	***–***	***5***
Addition arising from the merger	–	–	136	–	136
Revaluation gains and losses					
In profit or loss	–	–	24	–	24
In other comprehensive income	–	–	–	–	–
Purchases	–	–	–	–	–
Sales/maturity	(1)	–	(3)	–	(4)
Transfers from/to other levels	–	–	(19)	–	(19)
Closing balance at 31 Dec 2013	**–**	**–**	**142**	**–**	**142**
Total revaluation gains and losses included in profit or loss for the period:					–
Of which: Total revaluation gains and losses included in profit or loss for the period arising from financial assets held at the period end					–

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Securities available for sale	Hedging derivatives	Total
Opening balance at 1 Jan 2014	**–**	**–**	**142**	**–**	**142**
Addition arising from the merger	–	–	–	–	–
Revaluation gains and losses					
In profit or loss	–	–	–	–	–
In other comprehensive income	–	–	–	–	–
Purchases	–	–	–	–	
Sales/maturity	–	–	–	–	–
Transfers from/to other levels	–	188	104	–	292
Other	–	–	(136)		(136)
Closing balance at 31 Dec 2014	**–**	**188**	**110**	**–**	**298**
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:

MCZK	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Not held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2013	**7**	**–**	**–**	**7**
Revaluation gains and losses	–	–	–	–
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	7	–	–	7
Sales/maturity	(6)	–	–	(6)
Transfers to Level 3	(1)	–	–	(1)
Transfers from Level 3	–	–	–	–
Balance at 30 Jun 2013	***7***	***–***	***–***	***7***
Revaluation gains and losses	–	–	–	–
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	–	–	–	–
Sales/maturity	(6)	–	–	(6)
Transfers to Level 3	(1)	–	–	(1)
Transfers from Level 3	–	–	–	–
Closing balance at 31 Dec 2013	**–**	**–**	**–**	**–**
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 liabilities held at the period end				–
Opening balance at 1 Jan 2014	**–**	**–**	**–**	**–**
Revaluation gains and losses				
In profit or loss	–	–	–	–
In equity	–	–	–	–
Purchases	–	–	–	–
Sales/maturity	–	–	–	–
Transfers to Level 3	–	–	–	–
Transfers from Level 3	–	–	–	–
Closing balance at 31 Dec 2014	**–**	**–**	**–**	**–**
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 liabilities held at the period end				–

43. Offset of financial assets and financial liabilities

The Bank does not offset financial assets and financial liabilities. The below tables provide information on potential offset of financial assets and financial liabilities.

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

MCZK	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Relating amounts that are not offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2014						
Derivatives	2 134	–	2 134	1 560	–	574
31 Dec 2013						
Derivatives	1 954	–	1 954	935	–	1 019

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

MCZK	Gross reported financial liabilities	Gross reported financial assets	Net reported financial liabilities	Relating amounts that are not offset		Net amount
				Financial instruments	Provided cash collateral	
31 Dec 2014						
Derivatives	4 331	–	4 331	1 560	–	2 771
31 Dec 2013						
Derivatives	3 329	–	3 329	935	–	2 394

44. Subsequent events

On 20 January 2015, the acquisition of the 100% equity investment in Transfinance, a.s. was completed. The entity was acquired from an owner outside of the UniCredit Group. Its principal activities include the financing, collection and securing of short-term receivables of clients from various industry segments. The objective of this acquisition for the Bank primarily involves further extending the range of products and services of corporate banking to include factoring that is intended primarily for small and medium sized companies.
Except for the matter referred to above, management is not aware of any other post balance sheet events that would require adjustment to the Bank's financial statements.

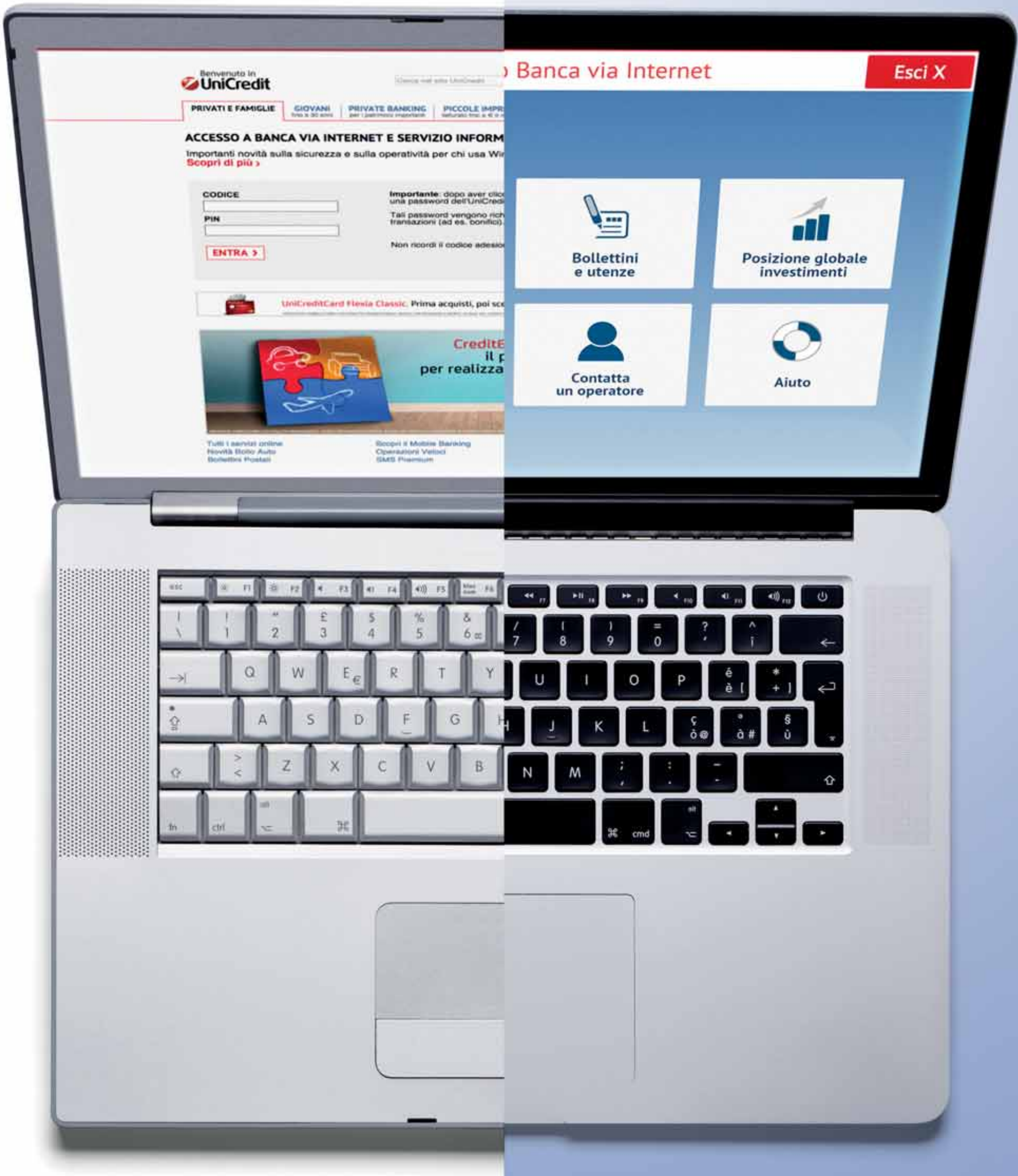
Approval date:	Stamp and signature of the statutory body:	Individual in charge of the accounting records (name, signature):	Individual in charge of the extraordinary financial statements (name, signature):
3 March 2015	Jiří Kunert Chairman of the Board of Directors Gregor Hofstaetter-Pobst Member of the Board of Directors	Jiří Kupec	Michaela Mrštíková

Technology is for young people.

Young people of all ages.

The future is for everyone.

Simplicity and clarity appeal to all of us. That's way UniCredit created **Subito Banca via Internet**, a practical online banking interface with common sense graphics, intuitive navigation buttons and large fonts. We are making our online services easy to use even by people unfamiliar with new technologies. We are offering solutions based on the preferences of more than 300 customers over the age of 60, collected during workshops and laboratories in Italy. We are proof that you can always innovate in a new way.



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INDEPENDENT AUDITOR'S REPORT

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

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

Report on the Separate Financial Statements

Based upon our audit, we issued the following audit report dated 3 March 2015 on the separate financial statements which are included in this annual report on pages 76 to 122:

"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 2014, 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 2014 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 describing that in 2013, UniCredit Bank Czech Republic, a.s. prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where

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UniCredit Bank Czech Republic, a.s. was the successor company and UniCredit Bank Slovakia a.s. was 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 to 31 December 2014. The comparative period presented in the statement of comprehensive income and the statement of cash flows includes the information of UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013 and the information of UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July 2013 to 31 December 2013. For this reason, the information presented in the 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."

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 25 March 2015 on the consolidated financial statements which are included in this annual report on pages 25 to 74:

"We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. which comprise the statement of financial position as of 31 December 2014, 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 consolidated Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated 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 2014 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 consolidated financial statements which describes that in 2014, the Bank signed 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. The contracts were signed between the Bank and UniCredit Leasing S.p.A., these are transactions under common control. At the same time, both lease companies purchased Czech and Slovak real estate project companies from their original owner UniCredit Leasing S.p.A., these are also transactions under common control. The Bank thus prepared the consolidated financial statements for the first time in 2014.

In 2013, UniCredit Bank Czech Republic, a.s. prepared a project of its cross-border merger with UniCredit Bank Slovakia a.s. where UniCredit Bank Czech Republic, a.s. was the successor company and UniCredit Bank Slovakia a.s. was the dissolving company. The merger effective date was determined at 1 July 2013.

These consolidated financial statements were prepared for the reporting period from 1 January to 31 December 2014. The comparative period presented in the statement of financial position includes the information of UniCredit Bank Czech Republic and Slovakia, a.s. as of 31 December 2013, the comparative period presented in the statement of comprehensive income and the statement of cash flows includes the information of UniCredit Bank Czech Republic, a.s. for the period from 1 January 2013 to 30 June 2013 and the information of UniCredit Bank Czech Republic and Slovakia, a.s. for the period from 1 July 2013 to 31 December 2013. 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."

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 year ended 31 December 2014 which is included in this annual report on pages 147 to 157. 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 year ended 31 December 2014 contains material factual misstatements.

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

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 30 April 2015

Audit firm:

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

Deloitte

Statutory auditor:

Diana Rádl Rogerová
Certificate no. 2045

D. Rádl Rogerová

The world moves fast.

Anticipation makes a world of difference.

Serving talent.

In a world that is always on the move, UniCredit saw the need for a network of high-tech services.
UniCredit Start Lab is our accelerator for innovative startups. From mentoring and network development to managerial coaching, we've got it covered.
MyZabaStart is a platform, launched in Croazia da Zagrebačka Banca BB, that provides support for deserving business ideas in the green, creative and innovative sectors, to help drive their business growth.

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, the Civil Code, the Act on Business Corporations and regulations governing operations in the banking and capital markets. In the Slovak market, where UniCredit Bank has operated since 1 December 2013 through its organisational unit; the Bank is also governed by applicable Slovak legal regulations.

2. Persons responsible for the audit of the financial statements

Person in charge:	Diana Rádl Rogerová
License No.:	2045
Domicile/Place of business:	Karolinská 654/2, 18600 Prague 8

Auditor:	Deloitte Audit s.r.o.
Certificate No.	079
Seat:	Nile House, Karolinská 654/2 186 00 Prague 8 – Karlin

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 173 branches and 375 ATMs. The Bank's branch network continues to grow, with the aim of 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 sheet sum totalling nearly CZK 481 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's share capital amounts to CZK 8,754,617,898 divided as follows:

a) 100 registered shares, each with a nominal value of CZK 16,320,000;
b) 200 registered shares, each with a nominal value of CZK 13,375,000;
c) 436,500 registered shares, each with a nominal value of CZK 10,000;
d) 10 registered shares, each with a nominal value of CZK 7,771,600; 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 99.96% 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 nature 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 99.996% share, is an indirect controlling entity. To prevent misuse of the control and controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the Report on Relations between the controlled entity and other entities controlled by the same controlling entity (Report on Relations between the related entities). No agreements that could lead to a change of control over the issuer are known.

