Do the right thing!

2020

Annual Report

Banking that matters. | UniCredit Bank

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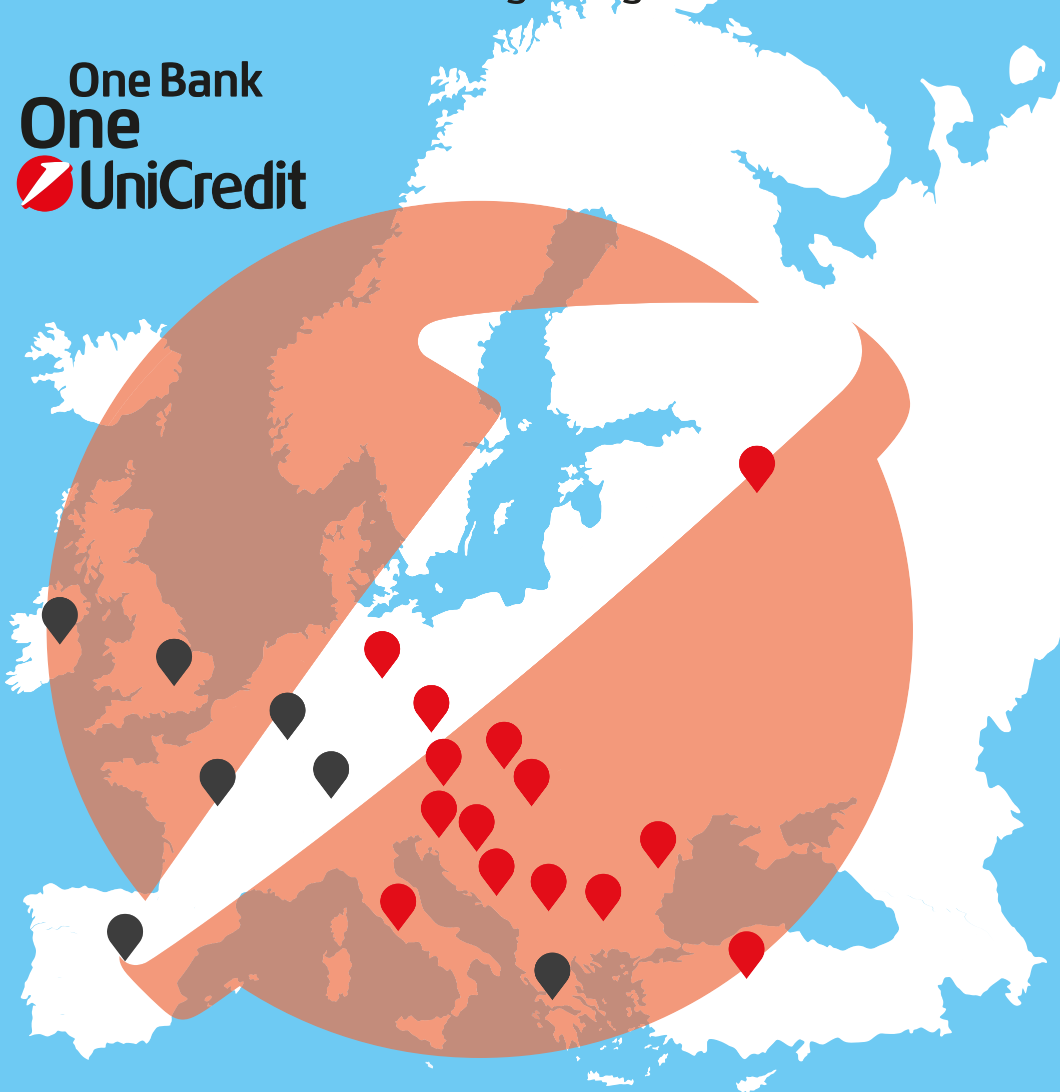
At a glance

UniCredit is a simple successful Pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise.



Commercial banks

International branches and representative

LARGE INTERNATIONAL PRESENCE WITH 13 CORE MARKETS AND 16 COUNTRIES WORLDWIDE

Austria
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Germany
Hungary
Italy
Romania
Russia
Serbia
Slovakia
Slovenia

What we do
We meet real client needs with real solutions which harness synergies between our businesses: CIB, Commercial Banking and Wealth Management.

How we do it
By focusing on banking that matters, we offer local and international expertise, providing unparalleled access to market leading products and services in our core markets.