3.3 Additional information

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

Currently there exist no 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) finance lease,
e) operating a system of payments and clearing;
f) issuing and administering payment products;
g) granting guarantees;
h) opening letters of credit;
i) administering cash collection;
j) providing investment services:
- main investment service pursuant to Section 8, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), receipt of and conveying instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, par. 1a) and 1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2c) of the Securities Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2d) of the Securities Act, management of individual portfolios at its own discretion within the terms of a contractual covenant with the client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
- main investment service pursuant to Section 8, par. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a) – 1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1c) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3c) of the Securities Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, par. 1a)–1d) and 1g) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies,
- supplementary investment service pursuant to Section 8, par. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, par. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
- supplementary investment service pursuant to Section 8, par. 3f) of the Securities Act, consulting services related to investment in investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, and
- supplementary investment service pursuant to Section 8, par. 3g) of the Securities Act, executing of foreign currency operations related to provision of investment services,

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

4.2 Key activities

Corporate, investment 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 an open architecture basis;
- Art Banking

Launching 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 a unified UniCredit Bank Czech Republic and Slovakia, a.s. The new model will allow us to better serve corporate clients operating in the segment of corporate banking on 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; since 14 April also the U Konto and the innovated Konto PREMIUM and Konto EXCLUSIVE CORPORATE;
- Business accounts and packages – Konto PRO PODNIKATELE, BUSINESS Konto, BUSINESS Konto Exklusive, Konto DOMOV (an account for housing co-operatives and owners associations), Konto PROFESE, Freelancer Professions Account; since 1 October also new Business accounts: START, ACTIVE, MASTER, GOLD and PROFESE;
- Mortgage loans and 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);
- Insurance products (property insurance, life insurance, credit insurance in co-operation with Allianz, BNP Paribas Cardif and Generali; in Slovakia, cooperation with ERGO);
- Internet, telephone and mobile banking;
- Cash and money changing operations and supplementary services.

Launching new products or activities

In 2014, we continued our successful loan optimisation concept, which was further enhanced by the new benefit system for our clients. For proper repayments, our clients were given a chance of refund of as much as 18 instalments. Moreover, no monthly fees were charged on those loans.
Additionally, we improved the conditions for granting an overdraft. We can provide an overdraft to new clients in an amount equal to the one granted by the client's present/former lender. Moreover, the client does not have to prove his/her income

We were the first bank on the Czech and Slovak market to launch a product named Card Balance Transfer allowing to transfer credit cards from other financial institutions to UniCredit Bank under matchless conditions. During the first six months no interest is charged on the transferred amount. Thus, our clients can save hundreds of CZK each year, and thanks to the low interest rate applied to further transactions they also save money in the following years.

In mortgage loans for individuals, we launched a new type of interest rate – a guaranteed floating rate. This is a unique type of interest bearing as we guarantee that the client gets the maximum level of the guaranteed floating rate for 3 years from signing the loan agreement. Thus UniCredit Bank again confirmed its role of innovator in the banking market. Additionally, we considerably accelerated the process of assessing and approving mortgages for individuals, mainly for loans refinanced from other banks and, moreover, we relaxed the rules for simplified refinancing

We continued improving the Small Business service model and on 1 February 2014, we opened the client centre serving approximately 10 000 Small Business clients. It is a separate branch operating under the marketing title BUSINESS EASY. Communication with clients is made by phone and via direct banking channels (Online Banking / BusinessNet).

Accounts

In April, we launched a brand new concept of the U Account package. It allows for free withdrawals from ATMs in the Czech Republic and abroad, i.e., not only within UniCredit Group. Further, it includes an embossed payment card, Internet banking including Smart banking in a mobile phone and all electronic transactions (outgoing and incoming). There is only one requirement that has to be met to make use of all aforementioned benefits – to make deposits to the account in the amount of at least CZK 12 000/EUR 400 per month. Students and young people, under the age of 26 can use the benefits of the U Account free of charge without needing to meet any requirements. Another exclusive benefit is that the bank guarantees the terms for 10 years.

In October, UniCredit Bank came up with a new offer of accounts also for traders and businesses with turnover below CZK 50 mil. Besides significantly cheaper services related to maintenance of the account, the offer is enhanced by accounts in foreign currencies. That results in simplified and cheaper deposits and withdrawals in foreign currencies. The account for top clients are associated with prestigious MasterCard or VISA GOLD Business payment cards. UniCredit Bank further intensified its support for starting businesses and firms which, under the new conditions, can be granted an overdraft up to CZK 150 thousand. Moreover, active clients can have the account kept free of charge. The only thing they need to do is to comply with requirements for average balance and/or sum of credit entries specific for each Account type.

Investments and deposits

The family of Czech funds under Pioneer Investments group was enlarged by Pioneer All-Star Selection equity fund, allowing investments in selected "star" funds of first-class global asset managers such as JP Morgan, Blackrock, Franklin Templeton, Pioneer Investments, Goldman Sachs or Vontobel. Another fund launched by UniCredit Bank in cooperation with Pioneer Investments is Pioneer Funds – Global Multi-Asset Target Income – a unique balanced fund with regular dividend payments. In cooperation with Allianz insurance company, we introduced the investment life insurance GIGANTI II, as a follow up on a very popular GIGANTI product. Again, the basket of equities included companies ranking among the largest firms and leaders in their business and the most valuable global trademarks.
Based on the cooperation with BNP Paribas Cardif, owners of current accounts had the opportunity to acquire a new product MOBILEO Premium. It is an insurance covering theft and damage to mobile household electronic equipment (such as mobile phones, tablet, laptop, camera, video camera, DVD, Blue-Ray, TV set, GPS, e-reader and other pocket devices).In September 2014, we launched another tranche of the one-off life insurance in cooperation with AXA insurance company; The underlying asset to ACTIVE STAR life insurance was the five-star ETHNA AKTIV E fund.
Another key product became the variable life insurance Bella Vita launched in cooperation with Generali. This product includes a number of complementary insurance options and it can be set up either as a risk insurance or as a risk insurance including an investment component. In Slovakia, in cooperation with ERGO insurance company, we launched another tranche of the one-off life insurance – Next Energy, which is focused on leading companies in solutions for a sustainable energy supply and Stellar Funds, allowing clients to participate in performance of top-class funds.

Online channels

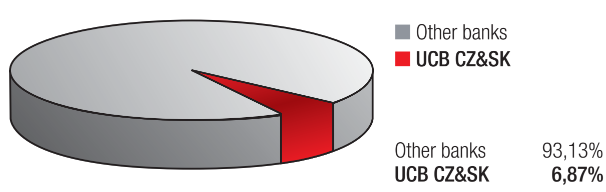
The online sales channel UniCredit Shop.cz underwent a series of improvements as regards functionalities and available products. A number of novelties, such as credit charging for prepaid cards, came along with mobile banking (Smart Banking). We were the first bank on the Czech market to introduce a novelty for Online Banking clients – a Smart Mobile Safety Key. It is a simple application in a smart mobile phone allowing to generate codes to access Online Banking and to sign payments. This application is a substitute for codes sent by SMSs or a physical token, and it is available to clients free of charge

4.3 Competitive position of the issuer

All charts below provide non-consolidated data.

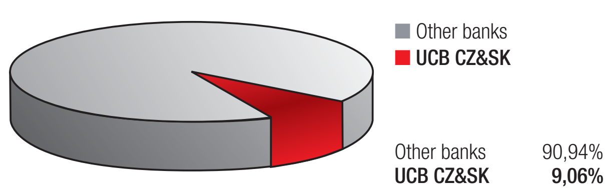
(i) Profit after tax

Profit after tax (MCZK)	**2014**
Banking sector CZ	63 459
UCB CZ&SK	4 361



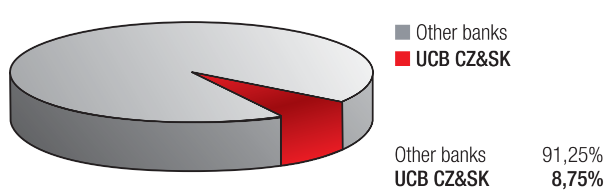
(ii) Total net assets

Total assets (MCZK)	**as at 31 Dec 2014**
Banking sector CZ	5 310 609
UCB CZ&SK	480 910



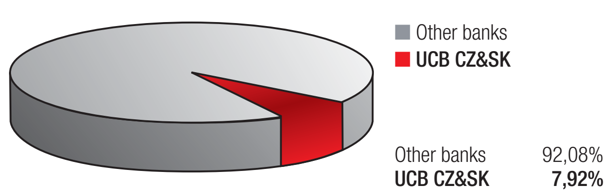
(iii) Gross receivables from clients in CR*

Receivables from clients (MCZK)	**as at 31 Dec 2014**
Banking sector CZ	2 635 131
UCB CZ&SK	230 662



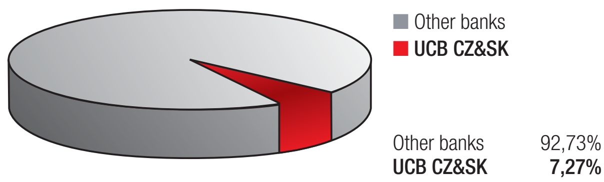
(iv) Gross receivables from clients in SR*

Pohledávky za klienty (MCZK)	**k 31 Dec 2014**	
Banking sector SR	1 160 960	41 874 mil. EUR**
UCB CZ&SK	91 921	



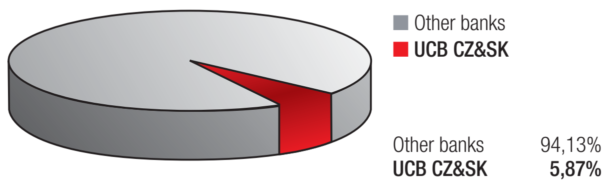
(v) Liabilities to clients in CR*

Liabilities to clients CR (MCZK)	as at 31 Dec 2014
Banking sector CZ	3 488 961
UCB CZ&SK	253 774



(vi) Liabilities to clients in SR*

Liabilities to clients SR (MCZK)	as at 31 Dec 2014	
Banking sector SR	1 276 995	46 059 mil. EUR**
UCB CZ&SK	74 938	



* Pursuant to the CNB method, receivables from clients and liabilities to clients are only included for the Czech part of the bank
** Converted using the exchange rate CZK 27.725/EUR as at 31.12.2014.

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 back as 1473, the year in which 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 meant the beginning of the Group's expansion (at that time under the name UniCredito Italiano) into Central and Eastern Europe (CEE).

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

In 2005, UniCredit merged with the German group HVB, which had itself been formed in 1998 by the joining of two Bavarian banks: Bayerische Vereinsbank and Bayerische Hypotheken-und WechselBank. 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 858 billion and ranking among the largest financial groups in Europe, UniCredit operates in 17 countries, with more than 7,600 branches and more than 130,000 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, the 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.	99,996%

6. Information on trends

Since the date of presenting the last financial statements, no substantial negative changes have occurred to the issuer's outlook.

7. Competence of UniCredit Bank's bodies, composition of the Board of Directors, Supervisory Board and Audit Committee and description of their decision-making procedures

7.1 General Meeting

The General Meeting of Shareholders is the Bank's supreme body. It decides all matters of the Bank falling under its competence by law or under the Bank's Articles of Association.
The following activities fall under the General Meeting's exclusive competence:

a) deciding on changes in the Articles of Association unless the change results from an increase in share capital by the Board of Directors under Sec. 511 et seq. of the Act on Business Corporations or in consequence of other legal facts,
b) deciding on an increase or decrease in the share capital, or on authorising the Board of Directors thereto under Sec. 511 et seq. of the Act on Business Corporations, or on the possibility to set off financial claims from the Bank against a claim for payment of an issue price,
c) deciding about the share capital decrease and bond issuing under Sec. 286 et seq. of the Act on Business Corporations,
d) electing and dismissing members of the Supervisory Board, members of the audit committee, and other bodies established by the Articles of Association,
e) approving the annual, extraordinary or consolidated financial statements and, in cases defined by law, also interim financial statements; deciding on distributing profits or other equity funds, or on settlement of losses and determining the amount of profit sharing for members of the Board of Directors and Supervisory Board,
f) deciding on remuneration of members of the Supervisory Board and the audit committee,
g) deciding on applying for listing of the Bank's participating securities for trading on the European regulated market or withdrawal of the securities from trading on the European regulated market
h) deciding on winding up the Bank with liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration and approving the draft distribution of liquidation balance,
i) deciding on a transfer or discontinuation of an operation of a plant or any such part thereof which would result in a substantial change in the bank's scope of business or activities;
j) approving agreements on silent partnerships, amendments thereto and termination thereof;
l) appointing auditors of the Bank based on recommendation of the Audit Committee;
m) deciding on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation; and
n) deciding on other issues that the Act on Business Corporations, other legal regulations or the Articles of Association define as falling under competence of the General Meeting.

7.2 Board of Directors

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 in person. Members of the Board of Directors are elected by the Supervisory Board for a period of three years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office. Only persons meeting the relevant legal requirements may be appointed as members of the Board of Directors. The Board of Directors makes decisions in the form of resolutions usually adopted at its meetings. The Board of Directors shall have a quorum if an absolute majority of all its members is present. The approval of an absolute majority of the Board members present is required for a resolution to be valid. In the event of a parity of votes, the presiding member of the meeting shall have the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members to simultaneously see and hear one another during the meeting (i.e. via videoconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The competence of the Board of Directors especially includes the following:

a) to organise the Bank's day-to-day activities and direct its business activities,
b) to convene the General Meeting and implement its decisions,
c) to submit to the General Meeting
   – at least once a year, a report on business activities, the state of the Bank's property; the report forms a part of the Bank's annual report;
   – regular, extraordinary, consolidated or interim financial statements along with a proposal for distribution of profits or settlement of loss, and to process these documents,
d) to publish the key data from the financial statements (such as total assets, total liabilities, equity, profit before tax, profit after tax) and the report of the bank's business activities and the state of the bank's property in a way applicable to convening a General Meeting, no later than 30 days before the date of the annual General Meeting, including an information as to where the financial statements is available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the bank's website is the financial statements available in accordance with Sec 436, par. 1, second sentence of the Act on Business Corporations;
e) decide on establishing and cancellation of the bank's branches;
f) to appoint and dismiss the Bank's managers,
g) to exercise the rights of an employer,
h) to issue, if it deems fit, rules of procedure for the Board of Directors,

which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to the prior approval by the Supervisory Board,

i) to grant and withdraw authorisations to act on behalf of the Bank and the powers of attorney to the Bank's representatives,
j) in accordance with generally binding legal regulations, establish mandatory funds of the Bank in cooperation with the Supervisory Board and define how such funds are to be created and used,
k) to sign the contract on the statutory audit with the auditor appointed by the General Meeting,
l) to establish committees of the Bank and define their tasks,
m) to appoint and dismiss the Bank's proxies with the prior approval of the Supervisory Board; and
n) to discharge other responsibilities stipulated by law or by the Articles of Association.

Ing. JIŘÍ KUNERT
Chairman of the Board of Directors 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 is also responsible to the Bank's Board of Directors for the management of the finance, human resources and legal issues.
Work address: Želetavská 1521/1, Prague 4
Domicile: Prague 4 – Záběhlice, Jihovýchodní III 789/60,
Born on: 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: Prague 4 – Michle, Baarova 1540/48,
Born on: 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, 147 00
Born on: 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: Prague 10 – Uhříněves, Měsíční 1366/10, 104 00
Born on: 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, 250 92
Born on: 24 February 1955

GREGOR PETER HOFSTAETTER-POBST
Member of the Board of Directors and Director of the Finance Division
Work address: Želetavská 1521/1, Prague 4
Domicile: K Vinicím 698b, Nebušice, Prague 6, 164 00
Born on: 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
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic
Born on: 12 November 1958

Changes in the Board of Directors in 2014
On 1 December 2014 the Supervisory Board re-elected Gregor Peter Hofstaetter-Pobst for the following term of office.

7.3 Supervisory Board of UniCredit Bank

The Supervisory Board has nine members of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Act on Business Corporations with reference to the Act on Transformations of Commercial Companies and Cooperatives. Members of the Supervisory Board exercise their functions 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 ViceChairman shall have 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 three members of the Supervisory Board (Francesco Giordano, Heinz Meidlinger and Miloš Bádal). The competence of the Remuneration Committee includes preparation of draft resolutions on remuneration, including those adopted by the Bank's Supervisory Board and having impact on the obligor's risks and risk management. When preparing those resolutions, the Remuneration Committee takes into consideration long-term interests of the Bank's shareholders, investors and other stakeholders and the public interests

Under direct supervision of the Remuneration Committee is remuneration of managers responsible for risk management, internal audit and compliance functions.

The Supervisory Board further established the Appointment Committee, which consists of three members of the Supervisory Board (Francesco Giordano, Heinz Meidlinger and Miloš Bádal). The competence of the Appointment Committee includes selection and submitting for approval by the Supervisory Board candidates for vacancies in the Board of Directors. In discharge of this task the Appointment Committee assesses, inter alia, proper proportion in competence, skills and diversity in composition of the bank's body as a whole. The Appointment Committee develops draft job descriptions including skills required for the position and estimated the time schedule for meeting the goals related to exercise of the office. Additionally, the Appointment Committee recommends the target gender proportion in the Board of Directors and the principles as to how the share of less represented

Gender in the Board of Directors can be increased to match the target goal;

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

The Supervisory Board further established the Risk Management Committee, which consists of three members of the Supervisory Board (Gianfranco Bisagni, Susanne Malibas and Heinz Meidlinger). The competence of the Risk Management Committee includes, in particular, the following activities:

a) provides consulting to the Supervisory Board as to the Bank's overall present and future approach to risk management, the risk management strategy and the level of acceptable risk and assists in the Supervisory Board's reviews over implementation of the aforementioned strategy by the top management; which is without prejudice to the Board of Directors' general responsibility for risk management.
b) Examines whether valuation of assets, liabilities and off-balance sheet items reflected in the offer to the clients fully complies with the Bank's business model and its risk management strategy. If the existing risks are not properly reflected in prices in accordance with the existing business model, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

The Supervisory Board:

a) reviews the specific directions of the Bank's activities and business policy and supervises its implementation,
b) is authorised to verify any steps taken in the Bank's affairs,
c) reviews regular, extraordinary and consolidated financial statements, and, as the case may be, the interim financial statements, as well as the proposal for distribution of profits or settlement of loss and presents its opinion to the General Meeting,
d) is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities,
e) monitors whether accounting records are properly maintained in accordance with reality and whether the Bank's business activities comply with legal regulations and the Articles of Association,
f) convenes the General Meeting if the Bank's interests so require and proposes necessary measures to be taken by the General Meeting,
g) appoints one of its members to represent the Bank in proceedings held before courts and other authorities against a member of the Board of Directors.
h) issues, if it is deemed appropriate, rules of procedure for the Supervisory Board, which may not contradict the Articles of Association,
i) approves the rules of procedure (if any) for the Board of Directors;
j) elects and dismisses members of the Board of Directors. New members of the Board of Directors are elected from among candidates who may be nominated by any member of the Supervisory Board. Removal of members of the Board of Directors from their office is also decided by the Supervisory Board upon motion of any member of the Supervisory Board.
k) nominates candidates for Chairman and Vice-Chairman of the Board of Directors;
l) stipulate general terms and conditions for the Bank's activities and terms and conditions for maintaining its credit risk exposure in accordance with decrees of the Czech National Bank and legal norms published in the Collection of Laws of the Czech Republic;
m) decides on the establishment and dissolution of the Bank's subsidiaries and on their transfer to other entities;
n) approves management agreements concluded between the Bank and members of its Board of Directors and any payments to be made by the Bank to the members of its Board of Directors pursuant to Section 61, par. 1 of the Act on Business Corporations;

o) decides on remuneration of members of the Board of Directors and stipulates rules for remunerating the Director of the Internal Audit Department;
p) establishes committees of the Supervisory Board and defines their responsibilities;
q) oversees effectiveness and efficiency of the Bank's management and control system;
r) gives prior approval to the appointment and dismissal of the Bank's proxies;
s) can ask the Chairman of the Audit Committee to convene a meeting of the Audit Committee; and
t) discharges further responsibilities stipulated by law, the Articles of Association and the Group's rules.

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

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

GERHARD DESCHKAN (until 28 April 2014)
Born on: 20 February 1967
Domicile: Vienna, Matzingerstraße 11/11, A-1140 Austria

SUZANNE MALIBAS (from 29 April 2014)
Born on: 14 July 1967
Domicile: Vienna, Pfarrwiesengasse 21/6, A-1190 Austria

GIANFRANCO BISAGNI
Born on: 11 September 1958
Domicile: 1190 Vienna, Dennweg 13, Austria

MAURO MASCHIO
Born on: 8 May 1969
Domicile: Kiev, Anri Barbyusa Str. 5, 03150 Ukraine

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

Ing. MILAN ŘÍHA (until 18 June 2014)
Born on: 19 May 1966
Domicile: Prague 9, Kyje, Splavná 1489, 198 00

EVA MIKULKOVÁ (until 18 June 2014 and re-elected from 24 July 2014)
Born on: 29 January 1957
Domicile: Kladno, Kročehlavy, Dlouhá 512, 272 01

Ing. JANA SZÁSZOVÁ (from 13 May 2014)
Born on: 17 January 1963
Domicile: Bratislava, Hany Meličkovej 2989/18, 841 05
Slovak Republic

Mgr. MILOŠ BÁDAL (from 24 July 2014)
Born on: 11 April 1970
Domicile: Prague 5, Motol, Podhorská 19/88, 150 00

Changes in the Supervisory Board in 2014
As of 28 April 2014, Gerhard Deschkan resigned from the Supervisory Board. On 29 April 2014, the General Meeting elected Susanne Malibas. As of 13 May 2014, Jana Számzová was elected to the vacancy in the Supervisory Board intended for a representative of employees with place of business in the Slovak Republic. As of 18 June 2014, the term of office expired for Ing. Milan Riha and Eva Mikulkova. Effective from 24 July 2014, the employees with place of business in the Czech Republic elected Eva Mikulkova and Mgr. Miloš Bádal.

7.4 Audit Committee

1. 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.
2. The Audit Committee consists of 3 (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.
3. The Audit Committee can order inspections and specifically focused audit investigation of the Bank's functions, other Bank's units and their subsidiaries. Additionally, the Audit Committee can be asked to assess interbank transactions and intragroup transactions and other transactions involving direct or indirect conflict of interests. Upon conduct of its business, the Audit Committee can ask the Group Audit function for consulting. In such case, the Group Audit function staff will be obliged to comply with all non-disclosure provisions.
4. Without prejudice to the responsibilities of the Board of Directors and Supervisory Board members, the Audit Committee in particular shall:
   a) monitor the procedure of 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, in particular, provision of supplementary services to the Bank which go above the scope of the annual audit, and
   e) recommend an auditor to be appointed by the General Meeting.

5. Meetings of the Audit Committee shall have a quorum if attended in person or via teleconference by the majority of its members. Decisions of the Audit Committee are passed by a simple majority of votes of the attending members of the Audit Committee, unless the decisions are taken "per rollam", which must be approved by all Audit Committee members.
6. The Audit Committee appoints and dismissed a chairman from among its members. The Chairman coordinates and plans activities of the Audit Committee, convenes the meetings and chairs the meetings.
7. The Auditor shall keep the Audit Committee informed, by reports submitted on an ongoing basis, of material facts resulting from the statutory audit, mainly of material defects in the internal control system with respect to the process of preparation of the financial statements or consolidated financial statements.

A detailed description of functions of the Audit Committee, its procedures for organisation, convening the meetings and adoption of resolutions is provided in the Audit Committee's Rules of Procedure approved by the General Meeting.

STEFANO COTINI
Chairman of the Audit Committee
Born on: 31 March 1951
Domicile: Viale Zugna 6, 38068 Rovereto Tn, Italy

GIORGIO EBREO
Born on: 4 November 1948
Domicile: Milan, Via Cervignano 16, Italy

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

7.5 Conflicts of interest at the level of management and supervisory bodies:

The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest.

7.6 Information on company management and administration codes

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

8. Legal and arbitration proceedings

As at 31 December 2014, the Bank reviewed the pending legal disputes against the Bank and created provisions for the litigation. In addition to those disputes, the Bank was also subject to other claims resulting from the Bank's regular business activities. The Bank is not, and during the past 12 months was not, involved in any judicial, administrative or arbitration proceedings which, in the Bank's opinion, could have, or in the past 12 months had, a material impact on the Bank's financial situation or profitability

9. Material change in the issuer's financial situation

Since the publishing date of the audited financial statements for the year ended 31 December 2014, no significant change has occurred in the financial situation of the issuer.