Our values

Ethics & Respect	Do the right thing!

Ethics and respect: these two values unite us and define our Group culture – how we make decisions and how we act on them. Do the Right Thing! is a simple, guiding principle to help us live these values every day, everywhere.

Our financial highlights

SHARHOLDERS' EQUITY

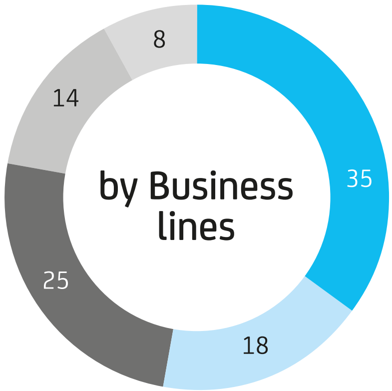
€59,507m

UNDERLYING NET PROFIT

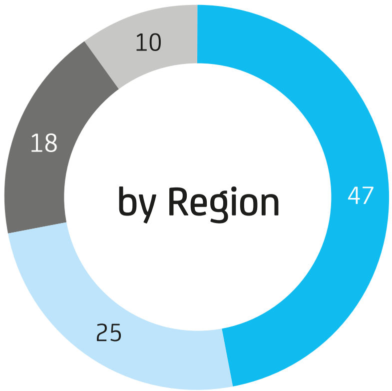
€2,785m

Strong global products and local excellence: well-diversified revenues

Revenues (%)

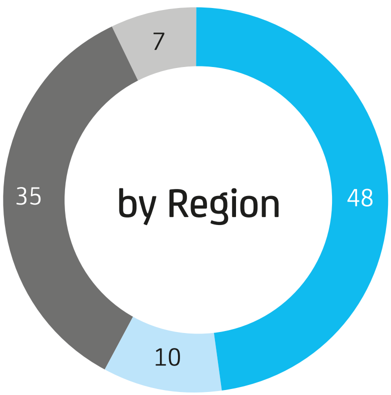


- Commercial Banking Italy
- CEE Division
- CIB
- Commercial Banking Germany
- Commercial Banking Austria



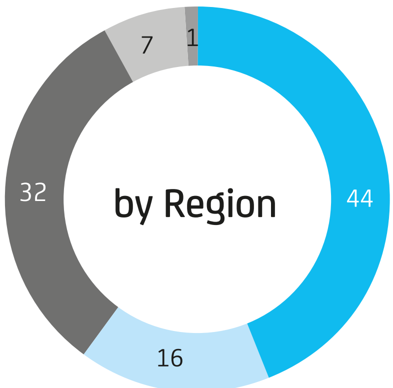
- Italy
- Germany
- CEE
- Austria

Customers (%)



- Italy
- Germany
- CEE
- Austria

Employees (%)



- Italy
- Germany
- CEE
- Austria
- Other

"UniCredit will remain a solid pan-European commercial bank with local roots, supporting families and companies in their international growth and development."

Chairman's message

Cesare Bisoni
CHAIRMAN
UNICREDIT S.P.A.

Dear Shareholders,

On behalf of the UniCredit Board of Directors, I start by sharing our heartfelt gratitude to Jean Pierre Mustier for all of his achievements. Jean Pierre took the lead of UniCredit almost five years ago, at a delicate historical moment. He leaves our Group in a position of strength. He led through years of an extraordinary turnaround, achieved with the unwavering support of all those working at UniCredit, to whom I am also grateful. Thanks to the successful implementation of Transform 2019, despite the crisis triggered by the Covid-19 pandemic, our Group is and remains in a solid position. We have high capital levels and are a true pan-European bank, with a well-diversified presence. We will continue to turn challenges into opportunities.

The year 2020, marked by Covid-19, was difficult for everyone. I am proud of how the Group swiftly responded to the crisis, to support all of our stakeholders. First and foremost, we prioritised the personal safety of our employees and clients, by taking immediate and decisive actions to protect them. We also rolled out numerous initiatives to support the real economy, rapidly implementing moratoriums and providing governments-backed loans. At the same time, we provided significant support for hospitals and the civil protection service.

As a response to the pandemic, the Supervisory Authority requested a freeze of all dividend payments, to protect capital levels in the banking system and ensure continued support for the real economy. More recently, the ECB announced the resumption of bank profit distribution. UniCredit is also planning an extraordinary capital distribution in the last quarter of the year, should the conditions recur and subject to the Supervisory Authority authorization. It is important that European banks are perceived as a good investment, to encourage international shareholders to commit capital that the financial sector can put to good use across Europe. As such, the Group has recently confirmed its dividend policy, to create solid value for our shareholders.

The way the Group has achieved its turnaround and served our clients and communities leaves my very optimistic about the future. In October, we co-opted in our Board of Directors Piercarlo Padoan who is the best candidate for the position of UniCredit chairman for the next term. The Group will benefit from his extraordinary experience and extensive knowledge of European institutional and financial framework. His co-optation well in advance of the end of my mandate has ensured a smooth hand-over and has played a key role in the Board renewal process. Together, we have identified the new Chief Executive Officer, Andrea Orcel, an outstanding banker with a broad experience in the international banking sector combined with proven track record in business transformation and risk management focus. We strongly believe his contribution to UniCredit will be distinctive. Over the coming years, Piercarlo and Andrea will have the opportunity to work closely with the wonderful people at UniCredit, benefitting from their extraordinary skills and dedication.

In a challenging economic context, with rapidly evolving client needs, digital transformation plays a critical role. On the one hand, it responds to the growing demand for simplicity and speed. On the other hand, it allows the optimisation of company processes. UniCredit will continue to invest in innovation.

This is my final message to you as Chairman. My mandate, together with that of the current Board, is coming to an end. We leave a transformed Group, fully dedicated to supporting the real economy: clients and communities. UniCredit is inspired by two core values, ethics and respect, which form the basis of our long-term vision, and it will continue to provide finance and drive positive change in society. Furthermore, at UniCredit, the ways in which results are achieved are as important as the results themselves. We are proud that the attention to sustainability has been acknowledged externally, through numerous awards.

The Group will continue to grow and strengthen the client franchise, transform its service model and optimise productivity, with disciplined risk management and controls as well as rigorous capital and balance sheet management. UniCredit will remain a solid "pan-European commercial bank with local roots" supporting the real economy: families and companies, in their international growth and development

Your faithfully,

Cesare Bisoni
Chairman UniCredit S.p.A.

Do the right thing!
for the Real Economy

We quickly took decisive actions to support the backbone of the real economy in Europe: small and medium sized enterprises.

AWARDED ‘WORLD'S BEST BANK FOR SMES’

In October, UniCredit was awarded ‘Best Bank for SMEs’ by Global Finance magazine in its World’s Best Global Banks Awards. This was based on our performance over the past year, based on criteria including reputation and management excellence.

“I am very proud of everything that we have achieved at UniCredit, over the past few years, especially in 2020.”

CEO's message

Jean Pierre Mustier
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

Dear Shareholders,

The year 2020 was a big shock for all of us. We faced new challenges with the benefit of a strong balance sheet, thanks to all the great work done by our teams. We were able to assist and support our clients and team members, while protecting them.

The needs of our clients changed even faster, so we accelerated the transformation of the Group already planned for in Team 23. All transformation requires courage and 2020 has been a year where our team members have shown extraordinary commitment. In UniCredit, we celebrated our branch heroes, who supported our customers throughout the lockdowns. We continue to collect their stories and those of other teams, across the Group, to discover how we have been, and are still, facing these unprecedented times. The health and safety of our team members and clients has always been and will remain our top priority.

Outside the Group, we also supported heroes in the medical sectors by supporting medical innovation, such as the CURA pod prototype, as well as offering zero interest rate loans and donating millions to hospitals and the healthcare services in several of our countries.

UniCredit in 2020: Do the right thing!

I am very proud of everything that we have achieved at UniCredit, over the past few years, especially in 2020. Thanks to our strong position, and our people, we were able to be part of the solution during a very challenging year.

Throughout the health emergency, we remained open for business and continued to serve customers in all our countries, while keeping them and our people safe. We did this by accelerating the switch to digital and remote banking. We made decisions quickly, based on data, to protect colleagues and clients. We rolled out new laptops and VPN access to give around 80,000 UniCredit employees the possibility of working remotely. We unlocked potential by giving our people the opportunity to work safely and effectively, while making sure they could continue to contribute.

While all this began as a response to the health crisis, the ongoing situation led to pronounced changes in our clients' mindset, behaviours and needs, as well as developments in our own. The Covid-19 pandemic created a need and an opportunity to accelerate our transformation.