10. Loans outstanding, accepted borrowings and other liabilities

Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 54,392,000
Interest rate:	4,699%
Loan origination date:	16. June 2008
Maturity date:	15. June 2016
Collateral:	No collateral*
Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 25,000,000
Interest rate:	3M EURIBOR + 0,43%
Loan origination date:	25. June 2010
Maturity date:	25. June 2020
Collateral:	Collateralised by bonds

Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 40,000,000
Interest rate:	3M EURIBOR + 0,31%
Loan origination date:	13. October 2010
Maturity date:	13. October 2020
Collateral:	Collateralised by bonds
Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 35,000,000
Interest rate:	3M EURIBOR + 0,285%
Loan origination date:	10. December 2010
Maturity date:	10. December 2020
Collateral:	Collateralised by bonds
Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 100,000,000
Interest rate:	3M EURIBOR + 0,561%
Loan origination date:	9. August 2011
Maturity date:	9. August 2023
Collateral:	Collateralised by bonds
Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Czech Republic, a.s.
Loan amount:	EUR 50,000,000
Interest rate:	3M EURIBOR + 0,663%
Loan origination date:	30. November 2011
Maturity date:	30. November 2019
Collateral:	Collateralised by bonds
Creditor:	**European Investment bank, Luxembourg**
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
Creditor:	**European Investment bank, Luxembourg**
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*
Creditor:	**European Investment bank, Luxembourg**
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*
Creditor:	**European Investment bank, Luxembourg**
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
Creditor:	**European Investment bank, Luxembourg**
Debtor:	UniCredit Bank Slovakia, a.s.
Loan amount:	EUR 30,000,000
Interest rate:	3M EURIBOB + 0,633%
Loan origination date:	31. October 2011
Maturity date:	31. October 2023
Collateral:	No collateral*
Creditor:	**European Investment bank, Luxembourg**
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*
Creditor:	**European Bank for Reconstruction and Development, London**
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*
Creditor:	**European Bank for Reconstruction and Development, London**
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*
Creditor:	**European Bank for Reconstruction and Development, London**
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*
Creditor:	**European Bank for Reconstruction and Development, London**
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*
Creditor:	**European Bank for Reconstruction and Development, London**
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*

Creditor:	European Investment bank, Luxembourg
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
*) The loan is guaranteed by UniCredit Bank Austria AG, Vienna.	
Total loans as at 31 December 2014	**CZK 13,700,651,000**

11. Material contracts

UniCredit Bank has not concluded any such contracts which could give rise to an obligation or a claim of any member of the Group that would be material to the Bank's ability to settle its liabilities to securities holders based on the issued securities.

12. Third party information and experts opinions and declarations of any interests

The annual report does not include any representations or report of an entity acting as an expert. Additionally, it does not include any information from a third party, unless expressly stated otherwise.

13. Total amount of outstanding bond issues

Total amount of outstanding bond issues, including EUR and USD bonds converted using the CNB exchange rate valid as at 31 December 2014: CZK 47,285,027,869.

13.1. Information on the number of shares issued by the issuer and which are under the ownership of the issuer's managers, including persons close to these persons

The number of shares issued by the issuer under the ownership of managers or persons close to these persons is zero. There are no options or comparable investment instruments, the values of which relate to shares or similar securities representing an ownership interest in the issuer.

14. Principles of remunerating the issuer's managers

Remuneration policy

The remuneration policy for managers is established in accordance with "UniCredit Group's Remuneration Policy" and with Decree No. 163/2014 Coll. and consists of the basic salaries policy, the "Group Incentive System", and the benefits system. The key pillars of the remuneration policy include clearly organized and transparent company management and administration, compliance with the requirements of regulations and ethical rules, constant monitoring of market trends and practices, providing sustainable wages supported by sustainable performance and motivation and stabilization of all employees oriented especially toward promising staff members and those who are pivotal for the company in order to fulfil its mission.

Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic, a.s. (hereinafter the "Remuneration Committee") always approves the remuneration for each calendar year for members of the Board of Directors on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group. The Remuneration Committee in 2014 consists of Francesco Giordano, Heinz Meidlinger and, as of October 29,2014 Miloš Bádal.

The remuneration to members of the Board of Directors is set at a fixed amount that is paid monthly. Till April 2014, in accordance with the Banking Act, the members of the Board of Directors were 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 were entitled to monthly payment of a basic contractual salary, salary compensations and an annual variable bonus, and they were granted certain additional benefits. The remuneration to members of the Board of Directors amounted to 50% of the contractual salary established in the employment contract of the respective member of the Board of Directors. Starting from May 2014, in line with new civil code, members of the Board of Directors perform work according to the Agreement on discharge of office of members of the Board of Directors and receive the remuneration that is set as a fixed amount that is paid monthly, annual variable bonus, and they are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for executing their offices.

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 members of the Board of Directors are approved by the Remuneration Committee each year on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group.

Remuneration to the Bank's foreign executive managers (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 annual bonuses of the Bank's executive managers
The target variable bonus of the Bank's members of the Board of Directors is approved by the Remuneration Committee on the basis of the supporting materials submitted by the Human Resources Department and prepared in cooperation with the 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.

UniCredit Group's "2014 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee of UniCredit Bank Czech Republic, a.s., as a binding regulation for the variable bonuses of executive managers.

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

1. **"Bonus pool";**
2. **"Entry Conditions";**
3. **"Performance & Risk Factor Range";**
4. **"Performance Screen";**
5. **"Bonus cap";**
6. **"Compliance Assessment", "Continuous Employment Condition" and "Claw Back"**

Ad 1.
Bonus pool is set for each Country following external segment reporting structure and/or subgroups. Bonus pools is defined in the budget phase for each Country as a percentage of the respective funding KPI, considering: historical data analysis, expected profitability, business strategy and market context/external benchmarking.

Bonus pool is based on Country risk-adjusted results.

Ad 2.
Specific indicators are set as **"Entry Conditions"**, measuring annual profitability, solidity and liquidity results. The "Entry Conditions" is the mechanism that verifies the possible application of the malus condition (Zero Factor) based on the level of achievement of the indicators. In order to align to regulatory requirements, in case the "Entry Conditions" are not met, a Zero Factor will apply to the Executives/Identified Staff population.

In case the Entry Conditions are met, Zero Factor is not activated, and further adjustments are performed pursuant to Performance & Risk Factor Range.

Ad 3.
Performance & Risk Factor Range ensures that the bonus pools are aligned with the overall performance and risk assessment.

Application of the **"Performance & Risk Factor Range"** parameters affirms, reduces or entirely terminates an executive manager's bonus payment.

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

In 2014, Entry conditions were defined using the following parameters:

Group	Local
Net Operating Profit (NOP)	Net Operating Profit (NOP)
Net Profit (NP)	Net Profit (NP)
capital adequacy indicator (Core Tier 1 Ratio)	
short-term liquidity indicator, i.e. cash horizon	

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

Ad 4.
The **"Performance Screen"** is a table of the executive managers' performance objectives set each year by the Remuneration Committee of 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 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 "Core Goals" and the "Other Goals". Core goals should consider 4 – 8 performance goals, of which at least half sustainability. The executive managers may have assigned "Other Goals" in addition to performance goals. Such additional targets may range from individual tasks, projects, activities or any other goals or behaviours.

"Performance Screen" parameters approved by the Remuneration Committee for executive managers for 2014
"Core Goals",
for example included:
– economic profit (EVA), and
– net operating profit (gross operating profit after provisions), and
– average probability of default of managerial portfolio.

"Other Goals"
The "Other Goals" parameters were quantitative and qualitative and differed for each individual executive manager depending on the priorities of the segment for which the particular executive manager is responsible. These included, for example:
– minimize & control compliance risk
– actively lead and promote as a role model a full co-operation culture

Ad 5.
The Capital Requirements Directive (CRD IV) approved by the European Parliament, introduced the cap on bonuses with an effective date of 1st of January 2014. The bonus cap has been set at a one time fixed compensation, with the possibility to increase it to two-times fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. For the company Control Functions, a more conservative approach applies, providing for the bonus cap set at one time fixed compensation, or in any case a more stringent approach if set by regulators.

Ad 6.
Any payment of the variable component of remuneration for an executive manager is subject to the **"Compliance Assessment"**, which confirms, reduces or entirely cancels the payment to which an employee is entitled in each year of deferred remuneration.

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

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

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

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

Bonus Opportunity Plan
Payment of the bonus for the given period (2014) is spread out over a multiple-year period.

<u>Executive Vice-Presidents</u>
– The first part (2015) is payable in cash and comprises 20% of the bonus established for the given period. It is adjusted using the Performance & Risk Factor Range parameters valid for the first year of the accrual period.
– The second part (2016) is payable in cash and comprises 15% 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 part (2017) is payable in cash and comprises 15% of the bonus established for the given period. This payment is also adjusted using the Zero Factor, valid for the third year of the accrual period.
– The fourth part (2018) is payable in UniCredit Group shares equal to 20% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the fourth year of the accrual period.
– The fifth part (2019) is payable in UniCredit Group shares equal to 15% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the fifth year of the accrual period.
– The sixth part (2020) is payable in UniCredit Group shares equal to 15% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the sixth year of the accrual period.

Senior Vice-Presidents

– The first part (2015) is payable in cash and comprises 30% of the bonus established for the given period. It is adjusted using the Performance & Risk Factor Range parameters valid for the first year of the accrual period.
– The second part (2016) is payable in cash and comprises 10% 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 part (2017) is payable in cash and comprises 10% of the bonus established for the given period. These payment also is adjusted using the Zero Factor valid for the third year of the accrual period.
– The fourth part (2018) is payable in UniCredit Group shares equal to 30% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the fourth year of the accrual period.
– The fifth part (2019) is payable in UniCredit Group shares equal to 10% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the fifth year of the accrual period.
– The sixth part (2020) is payable in UniCredit Group shares equal to 10% of the bonus established for the given period. This payment also is adjusted using the Zero Factor valid for the sixth year of the accrual period.

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

Benefits of the Bank's executive managers

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

- The following 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.
- By virtue of their managerial position, executive managers are provided a company car for business as well as private purposes.
- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers 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 on with those members of the Supervisory Board who at the same time do not hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire period of office of the Supervisory Board member and it is approved based on the Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code and by 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 and Slovakia, a.s. is approved by the Bank's Board of Directors at the proposal of the Bank's Human Resources Department, and the benefits are provided in accordance with the valid Collective Agreements concluded between the Bank and its trade unions in particular countries.

The principles of remuneration to members of the Supervisory Board employed within the Bank and the components of their remuneration, which are paid to them by virtue of their employment contracts including the variable remuneration are defined by the Bank's Wage Order. The variable annual bonus payment is determined for employees as a percentage of the target variable annual bonus (0–150%) on the basis of fulfilling quantitative and qualitative performance indicators which are defined in the "Goal Card", which is part of the system of variable remuneration of the Bank's employees based on an evaluation of individual and team targets. The performance parameters in the "Goal Card" of Supervisory Board members who are employed with the issuer are dependent on the job positions they perform by virtue of their employment contracts in accordance with the Labour Code and in no way relate to the execution of the office of Supervisory Board member. The amounts of the final annual variable bonuses paid to members of the Supervisory Board who are employed with the issuer are proposed and approved by their direct superiors according to the issuer's organizational structure.

Audit Committee
The Audit Committee consists of three persons, none of whom are employed by the issuer. Fixed contractual remuneration may be agreed for executing the office of Audit Committee member. The remuneration is valid for the entire period of office of the Audit Committee member, and it is approved based on the Bank's Board of Directors proposal by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s.

In 2014, 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

CZK'000	Bank	Consolidated companies	Total consol. group
Audit	20 738	6 846	27 584
Other advisory services	1 301	–	1 301
Total	**22 039**	**6 846**	**28 885**

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

Members of the Board of Directors				
Amounts in CZK	Remuneration as member of the Board		Remuneration for executive positions	
Total incomes ***)	of Directors **)	Salaries **)	Variable remuneration *)	Non-monetary remuneration
83 758 012	57 988 998	7 613 256	15 714 357	2 441 401
Members of the Supervisory Board				
Amounts in CZK	Remuneration as member of the Supervisory Board			
Total incomes	dozorčí rady	Salaries	Variable remuneration *)	Non-monetary remuneration
3 212 430	275 300	2 521 747	399 829	15 554

Members of the Audit Committee				
Amounts in CZK	Remuneration as member of the Audit			
Total incomes	Committee	Salaries	Variable remuneration *)	Non-monetary remuneration
688 250	688 250	0	0	0
Other executive managers				
Total incomes ***)	Salaries	Variable remuneration *)	Non-monetary remuneration	
121 866 615	96 915 151	22 703 352	2 248 112	

*) Variable remuneration paid in 2014 as the bonus for 2013. The bonus for 2014 will be paid after the end and evaluation of the year 2014
**) Contracts modified according to the new Civil Code. All fixed compensation moved to Member of the Board of Directors fees as of May 2014
***) Remuneration of expatriates in the financial statement is presented in Other personnel costs

17. Major future investments other than financial investments (planned for 2015)

Other investments (excl. financial investments)	CZK 1.31 billion

The bulk of the investments (CZK 840 million) is focused on acquisition of assets for lease under operating lease contracts via members of the UniCredit Leasing Group. The rest of the investments is focused mainly on development and renovation of the distribution network and on implementation of information systems in UniCredit Leasing. IT services are primarily purchased on an outsourcing basis and recognised in operating costs.

18. Guarantees provided by the insurer

CZK'000	31 Dec 2014	31 Dec 2013
Granted guarantees and collaterals	34 203 700	39 227 250
Guarantees granted under L/Cs	1 431 501	1 242 354
Total	**35 635 201**	**40 469 604**

19. Internal audit policy and procedures and rules for the issuer's approach to risks associated with the financial reporting

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 effort was to establish corresponding internal controls that guarantee the accuracy of the financial reporting, achieve broader awareness of the risks connected with creating financial reports and keep these risks under control and at an acceptable level. The entire process is in accordance with the Italian Act No. 262/2005 and legal regulation No. 303/2006, which were inspired by the American Sarbanes-Oxley Act.