We are now investing to make sure that these improvements are long-lasting. For example, we are rolling out training to help our people lead remote teams and manage hybrid working. We will also continue to support our employees with a new welfare and wellness offer: work-life balance will be increasingly important in the future.

At the same time, human interactions will remain key to our Group culture. Our strong working relationships are one of the reasons why UniCredit has been able to work remotely so effectively over the past few months. The workplace will continue to be an important element of our lives, and while things will certainly be different, the change may be less extreme than some might think.

In 2020, we made important contributions to our communities and the real economy. These include our Social Impact Banking, which started in Italy in 2017 and has since been extended to 10 other Group countries. As at the end of 2020, we had disbursed well over €225 million to support nearly 4,400 projects and microenterprises that make a social impact. We remain on track to meet our goal of providing €1 billion of social impact financing by 2023.

We also responded to the health and economic emergency with a wide range of volunteering initiatives and donations, including millions of euros donated by UniCredit employees and customers and the UniCredit Foundation. You can read about some of these activities later in this report and on our website.

Ethics & Respect

Do the right thing!

All this was possible thanks to our corporate culture, which is based on two values, Ethics and Respect, and our commitment to always **Do the Right Thing!** This guiding principle governs our interactions with all our stakeholders.

In 2020, we continued to lead most international peers on governance, such as pay practices and board structure. We are the only bank in Italy with an EE+ rating from Standard Ethics, recognised as a European excellence in terms of sustainability.

This is all thanks to our concrete ESG actions, such as the launch of our new coal policy, that commits UniCredit to ending all coal financing by 2028. We also ranked number one globally for sustainability-linked loans by Bloomberg and were awarded Best Social Impact Bank in Europe by Capital Finance International. UniCredit will soon be launching other new initiatives, in line with our ESG strategy.

With our management leading by example, we will continue to build a sustainable future, where environmental, social and governance factors are essential for long-term growth. At UniCredit, sustainability is part of our DNA. We say what we do and do what we say, and we always favour long-term sustainable outcomes over short-term solutions. We will continue to support our clients, communities, partners and the industry at large, in becoming increasingly sustainable.

Team 23: focused on our customers

Our strategy remains **"One Bank, One UniCredit"** and our mission is unchanged: UniCredit is a simple successful pan-European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive and growing client franchise. We will continue to build on our existing competitive advantages.

In 2020, we continued to focus on the four strategic pillars we introduced to investors at our Capital Markets Day in 2019.

Grow and strengthen client franchise	Transform and maximise productivity	Disciplined risk management & controls	Capital and balance sheet management

As mentioned earlier, the Covid-19 pandemic accelerated the change in our clients' behaviours. We responded to this by speeding up our own digital transformation, so that we can continue to support their evolving needs. UniCredit is a multi-channel bank and we have made good progress in the areas of mobile banking, call centres, internet banking and paperless branches. Our goal is to transition towards a true omni-channel approach that will provide all UniCredit clients with the same customer experience, whichever channels they prefer to use.

We maintained a very strong capital level at all times, continuing our disciplined management of the business to sustain our liquidity levels, focused on high asset quality. It is this strength and discipline – together with the successful completion of our **Transform 2019** strategy – that allowed us to keep supporting our clients and communities when they needed us most.

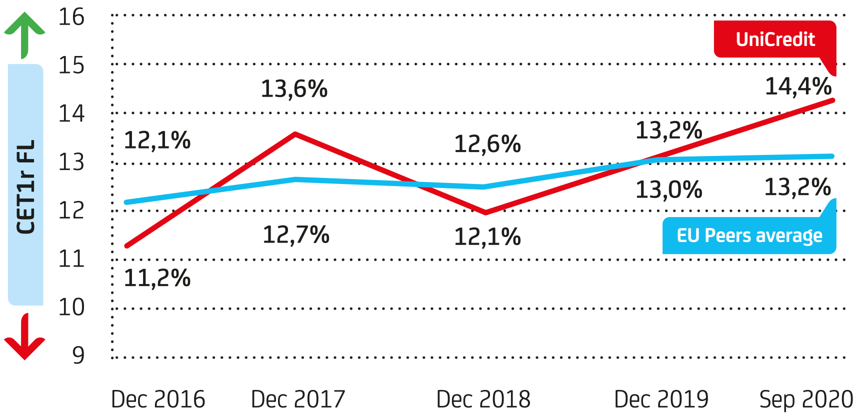
In 2020, we delivered an underlying net profit of €1.3bn, successfully navigating an extraordinary year from a position of strength. We delivered lower costs and provisions, with a stated cost of risk well within guidance, at 105bps. Our Non Core rundown is fully on track and we confirm the strength of our balance sheet, with very strong capital and liquidity positions. All this would not have been possible without your unwavering support and the steadfast commitment of UniCredit colleagues.

Looking to the future

As the world adjusts to the changes brought about and accelerated by the Covid-19 pandemic, there is a clear need for companies investing in a long-term vision that is shared with all their stakeholders. This includes the financial services industry: banks will continue to play a very important role in ensuring that local companies have access to adequate funding.

CET1r FL evolution

Common Equity Tier 1 ratio Fully Loaded evolution*



European Debt and Trade Finance Powerhouse

- **Most active player in EUR Bonds** since 2012 (no. 1 by number of deals)
- **No. 2 in EMEA** Bonds in EUR (by no of deals) in 2020 (no.1 in ITA, no. 1 in GER, no. 2 in AUT)
- **No. 1 Bookrunner EMEA** Corporate Loans in EUR (by no. of deals)
- **No. 4 Lead Bank Combined EMEA** Green and ESG-linked Loans and Bonds in EUR
- **In ECM:**
  - No. 1 all ECM transactions in Germany by no. of deals
  - No. 2 Equity-linked transactions in Italy

- **The Banker's Transaction Banking Awards 2020** – Best Bank for Supply Chain Finance
- **Euromoney Cash Management 2020 Survey** – Best Service Provider in Austria, Germany and Market Leader in Austria, Italy
- **Euromoney Trade Finance 2020 Survey** – Market Leader in Austria, Italy and Best Service in All Services in Western Europe, Austria, Italy
- **Global Finance's 2021 Treasury & Cash Management Awards** including CEE:
  - Best Bank for Liquidity Management in Central & Eastern Europe
  - Best Treasury & Cash Management Bank in Germany and Italy

*Source: Market Presentations and Reports. Peers' sample: Intesa Sanpaolo, Santander, BBVA, Deutsche Bank, Commerzbank, Société Générale, Credit Agricole SA, BNP Paribas, Erste, Raiffeisen, ING. Data: Year End figures; 2020 figures as of September 2020. Stated Common Equity Tier 1 ratio Fully Loaded where disclosed (for ING CET1r Transitional available only; Intesa San Paolo discloses Pro-forma CET1r FL, at 15.2% as of Sep20, at 14% excluding the mitigation of the impact of the FTA of IFRS9).

UniCredit has shown the importance of pan-European banks, combining strong global products and local excellence. Our long-term focus is on being One Bank. The Group will continue to leverage on technology to accelerate the digital and remote banking transformation, while focusing on sustainability: continuing to look beyond purely economic profit to consider social impact banking initiatives and other community support.

This is the last time that I will address you as the UniCredit CEO. I am very happy that Andrea Orcel is joining the Group as my successor. He will be supported by a fantastic team, loyal clients and supportive shareholders. My warmest regards go to all my outstanding colleagues, who have worked relentlessly to transform the bank. I am immensely proud of everything that we have achieved together.