The Bank has prepared internal regulations relating to particular areas of its activities that influence the Bank's accounting. The valuation procedures applied to the statement of financial position and statement of comprehensive income items are described in the notes to the financial statements, which form a part of this annual report.

The Bank submits the financial statements for review by the auditor and twice a year (mid-year and at the year-end), the financial data intended for consolidation of the parent company are submit for verification by the auditor.

20. Licences and trade marks

UniCredit Bank uses dozens of trademarks for identification and protection of its products on banking markets in the Czech and Slovakia. The Bank, as the owner, has the trademarks registered with the Industrial Property Office of the Czech Republic and the Industrial Property Office of the Slovak Republic

Report on relations

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

In accordance with Section 82 et seq. of Act No. 90/2012 Coll. on Business Corporations, the Board of Directors of **UniCredit Bank Czech Republic and Slovakia, 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 January 2014 until 31 December 2014** (hereinafter the "period").

1. Structure of relations between UCB CS and the controlling entity and the entities controlled by the same controlling entity

During the aforementioned period, UCB CS was controlled by **UniCredit Bank Austria AG**, with registered office at Schottengasse 6–8, 1010 Vienna, Republic of Austria.
At the same time, UCB CS was indirectly controlled by **UniCredit, S.p.A.**, seated at Via Specchi 16, 00186 Rome, Italy.
On the other side, during the aforementioned period, UCB CS controlled the following companies: **UniCredit Leasing CZ, a.s.**, ID 15886492, Želetavská 1525/1, 140 10 Prague 4, as the sole shareholder of the company effective from 14 March 2014, and indirectly (through UniCredit Leasing CZ, a.s.) controlled also **UniCredit Leasing Slovakia, a.s.**, ID 35730978, Plynárenská 7/A, 821 09 Bratislava.

Additionally, **UniCredit Leasing CZ, a.s.**, is the sole partner of the following companies: **UniCredit Fleet Management, s.r.o.**, ID: 62582836, Želetavská 1525/1, Michle, 140 00 Prague 4, **UniCredit pojišťovací makléřská spol. s r.o.**, ID: 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4. On 24 March 2014, UniCredit Leasing CZ, a.s., became the sole partner of the following companies: **INPROX Chomutov, s.r.o.**, ID: 25670981, Želetavská 1525/1, Michle, 140 00 Prague 4, **CAC Real Estate, s.r.o.**, ID: 25737244, Želetavská 1525/1, Michle, 140 00 Prague 4, **HVB Leasing Czech Republic s.r.o.**, ID: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing EURO, s.r.o.**, ID: 49617044, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Gama s.r.o.**, ID: 25737201, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, ID: 25751841, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing OVUS s.r.o.**, ID: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing s.r.o.**, ID: 25708376, Prague 4 – Michle, Želetavská 1525/1, 14010, **INPROX Kladno, s.r.o.**, ID: 25727435, Prague 4 – Michle, Želetavská 1525/1, 14010, **CA-Leasing Praha s.r.o.**, ID: 62581538, Želetavská 1525/1, Michle, 140 00 Prague 4, **CAC IMMO, s.r.o.**, ID: 26063336, Prague 4 – Michle, Želetavská 1525/1, 14010. CAC IMMO, s.r.o. and CE-Leasing Praha s.r.o. were dissolved as a result of the local merger with the successor company HVB Leasing Czech Republic s.r.o. as of 1 November 2014.

UniCredit Leasing Slovakia, a.s., is the sole partner of the following companies: **UniCredit Leasing Insurance Services, s.r.o.**, ID: 47926481, Plynárenská 7/A, Bratislava 821 09, **UniCredit Broker, s.r.o.**, ID: 35800348, Plynárenská 7/A, Bratislava 814 11, and **UniCredit Fleet Management, s.r.o.**, ID: 35820381, Plynárenská 7/A, Bratislava 821 09. **Inprox Poprad, spol. s r.o.**, ID: 35 859 105, Plynárenská 7/A, Bratislava 821 09, **Inprox SR I, spol. s r.o.**, ID: 35 758 236, Plynárenská 7/A, Bratislava 821 09, **UniCredit Leasing Real Estate s.r.o.**, ID: 35 696 796, Plynárenská 7/A, Bratislava 821 09.

The structure of UniCredit Group is described in detail in Annex No.1 hereto. The structure of relations between UCB CS and companies directly or indirectly controlled by UCB CS is described in detail in Annex No.2 hereto.

2. UCB CS's role in UniCredit Group

Within CEE Division of UniCredit Group, the Czech Republic and the Slovak Republic rank among 4 key markets, in which UniCredit Group intends to expand on a long-term basis. The merged UCB CS entity is the third largest bank in CEE region as to total assets and the generated profit (based on 2013 data).
UCB CS acts as a universal bank on the Czech and Slovak markets and often plays the role of an innovator in the CEE region. Group solutions in products, processes or distribution channels, which proved to be successful after implemented in UCB CS, are then implemented in other UniCredit banks in CEE division.
In standard banking activities, besides the contracts listed below, the controlled entity entered into interbank, derivative and other bank transactions with the controlling entity and the related parties and these entities cooperated in the issuance of bonds and entered into client deals (payment cards, current accounts, deposit products, cash payment system, etc.) under standard market conditions. Under standard banking relations, certain credit transactions of controlled entities are secured by bank guarantees provided by UniCredit Bank Austria AG and UniCredit Bank AG.
There are also loan products extended within the group and guarantees are granted by UCB CS, under standard terms and conditions.

3. Methods and means of control

With reservation of applicable legal regulations, UCB CS, as a member of UniCredit Group, shall observe instructions issued by UniCredit Bank Austria AG as a subholding company of UniCredit Group (the "Subholding Company"). The Subholding Company shall supervise proper fulfilment of and compliance with the guidelines (the "Holding Guidelines") issued by UniCredit S.p.A. (the Holding Company") within the Bank and all companies controlled by the bank. The Holding Guidelines are rules defining the management, organisational scheme and responsibilities of managers in key processes within UniCredit Group; the rules are issued upon exercise of powers of the Holding Company in the area of supervision over UniCredit Group and coordination of UniCredit Group in accordance with instructions issued by the Italian supervisory authority aiming to ensure stability of the UniCredit Group.

4. Overview of contracts made between UCB CS and the controlling entity or between controlled entities

4.1 Between UCB CS and **UniCredit S.p.A.**, Via Specchi, 16 00186 Roma, Italy

Contract title	Subject matter of the Contract	Date of conclusion
MACH Core Migration Project	Support to Feasibility study for implementation of a common banking system	1. 9. 2014

4.2 Between UCB CS and **UniCredit Bank Austria AG**, Schottengasse 6-8, 1010 Vienna, Austria

Contract title	Subject matter of the Contract	Date of conclusion
ISDA Master Agreement	General agreement on trading with derivatives on financial market	24. 5. 2012
Consultancy Service Agreement	Learning and development Consultancy Services in the area of special professional skills, soft skills training and development and talent management	2012
Service Level Agreement	Report on risk assessment Netting Agreements	5. 9. 2008
Risk Sharing Instrument (RSI) Guarantee Agreement	Trilateral agreement with the European Investment Fund and granting guarantees under the Risk Sharing Instrument program	24. 6. 2014
Agreement Funds Advisory	Purchase and sale of trust units via UC Bank Austria platform	25. 3. 2005
Swapclear Dealer Clearing Agreement	Agreement on settlement of swap transactions with central counterparts	7. 7. 2014

4.3 Between UCB CS and **UniCredit Bank AG**, Kardinal-Faulhaber-Str.1, 80333 Munich

Contract title	Subject matter of the Contract	Date of conclusion
Brokerage Agreement	Procurement of purchases and sales of foreign securities for bank clients	6. 7. 2009
ISDA Master Agreement	General agreement on trading with derivatives on financial market	3. 3. 2010
Master Agreement – Global Debt Capital Markets	Terms of cooperation between the two banks in clients' euro-bond issues	30. 6. 2011
Agreement on the application service providing for the cash pool engine	Provision of services for cash pooling	9. 5. 2012
Agreement on reporting to a trade repository in accordance with Art.9 EMIR	Meeting the reporting obligations under EMIR	20. 3. 2014
Distribution agreement	Distribution of investment instruments issued by UniCredit Bank AG via the Bank	10. 4. 2014
Agreement on reporting to a trade repository in accordance with Art.9 EMIR	Meeting the reporting obligations under EMIR	15. 4. 2014
Agreement	Distribution of investment instruments issued by UniCredit Bank AG via the Bank using the electronic platform	3. 11. 2014

4.4 Between UCB CS and **UniCredit S.p.A., UniCredit Bank AG and UniCredit Bank Austria AG**

Contract title	Subject matter of the Contract	Date of conclusion
UniCredit Group – Master Cost Sharing Agreement	Sharing costs of seconded employee	19. 5. 2010

4.5 Between UCB CS and **UniCredit Business Integrated Solutions S.C.p.A.**, Via Livio Cambi 1, 201 51 Milan, Italy

Contract title	Subject matter of the Contract	Date of conclusion
Data Processing Agreement	Agreement on data processing and safety, data protection and confidentiality	5. 11. 2007
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office services – in payment system and accounts maintenance	5. 11. 2007
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office services – treasury	5. 11. 2007
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office and ICT services – cards processing	5. 11. 2007
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office and ICT services – in foreign payment system	5. 11. 2007
Coordination Agreement	Agreement on communication with third parties in relation to the Agreement on Outsourcing and provision of Operations and Back-Office services dated 5.11.2007	5. 11. 2007
Fleet Management Agreement	Agreement on delivery of HW and SW components and related services	1. 1. 2008

Service Level Agreement no BTS 2008-006	Foreign payment system for UCB SK	1. 1. 2008
Agreement on Outsourcing and provision of ICT services	ICT Services – provision of services in information systems (UniCredit bank) – agreements with a foreign company and the Czech branch office	28. 6. 2010
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office services – in card transactions (Miles & More)	1. 11. 2010
Agreement on Outsourcing and provision of ICT services	ICT services – Provision of services in information systems (UniCredit Bank SK)	23. 12. 2010
Non-housing premises lease contract No. 018/PP-2010/3560	Lease of non-housing premises at Šancová street in Bratislava	31. 12. 2010
Non-housing premises lease contract No. 017/PP-2010/3560	Lease of non-housing premises at Svatoplukova street in Bratislava	31. 12. 2010
Contract of Mandate	Sharing the services provided by the Bank's suppliers	1. 1. 2012
Sublease Contract	Sublease of premises in building No. 1525, Želetavská 1, Prague 4	29. 6. 2012
ATM Operating Manual	Operating Manual for ATM services	30. 11. 2012
Data Processing Agreement	Agreement on data processing and safety, data protection and confidentiality of contracts with a foreign company and the Czech branch office	30. 9. 2013
Coordination Agreement	Agreement on supporting communication with third parties in relation to the Agreement on Outsourcing of Operations and Back-Office services of 1. 4. 2014	1. 4. 2014
Agreement on Outsourcing and provision of Operations and Back-Office services	Outsourcing Agreement for the Slovak branch of the Bank	1. 4. 2014
Agreement on transfer of rights and obligations from employment relations	Transfer of employees related to transfer of employer's responsibilities under the outsourcing agreement	1. 4. 2014
Agreement on Outsourcing and provision of Operations and Back-Office services	Provision of back-office services in the payment system, maintenance of accounts, treasury and cards processing	1. 4. 2014
Coordination Agreement	Agreement on supporting communication with third parties in relation to the Agreement on Outsourcing of Operations and Back-Office services of 1. 4. 2014	1. 4. 2014
Agreement on transfer of rights and obligations from employment relations	Transfer of employees related to transfer of employer's responsibilities under the outsourcing agreement	1. 4. 2014
Non-housing premises lease agreement dated 20.5.2014	Lease of non-housing premises in Zvolen (since 1. 4. 2014)	20. 5. 2014

4.6 Between UCB CS and **UniCredit Leasing CZ, a.s.**, ID: 15886492 Prague 4 – Michle, Želetavská 1525/1, Postal Code 14010