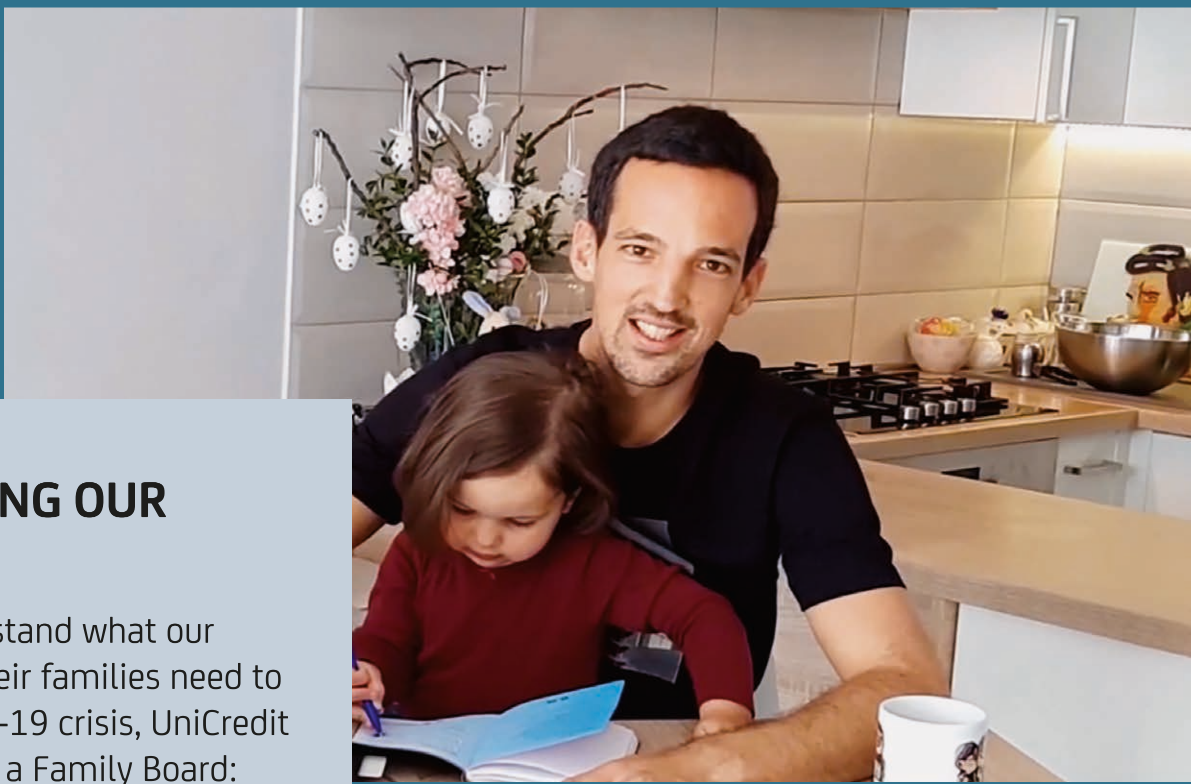
UniCredit is a very strong bank and all our stakeholders can count on us. We will continue to **"Do the Right Thing!"** to support our clients, communities and our team members, in order to create value for our shareholders.

Thank you!

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

Do the right thing!
for our Colleagues

Throughout 2020, we focused on protecting our people: we provided them with millions of PPE items and fast IT upgrades, rolling out new laptops and remote access to around 80,000 UniCredit employees, to make sure they could work safely and effectively.



PROTECTING OUR PEOPLE

To best understand what our people and their families need to face the Covid-19 crisis, UniCredit Group created a Family Board: the 20-person team meets regularly to define solutions and recommendations in terms of flexibility, wellbeing and other support (i.e. homeschooling/homework).

UniCredit Bank Czech Republic and Slovakia, a.s.

Contents

“We have achieved a quality business result and maintained a leading position in the UniCredit Group in the CEE region.”

Chairman’s Statement

Jakub Dusílek
CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO
UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S.

Dear Shareholders, Business Partners, Ladies, and Gentlemen,

We have experienced an unprecedented year in many ways. The global coronavirus pandemic and related preventive measures have brought challenges that we could hardly have imagined a few months ago. The pandemic disrupted the global economy and social relations and deeply affected the Czech and Slovak environments.

However, at UniCredit Bank and the entire UniCredit Group, we always make sure that we face challenges well in advance and continually strengthen the position of one of the most systemically important banking groups in Europe. That's why we have stood fast by you in these difficult past months. We responded quickly to your needs and requirements, provided advice on the changing situation across markets, and flexibly strengthened our digital channels in order for you to be able to use our services safely. In an active and cooperative manner, we participated in the implementation of the state protection measures for resolving the crisis, with the help of the credit moratorium for our clients, for example.

Thanks to our expertise and long-term experience, we are one of the main market leaders in the Czech Republic and Slovakia. However, our vision of being a simple and efficient bank for all would not be possible without the trust of our clients.

The pandemic decelerated economic growth

The consequences of the pandemic translated into the financial sector's results. The profit of the banking sector in the Czech Republic and Slovakia dropped significantly due to a decline in yields and an increase in provisions for non-performing loans or loans with a higher risk of default. Credit dynamics decelerated, but to a lesser extent than usual in crisis periods. With the slump in investment activity, the demand for corporate loans decreased, and the increased uncertainty in the household sector translated into lower demand for consumer finance. On the other hand, the demand for housing loans was positive as it remained virtually unchanged in both countries.