Contract title	Subject matter of the Contract	Date of conclusion
Non-housing premises lease contract	Lease of premises in building No. 28, Široká 5, Liberec	6. 11. 2009
Non-housing premises sublease contract	Sublease of premises in building No. 1176-1177, Dr. Davida Bechera 26, Karlovy Vary	23. 3. 2010
Security equipment and camera system lease contract	Lease of systems owned by the Bank and installed in the leased premises of UniCredit Leasing CZ, a.s.	1. 4. 2012
Contract of Mandate	Sharing the services provided by the Bank's suppliers	2. 4. 2012
Sublease contract	Sublease of premises in building No. 1525, Želetavská 1, Prague 4	13. 3. 2013
Non-housing premises lease contract	Lease of premises in building No. 545, Divadelní 2, Brno	30. 5. 2013
Logo positioning right agreement	Use of the position for logo on building No. 1525, Želetavská 1, Prague 4	3. 6. 2013
Prospective clients search agreement	Agreement for mediation of consumer loans for UCB	13. 1. 2014
Prolongation of the sublease contract dated 13. 3. 2013	Exercise of the sublease option for prolongation of the term of sublease for the subleased asset in building No. 1525, Želetavská 1, Prague 4	4. 2. 2014
Business premises sublease contract	Sublease of business premises in building No. 3348, 28 Rijna 65, Ostrava	1. 3. 2014
Business premises sublease contract	Sublease of business premises in building No. 3348, 28 Rijna 65, Ostrava	1. 3. 2014
Share deposit agreement	Agreement on non-monetary contribution in relation to increase in UCL CZ registered capital. Contributed were 7 296 pcs of UniCredit Leasing Slovakia, a.s.	30. 4. 2014
Share subscription agreement	Subscription of UCL CZ shares by the sole shareholder in relation to increase of the UCL CZ's registered capital	30. 4. 2014
Contract on provision of services and mandate contract	UCL CZ outsourced certain activities to the Bank	6. 8. 2014
Personal data processing agreement	Processing of UCL CZ's personal data in relation to the outsourcing	6. 8. 2014

4.7 Between UCB CS and **UCTAM Czech Republic s.r.o.**, ID: 24275671, Prague 1 – Nove Mesto, Nám. Republiky 2090/3a, P.C. 11000

Contract title	Subject matter of the Contract	Date of conclusion
Non-housing premises lease contract	Lease of premises in building No. 2090, Nám. Republiky 3a, Prague 1	12. 6. 2013

4.8 Between UCB CS and **CAC LEASING Slovakia, a.s.**, ID: 35 730 978, Plynárenská 7/A, Bratislava, 821 09, Slovak Republic

Contract title	Subject matter of the Contract	Date of conclusion
Non-housing premises lease contract	Lease of non-housing premises at Plynárenská 7/A, BC building	28. 3. 2007

4.9 Between UCB CS and **UniCredit Leasing Slovakia, a.s.**, ID: 35 730 978, Plynárenská 7/A, Bratislava, 821 09, Slovak Republic

Contract title	Subject matter of the Contract	Date of conclusion
Non-housing premises sublease contract No. 173/3563/2011	Lease of non-housing premises in Prešov on Hlavná St	14. 4. 2011
Non-housing premises lease contract No. 301/3563/2011	Lease of non-housing premises in Nitra on Štefánikova St	27. 6. 2011
Non-housing premises lease contract No. 302/3563/2011	Lease of non-housing premises in Košice on Rooseveltova St	27. 6. 2011
Non-housing premises lease contract No. 214/3563/2012	Lease of non-housing premises in Žilina on Narodna St	15. 6. 2012
Contract on provision of services and mandate contract	UCL SK outsourced some of its activities to the Bank	6. 8. 2014
Personal data processing agreement	Processing of personal data of UCL SK by the Bank in respecf of the outsourcing	6. 8. 2014
Non-housing premises lease contract dated 31.10.2014	Lease of non-housing premises on Šancovej 1/A BA (since 1. 11. 2014)	31. 10. 2014
Non-housing premises lease contract	Lease of non-housing premises on Plynárenská, BA	31. 10. 2014

4.10 Between UCB CS and **Pioneer Asset Management, a.s.**, ID: 25684558, Želetavská 1525/1, Michle, 140 10 Prague 4

Contract title	Subject matter of the Contract	Date of conclusion
Agreement on mediation of management contracts	Amendment of terms for mediation of management contracts	19. 1. 2007
Non-housing premises lease contract	Lease of premises in building No. 2090, nám. Republiky 3a, Prague 1	31. 8. 2012
Distribution agreement for Rentier Invest, Zlata rybka, Pioneer Invest	Distribution of Rentier Invest and Zlata rybka through the Bank	22. 11. 2012
Agreement on orders acceptance and processing	Acceptance and processing of orders regarding participation certificates of Rentier Invest and Zlata rybka products through Arbes TA web	1. 7. 2013
Agreement on Compromise and Settlement	Agreement on settlement of the Bank's costs incurred in collection of clients' claims in proceedings with Lehman Brothers companies	16. 12. 2014
Agreement on Compromise and Settlement	Agreement on settlement of the Bank's costs incurred in collection of clients' claims in proceedings with Lehman Brothers companies	16. 12. 2014

4.11 Between UCB CS and **Pioneer Asset Management, S.A.**, 8-10, rue Jean Monnet, L-2180 Luxembourg

Contract title	Subject matter of the Contract	Date of conclusion
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., the Commercial Code	Contact bank and payment agent (PIONEER FUNDS)	28. 1. 2005
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., the Commercial Code	Contact bank and payment agent (PIONEER NEW EUROPE FUNDS)	28. 1. 2005
Agreement according to Section 269 (2) of the Slovak Act No. 513/1991 Coll., the Commercial Code	Contact bank and payment agent (PIONEER P.F.)	7. 12. 2006
Distribution Agreement	Distribution agreement – lux. Funds, exclusivity of UCB as the distributor among banks; exclusivity of Pioneer funds in the offer of collective investment schemes	1. 4. 2007/8. 1. 2008
Operational Memorandum	Supplementary provisions of the agreement, PAM a.s., like a processing agent, nominee arrangement	1. 4. 2007/8. 1. 2008

4.12 Between UCB CS and **Pioneer investiční společnost, a.s.**, ID 63078295, Želetavská 1525/1, Prague 4

Contract title	Subject matter of the Contract	Date of conclusion
Agreement on promotion of participation certificates of open-ended unit trusts	Distribution of participation certificates of Czech Pioneer funds by the Bank	2. 10. 2006
Agreement on performance of activities related to offering the participation certificates	Distribution of participation certificates of Czech Pioneer funds by the Bank	1. 4. 2008
Agreement on termination of contract	Termination of the contract made on 1.7.2003 initially between ŽB-Trust, a.s. and UniBanka, a.s. on activities related to redemption of participation certificates	11. 2. 2014
Indemnification Agreement	Agreement on payment of damages in relation to invalid redemption of participation certificates in 2003	16. 12. 2014

4.13 Between UCB CS and **Pioneer Global Funds Distributor Ltd.**, Mercury House, 2nd Floor, 101 Front Street, Hamilton HM12, Bermuda

Contract title	Subject matter of the Contract	Date of conclusion
Purchase Conditions for Pioneer Alternative Investments investment funds according to Irish and Bermudan Law	Distribution of units of Pioneer Alternative Investments funds based in Ireland and Bermuda via the Bank	19. 12. 2006
Contract "Purchase Conditions and Hedged Funds"	Business terms for investment funds under Irish and Bermuda legal order	5. 10. 2005 Živnobanka, 28. 2. 2007 HVB

4.14 Between UCB CS and **Pioneer Global Funds Distributor Ltd.** and **Pioneer Global Investments Limited**, 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland

Contract title	Subject matter of the Contract	Date of conclusion
Novation Agreement	Transfer of rights and obligations under collective investment securities distribution contracts	1. 9. 2014
Novation Agreement	Transfer of rights and obligations under collective investment securities distribution contracts	1. 9. 2014
Novation Agreement	Transfer of rights and obligations under collective investment securities distribution contracts	1. 9. 2014

4.15 Between UCB CS and **Pioneer Global Investments Limited**, 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland

Contract title	Subject matter of the Contract	Date of conclusion
Distribution Agreement	Distribution of participation certificates of Pioneer Investments funds based Luxembourg via the Bank	29. 3. 2004
Purchased conditions for Pioneer Alternative Investments investment funds	Distribution of units of Pioneer Alternative Investments funds based in Ireland and Bermuda via the Bank	5. 10. 2005
Distribution Agreement	Distribution of participation certificates of Pioneer Investments funds based Luxembourg via the Bank	17. 10. 2006
Purchased conditions for Pioneer Alternative Investments investment funds	Distribution of units of Pioneer Alternative Investments funds based in Ireland and Bermuda via the Bank	15. 2. 2007

4.16 Between UCB CS, **Pioneer Asset Management, a.s.**, and **Pioneer investiční společnost, a.s.**

Contract title	Subject matter of the Contract	Date of conclusion
Agreement on cooperation and account maintenance	Distribution of participation certificates of Czech Pioneer funds, terms of maintenance of clients accounts	29. 10. 2013

4.17 Between UCB CS and **Pioneer Investments Austria GmbH**, Lassallestraße 1, Vienna, A-1020

Contract title	Subject matter of the Contract	Date of conclusion
Vertriebstellenvertrag	Exclusive authorisation of HVB Bank Slovakia a.s. by all activities related to sale of units in the Slovak Republic	25. 11. 2002

4.18 Between UCB CS and **UniCredit Bank Hungary Zrt.**, Szabadság tér 5-6, Budapest, 1054, Hungary

Contract title	Subject matter of the Contract	Date of conclusion
ISDA Master Agreement	General Agreement on trading with derivatives on financial market	23. 5. 2007

4.19 Between UCB CS and **UniCredit Leasing S.p.A.**, Vienna branch, Operngasse 21, 1040 Vienna

Contract title	Subject matter of the Contract	Date of conclusion
Share Purchase Agreement	The Bank purchased shares representing 71.3% share in the registered capital of UniCredit Leasing Slovakia, a.s.	14. 2. 2014
Share Purchase Agreement	The Bank purchased shares representing 100% share in the registered capital of UniCredit Leasing CZ, a.s.	14. 2. 2014

4.20 Between UCB CS and **UniCredit Broker s.r.o.**, ID: 35 800 348, Plynárenská 7/A, 821 09 Bratislava

Contract title	Subject matter of the Contract	Date of conclusion
Cooperation Agreement	Mediation of contacts with clients	1. 1. 2011

4.21 Between UCB CS and **UniCredit Fleet Management, s.r.o.**, ID: 62582836, Prague 4 – Michle, Želetavská 1525/1, Postal Code 14010

Contract title	Subject matter of the Contract	Date of conclusion
General Car Lease Agreement	Definition of general terms for conclusion of Lease Contracts and agreement on 36 Car Lease Contracts	4. 3. 2013
Car Lease Contracts	36 Car Lease Contracts	1. 1.–31. 12. 2014

4.22 Between UCB CS and **UniCredit Fleet Management, s.r.o.**, ID: 35 820 381, Plynárenská 7/A, 821 09 Bratislava

Contract title	Subject matter of the Contract	Date of conclusion
Operating Lease Contract	Terms for operating lease of motor vehicles	30. 8. 2007

4.23 Between UCB CS and **UniCredit Tiriac Bank SA**, Sediul Central Bd, Expozitiei Nr.1F, Sect 1, Bucharest, 012101, Romania

Contract title	Subject matter of the Contract	Date of conclusion
Service Agreement	Temporary advisory actions and support in banking services related to CEE 2020 Trade Finance Back and Project	26. 1. 2015

4.24 Between **UCB CS and Schoellerbank AG**, Renngasse 3, Vienna, Austria

Contract title	Subject matter of the Contract	Date of conclusion
Cooperation Agreement	Offering and intermediation of Schoellerbank's services via UCB CS	23. 11. 2012

4.25 Between UCB CS and **Diners Club CS, s.r.o., organizační složka**, ID: 24768669 Prague 1, Široká 36/5, Postal Code 11000

Contract title	Subject matter of the Contract	Date of conclusion
Intermediation Agreement + Personal data processing agreement	The subject matter of the cooperation agreement is intermediation in issuing Diners Club charge cards	21. 10. 2009

4.26. Besides the above mentioned contracts and agreements in the past accounting period, there were other agreements in effect between UCB CS and certain companies of the group; those agreements, however, are confidential. The agreements refer to interbank, derivative and other bank transactions. UCB CS cooperated with those companies in the issuance of bonds and entered into client transactions (payment cards, current accounts, deposit products, cash payments, etc.) on an arm's length basis. Under common banking relations, certain credit transactions of UBC CS are secured by bank guarantees granted by UniCredit Bank Austria AG and UniCredit Bank AG. Additionally,
UCB CS offers loan products and guarantees within the group on an arm's length basis.

5. *Actions carried out during the last reporting period, which were initiated by or in the interests of the controlling entity or entities controlled by the controlling entity, provided that such action referred to assets exceeding 10% of the controlled entity's equity, as recognised in the last financial statements.*

In 2014, the threshold of 10% of UCB CS's equity, which according to the financial statements as of the end of 2013 equalled CZK 50 747 million, was exceeded by financing which UBC CS granted to UniCredit Leasing CZ, a.s. The financing was granted on an arm's length basis.