UniCredit Bank maintains the position of a leading player in both markets

Last year, despite the difficult period, we took advantage of a number of attractive business opportunities in the market and were able to achieve solid results and maintain a leading position in UniCredit Group in the region of Central and Eastern Europe.

We closed the year with a consolidated result of CZK 5.317 billion, which represents a year-on-year decrease of 47.5% of the consolidated net profit. The decline in the result was mainly due to a decline in revenues and an increase in the cost of credit risk under the effect of the pandemic and a decline in the performance of the economies in both markets. Despite the unfavourable macroeconomic environment, UniCredit Bank Czech Republic and Slovakia was able to report a 4.7% year-on-year growth in loans to clients, as well as a 2.5% increase in deposits from clients in 2020.

In the Retail Division, we place emphasis on the quality of our services and products, as well as on client satisfaction. Despite the difficult period of 2020 marked by the pandemic, we managed to achieve considerable growth in the volume of deals. As regards loans, our portfolio grew by 9.2% year-on-year and the portfolio of primary sources by 15.2%. The key to growth in retail banking is simple products and services accessible through online channels. The number of active mobile banking users grew by 28% in 2020 and the penetration of active digital banking users accounted for 76% of all active clients.

Ethics & Respect

Do the right thing!

In 2020, despite the difficult macro-economic environment, corporate and investment banking reported significant growth in the volume of loans provided, including significant transactions with international reach. Thus, we successfully continued to fulfil our long-term strategic goals, which represent the position of key player in the segment of financing large multinational and national corporations while also focusing on increasing market share. We provided our clients whose business and very existence have been severely affected by the Covid-19 pandemic with maximum support, an individual approach and suitable solutions, with considerable support for a unique portfolio of local and European guarantee schemes.

We also maintained our leading position in the field of real estate financing for development projects. The Bank also reported a very successful year in the field of structured and acquisition financing through the conclusion of several large and complex transactions.

The successful cooperation with UniCredit Leasing and UniCredit Factoring in the Czech Republic and Slovakia continued in 2020, with a solid volume of intermediated loans in the Investment and Corporate Banking Division.

Digitisation and simplicity

At UniCredit Bank, we have long focused on modern and digital banking. During the pandemic, we launched an innovated Smart Banking application for mobile banking. Owing to this application, clients can conveniently manage their bank accounts from anywhere without having to visit a branch. Early in the year, we introduced Apple and Google Pay, modern payment methods which are very popular among our clients and used for processing millions of transactions. We have started to use new, modern VISA payment cards and further innovated our digital services to be a leader with a multi-channel approach to the provision of banking services.

UniCredit Bank rewarded by significant institutions

The consistent quality of our products and services, valued by our clients and partners, is evidenced by the number of annual awards at home and abroad. We won the Account of the Year category in the competition of the Czech portal Finparáda. Our corporate banking was recognised by the prestigious Global Banking & Finance Awards and International Business Magazine as the Best Corporate Bank. We were recognised as the Best Trade Finance Service Provider in the Trade Finance Survey 2020 of Euromoney Magazine. UniCredit Group was recognised by Capital Finance International Magazine as the Best Social Impact Bank in Europe in 2020.

Helping those in need

In addition to long-term support for socially responsible activities, UniCredit Bank has focused on supporting those affected by the pandemic. Together with our employees and the UniCredit Foundation, we provided considerable financial support to three Czech and two Slovak hospitals in the fight against the Covid-19 pandemic. Owing to a fundraiser, we managed to distribute CZK 4.9 million (EUR 180,000) for the purchase of protective equipment for medical staff and necessary equipment. Moreover, we considerably supported cancer research at the Institute of Microbiology. Cooperation with the TV Markíza Foundation continued in Slovakia this year as well. The foundation traditionally focuses on helping children and it received EUR 50,000 from the Bank, which was distributed among the Department of Paediatric Psychiatry of the Comenius University Faculty of Medicine, the National Institute of Children's Diseases in Bratislava, and Linka dětské jistoty (Child Safety Helpline). We also supported Poradna při finanční tísni (Debt Advisory Centre), which has been our long-time partner. We are involved in the Fulfilled Wishes project. In 2020, we selected three local Czech and three local Slovak organisations nominated by our clients and donated CZK 100,000 to each of them. As part of UniCredit Group and its "Call for Europe" initiative, we as a local bank donated CZK 2.2 million (EUR 79,000) to six non-profit organisations that help children and young people under 18 in the Czech Republic and Slovakia.