6. *Assessment as to whether a controlled entity was harmed and assessment of the settlement in accordance with Sec. 71 and Sec. 72 of the Act on Business Corporations.*

The Board of Directors of UCB CS declares that no harm resulted for UniCredit Bank Czech Republic and Slovakia, a.s., from the signed contracts and adopted measures.

7. *Assessment of advantages and disadvantages resulting from relations with the entities under Sec. 82 par. 1 of the Act on Business Corporations.*

The advantages of UniCredit Bank CS's membership in UniCredit Group: an internationally known brand and benefits to reputation resulting from inclusion of UniCredit Group among SIFI (Systematically Important Financial Institutions). Sharing the IT infrastructure, development, maintenance within UniCredit Group and resulting economies of scale in the following areas:

– Sharing the know-how of the leading European bank and one of the most active and major commercial banks in the Central and Eastern Europe, i.e., in development of products, implementation of business innovations and trade network management.
– Opportunity to be involved in UniCredit Group's growth initiatives, e.g. CEE2020, providing UCB CS support and know-how in building a strong position of an universal bank on the Czech and Slovak markets.
– HR development along with sharing UniCredit Group's experience from European markets, option for employees to gain practical skills at other banks or the holding's management structures; career development opportunities within UniCredit Group.
– Optional making use locally of UniCredit Group's sponsoring and marketing performed on European level (e.g. UEFA Champions League).
– UCB CS's involvement in the sophisticated system of service of international clients via local International Desk / International Clients functions and mutual cooperation of those functions in servicing and satisfying needs of international clients.

Potential disadvantages of UCB CS's membership in UniCredit Group include:

– Comprehensive organisational structure of an international banking group;
– Potential mutual influence from other countries, mainly as to reputation and perception of UniCredit brand (Cross-border sentiment).

When assessing the overall impact of membership of UniCredit Bank CS in UniCredit Group, the benefits resulting from this position are markedly prevailing. The aforementioned potential disadvantages are actively prevented by the bank both by adoption of preventive measures by UBC CS local management and by communication and building a strong brand on local level.

In Prague on 24 March 2015

For 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

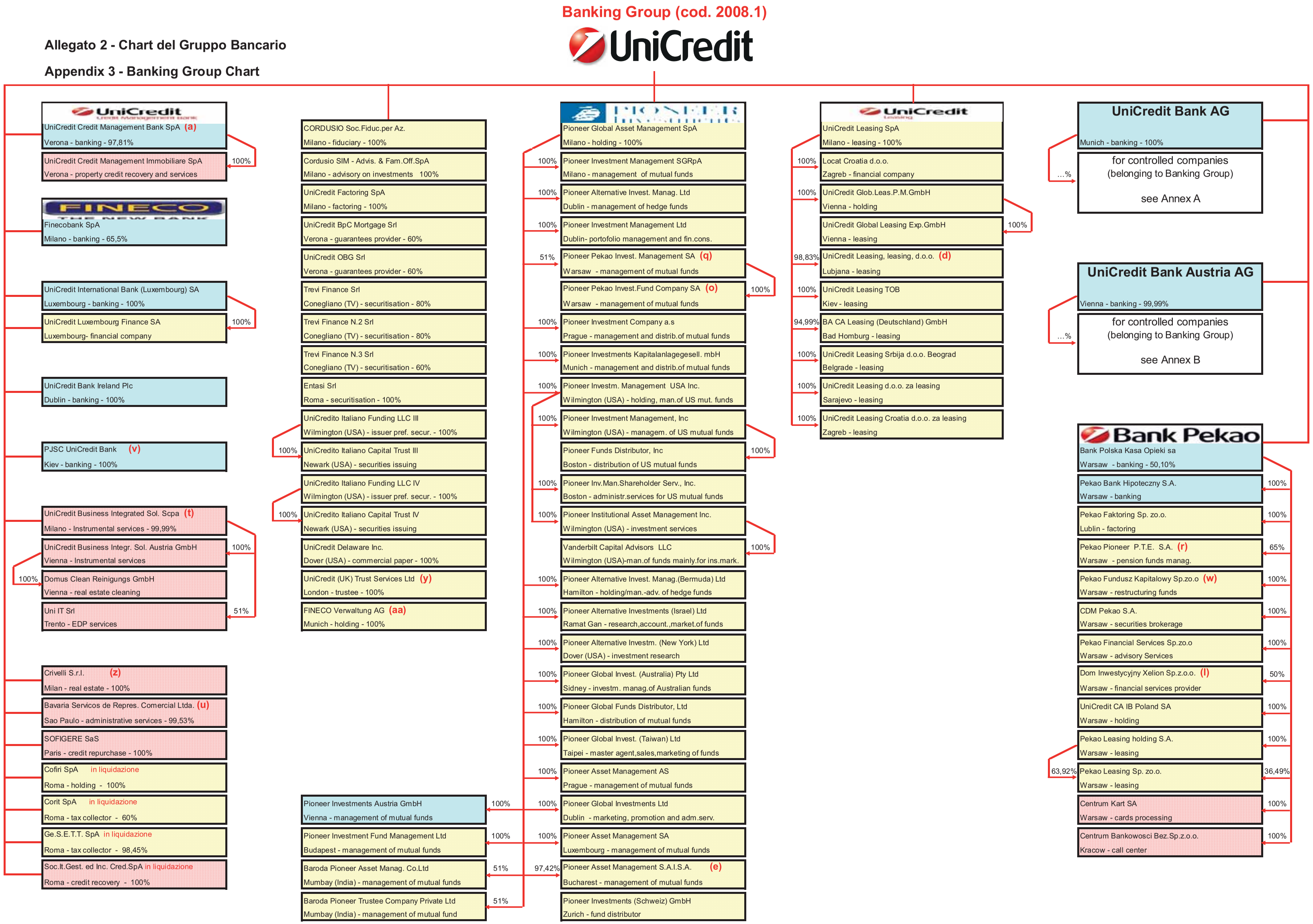
Annexes:

1. Organizational structure of UniCredit Group
2. Organizational structure of companies controlled by UCB CS

Organizational structure of UniCredit Group

Allegato 2 - Chart del Gruppo Bancario

Appendix 3 - Banking Group Chart



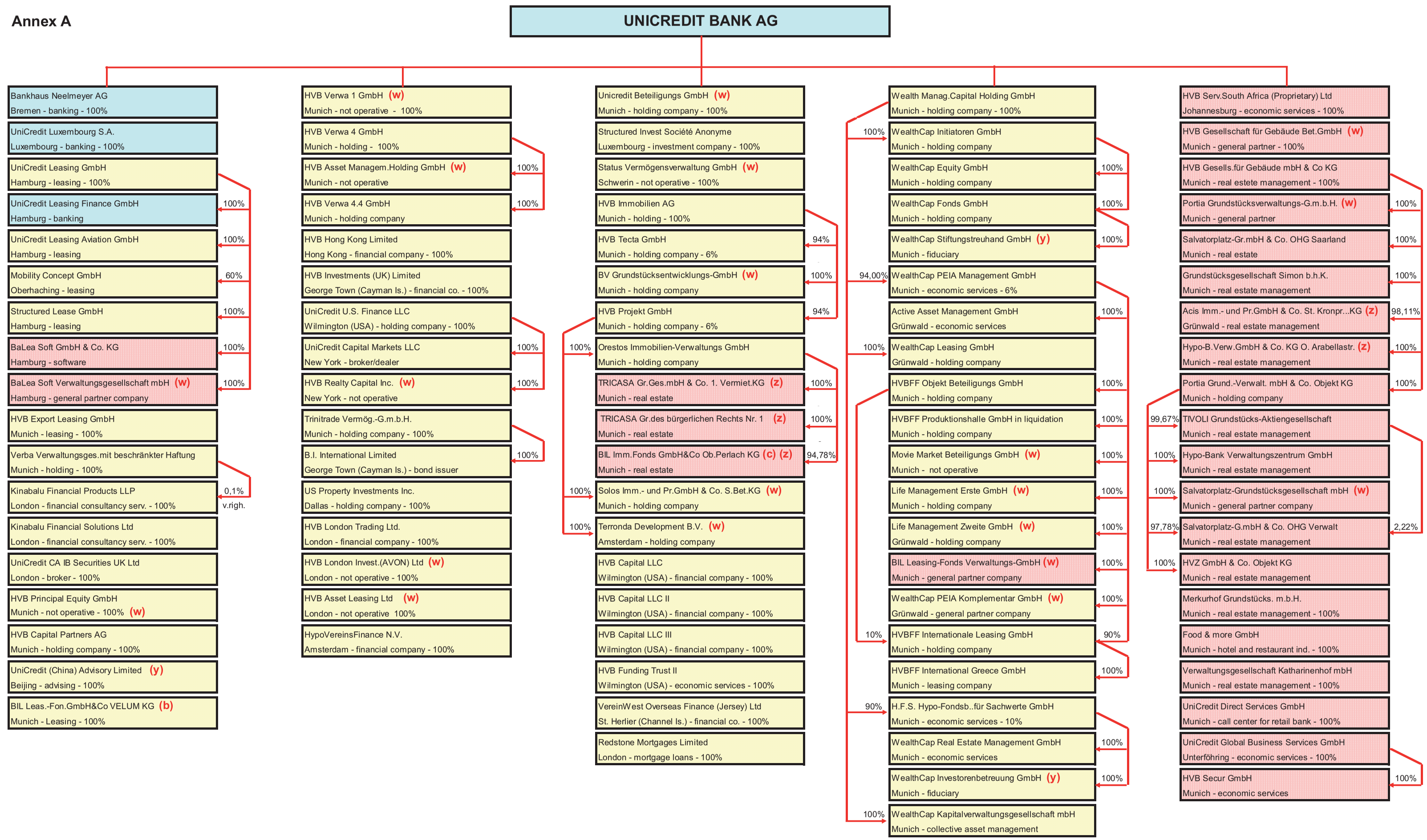
(a) # 175.000 shares owned by UniCredit Credit Management Bank SpA (d) 1,17% held by UniCredit Bank Slovenija DD (e) 2,575% held by UniCredit Tiriac Bank SA (l) 50% owned directly by UniCredit
(o) in Polish: Pioneer Pekao TFI SA (q) 49% held by Bank Pekao SA (r) 35% held by Pioneer Global Asset Management SpA (t) Other companies belonging to UniCredit Group and third parties hold 10/20 shares of the company (u)
0,47% held by UniCredit Delaware Inc (v) no activities. To be cancelled from local Register (aa) under liquidation process
(z) Requested to Bank of Italy the inclusion in the Banking Group
(w) Requested to Bank of Italy the exclusion from the Banking Group
(y) Requested to Bank of Italy the reclassification within the Banking Group

Companies belonging to
the Banking Group

banking
financial
instrumental

Updated
January 15th 2015

Annex A



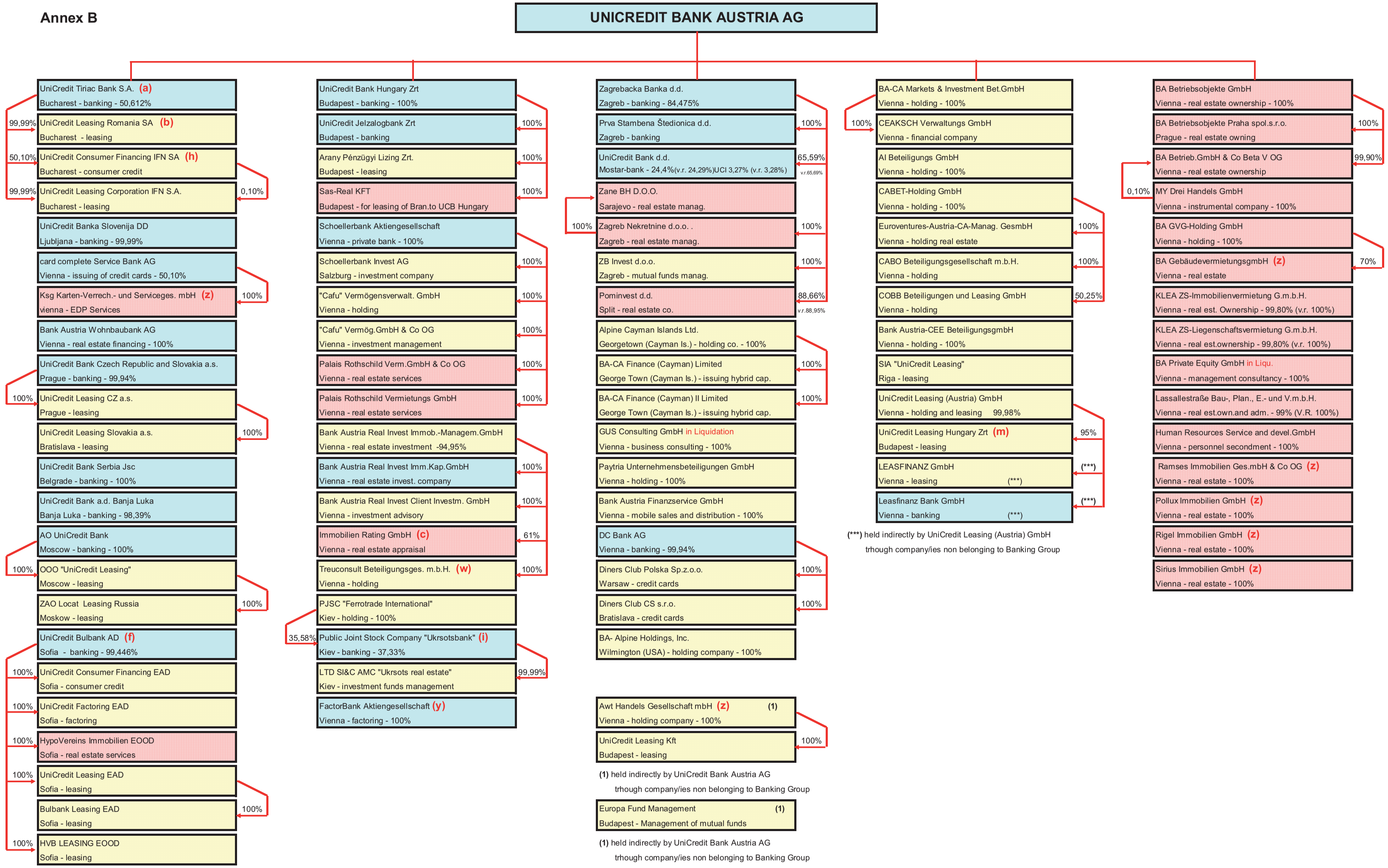
(b) Voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (c) 5,22% held by WealthCap Leasing GmbH
(z) Requested to Bank of Italy the inclusion in the Banking Group
(w) Requested to Bank of Italy the exclusion from the Banking Group
(y) Requested to Bank of Italy the reclassification within the Banking Group

Companies belonging to the Banking Group

- banking
- financial
- instrumental

Updated
January 15th 2015

Annex B



(a) % considering shares held by other Companies controlled by BA (b) UniCredit Consumer Financing IFN SA holds 1 share of the company (c) 19% held by BA and 19% held by UniCredit Leasing (Austria) GmbH
(f) 0,004% held by Unicredit SpA (h) 49,9% held by UniCredit SpA (i) 26,48% held by UniCredit SpA UniCredit (m) 5% held by BA Eurolease Beteiligungsgesellschaft m.b.H.
(z) Requested to Bank of Italy the inclusion in the Banking Group
(w) Requested to Bank of Italy the exclusion from the Banking Group
(y) Requested to Bank of Italy the reclassification within the Banking Group

Companies belonging to the Banking Group

banking
financial
instrumental

Updated
January 15th 2015

Structure of relations between UniCredit Bank Czech Republic and Slovakia, a.s. and entities controlled by it

UniCredit Bank Czech Republic and Slovakia, a.s.

↓ 100%

UniCredit Leasing CZ, a.s. → 100% → **UniCredit Leasing Slovakia, a. s.**

UniCredit Leasing CZ, a.s. ↓

UniCredit Fleet Management, s.r.o., ID: 62582836, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
INPROX Chomutov, s.r.o., ID: 25670981, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
UniCredit pojišťovací makléřská spol. s r.o., ID: 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
CAC Real Estate, s.r.o., Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
HVB Leasing Czech Republic s.r.o., ID: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
CA-Leasing EURO, s.r.o., ID: 49617044, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
BACA Leasing Gama s.r.o., ID: 25737201, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
BACA Leasing Alfa s.r.o., ID: 25751841, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
CA-Leasing OVUS, s.r.o., ID: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
ALLIB Leasing s.r.o., ID: 25708376, Prague 4-Michle, Želetavská 1525/1, 140 00	(100%)
INPROX Kladno, s.r.o., ID: 25727435, Prague 4-Michle, Želetavská 1525/1, 140 00	(100%)
CA-Leasing Praha, s.r.o., ID: 62581538, Želetavská 1525/1, Michle, 140 00 Prague 4	(100%)
CAC-IMMO, s.r.o., ID: 26063336, Prague 4-Michle, Želetavská 1525/1, 140 00	(100%)

UniCredit Leasing Slovakia, a. s. ↓

UniCredit Leasing Insurance Services, s.r.o., ID: 47926481, Plynárenská 7/A, Bratislava 821 09,	(100%)
UniCredit Broker, s.r.o., ID: 35800348, Plynárenská 7/A, Bratislava 814 11,	(100%)
UniCredit Fleet Management, s.r.o., ID: 35820381, Plynárenská 7/A, Bratislava 821 09	(100%)
Inprox Poprad, spol. s r.o., ID: 35 859 105, Plynárenská 7/A, Bratislava 821 09,	(100%)
Inprox SR I, spol. s r.o., ID: 35 758 236, Plynárenská 7/A, Bratislava 821 09,	(100%)
UniCredit Leasing Real Estate s.r.o., ID: 35 696 796, Plynárenská 7/A, Bratislava 821 09	(100%)

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List of branches

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PRAGUE – BANKING HOUSE
EXPRESS SERVICES
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 955 959 835
fax: +420 221 159 622
bankovnidum@unicreditgroup.cz

PRAGUE – BANKING HOUSE
CUSTOM SERVICES 1
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 955 959 835
fax: +420 221 159 622
bankovnidum@unicreditgroup.cz

PRAGUE – BANKING HOUSE
CUSTOM SERVICES 2
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 955 959 835
fax: +420 221 159 622
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PRAGUE – BANKING HOUSE
SMALL BUSINESS
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 955 959 835
fax: +420 221 159 622
bankovnidum@unicreditgroup.cz

PRAGUE – BANKING HOUSE
INTERNATIONAL CLIENTS CENTER
náměstí Republiky 3a
110 00 Praha 1
tel.: +420 955 962 060-3
fax: +420 221 159 622
icc@unicreditgroup.cz

PRAGUE – ADRIA
Jungmannova 31
110 00 Praha 1
tel.: +420 955 959 840
fax: +420 221 153 101
praha.adria@unicreditgroup.cz

PRAGUE – ARBES
Štefánikova 32
150 00 Praha 5
tel.: +420 956 959 851
fax: +420 221 153 001
praha.arbes@unicreditgroup.cz

PRAGUE – HAVELSKÁ
Havelská 19
110 00 Praha 1
tel.: +420 955 959 836
fax: +420 221 153 501
praha.havelska@unicreditgroup.cz

PRAGUE – VÍTĚZNÉ NÁMĚSTÍ
Vítězné náměstí 10
160 00 Praha 6
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fax: +420 221 153 301
praha.vitezne@unicreditgroup.cz

PRAGUE – ANDĚL
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fax: +420 221 155 660
praha.andel@unicreditgroup.cz

PRAGUE – DEJVICKÁ
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praha.dejvicka@unicreditgroup.cz

PRAGUE – HLAVNÍ NÁDRAŽÍ
Wilsonova 300/8
120 00 Praha 2
tel.: +420 955 959 890
fax: +420 221 155 165
praha.hlavninadrazi@unicreditgroup.cz

PRAGUE – HOLEŠOVICE
Komunardů 883/24
170 00 Praha 7
tel.: +420 955 959 854
fax: +420 221 155 670
praha.komunardu@unicreditgroup.cz

PRAGUE – KOBYLISKÉ NÁMĚSTÍ
Horňátecká 447/1
180 00 Praha 8
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fax: +420 221 155 700
praha.kobylisy@unicreditgroup.cz

PRAGUE – LAZARSKÁ
Spálená 82/4
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tel.: +420 955 962 323
fax: +420 221 155 520
praha.lazarska@unicreditgroup.cz

PRAGUE – NA POŘÍČÍ
Na Poříčí 1933/36
110 00 Praha 1
tel.: +420 955 959 838
fax: +420 221 155 500
praha.porici@unicreditgroup.cz

PRAGUE – STROSSMAYEROVO NÁM.
Pplk. Sochora 693/23
170 00 Praha 7
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fax: +420 221 155 680
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PRAGUE – VÁCLAVSKÉ NÁMĚSTÍ
Václavské náměstí 815/53
110 00 Praha 1
tel.: +420 955 959 842
fax: +420 221 155 730
praha.vaclavske@unicreditgroup.cz

PRAGUE – VALDEK
Jugoslávská 29
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fax: +420 221 155 200
praha.butovice@unicreditgroup.cz

PRAGUE – EDEN
Vršovická 1398/70
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tel.: +420 955 959 858
fax: +420 221 155 710
praha.eden@unicreditgroup.cz

PRAGUE – FILADELFIE
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fax: +420 221 155 205
praha.filadelfie@unicreditgroup.cz

PRAGUE – FLORA
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fax: +420 221 153 205
praha.flora@unicreditgroup.cz

PRAGUE – KARLÍN
Thámova 84/23
180 00 Praha 8
tel.: +420 955 959 856
fax: +420 221 155 690
praha.karlin@unicreditgroup.cz

PRAGUE – NUSLE
Nuselská 401/4
140 00 Praha 4
tel.: +420 955 959 885
fax: +420 221 155 175
praha.nusle@unicreditgroup.cz

PRAGUE – PANKRÁC
Na Pankráci 58
140 00 Praha 4
tel.: +420 955 959 849
fax: +420 221 155 650
praha.pankrac@unicreditgroup.cz

PRAGUE – TYLOVO NÁMĚSTÍ
Jugoslávská 479/10
120 00 Praha 2
tel.: +420 955 959 844
fax: +420 221 155 740
praha.tylovo@unicreditgroup.cz

PRAGUE – VINOHRADY
Vinohradská 115
130 00 Praha 3
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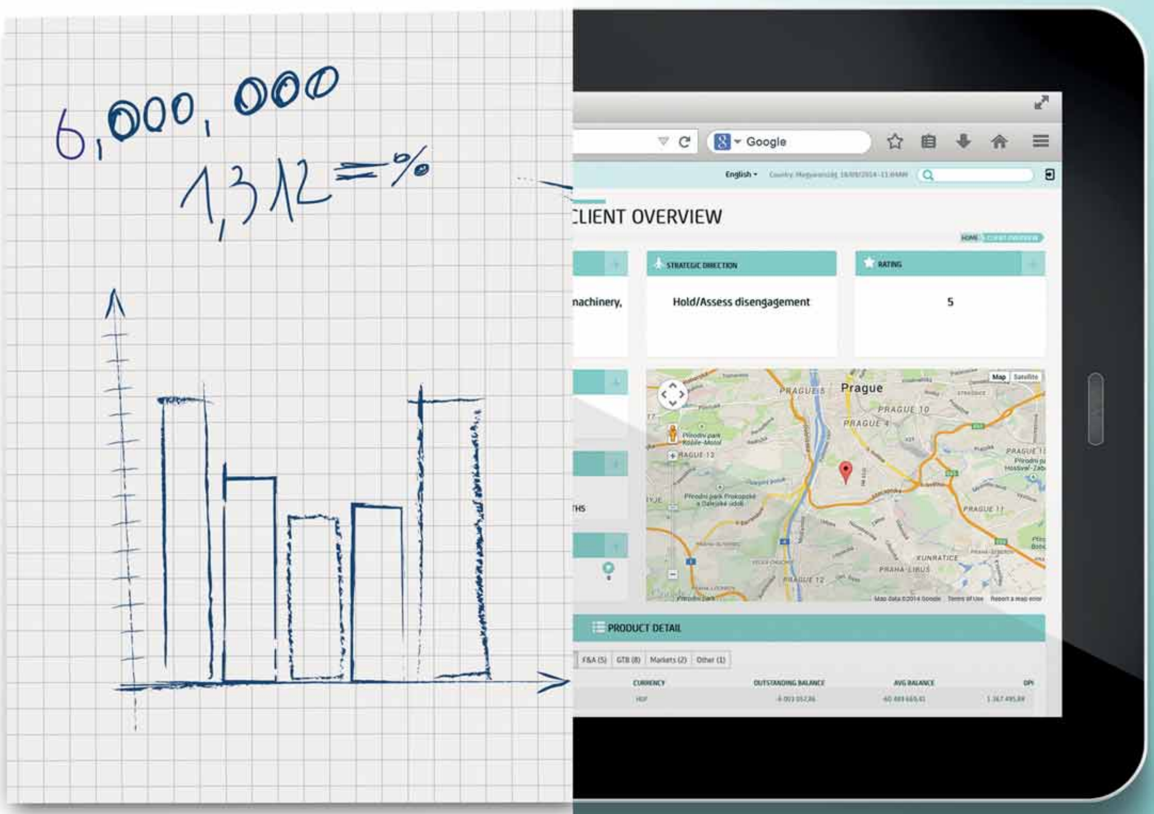

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