Thank you for your trust

2020 was a challenging period for UniCredit Bank. The world around us is changing rapidly, but our mission remains the same –growing the trust of our clients in the UniCredit Bank brand. I wholeheartedly wish everyone good health in 2021. I sincerely believe that together we will be able to cope with the current difficult situation through joint efforts, dedication, and solidarity.

Jakub Dusílek
Chairman of the Board
of Directors and CEO

Financial Highlights – Consolidated

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2020 MCZK	31 Dec 2019 MCZK
Operating results		
Net interest income	12 091	14 578
Net fee and commission income	3 541	4 002
Administrative expenses	(7 092)	(6 949)
Profit before income tax	6 708	12 605
Net profit after tax	5 317	10 122
Statement of financial position figures		
Total assets	664 352	686 593
Receivables from clients – net value	461 476	440 760
Deposits from clients	425 147	414 953
Issued capital	8 755	8 755
Alternative performance indicators*		
Return on average assets (ROAA)	0,8 %	1,5 %
Return on average equity (ROAE)	7,0 %	14,7 %
Assets per employee	198,5	211,3
Administrative expenses per employee	2,1	2,1
Net profit per employee	1,6	3,1
Information about capital and capital adequacy		
Tier 1	80 852	71 100
Tier 2	120	5
Capital	**80 972**	**71 105**
Capital requirement for credit risk under the standardised approach:	**4 110**	**6 727**
Capital requirements for exposure to central government or central banks	176	164
Capital requirements for exposure to regional government or local authorities	23	16
Capital requirements for exposure to institutions	3	–
Capital requirements for exposure to businesses	1 931	2 388
Capital requirements for retail exposures	1 387	2 600
Capital requirements for exposures secured by real estate	51	942
Capital requirements for exposures at default	87	62
Capital requirements for high risk exposures	146	88
Capital requirements for equity exposures	160	160
Capital requirements for other items	146	307
Capital requirement for credit risk under the IRB approach:	**20 626**	**19 430**
Capital requirements for exposure to central government or central banks	212	213
Capital requirements for exposure to institutions	915	632
Capital requirements for exposure to businesses	16 264	16 369
Capital requirements for retail exposures	2 833	1 929
Capital requirements for other non credit-obligation assets	402	287
Capital requirements for position risk	333	367
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	6	1
Capital requirements for operational risk	2 251	2 044
Capital requirements for credit valuation adjustment	56	38
Capital requirement for other risk exposures	301	108
CET1 capital ratio	23,36 %	19,81 %
Tier 1 capital ratio	23,36 %	19,81 %
Total capital ratio	23,40 %	19,81 %
Average number of employees	3 347	3 249
Number of branches	108	126

Reconciliation of equity to regulatory capital (consolidated)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2020 MCZK	31 Dec 2019 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	1 304	(263)
Retained earnings, reserve funds and other capital funds	66 721	56 504
Profit for the year	5 317	10 122
Total equity	**85 592**	**78 613**
CET1 capital adjustments:		
Profit for the year	(2 759)	(5 061)
Reserve from revaluation of hedging instruments	(567)	798
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(1 990)	(2 345)
Credit risk adjustments for non-defaulted exposures	–	1 549
Anticipated losses for non-defaulted exposures	–	(2 302)
Effect of companies not included in the prudential consolidation group	166	(90)
Other adjustments	410	(62)
Total CET 1	**80 852**	**71 100**
Total Tier 1 (T1)	**80 852**	**71 100**
Credit risk adjustments for exposures at default	9 648	6 477
Anticipated losses for exposures at default	(9 369)	(6 472)
Non-deductible surplus above the risk-weighted assets limit	(159)	–
Total Tier 2 (T2)	**120**	**5**
Capital	**80 972**	**71 105**

*** Definition of used alternative performance indicators**

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

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

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

Assets per employee

Administrative Expenses per employee

Net profit per employee

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

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

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

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

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

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

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

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

Where X = 2020 and X-1 = 2019

Financial Highlights – Separate

(IFRS audited)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2020 MCZK	31 Dec 2019 MCZK
Operating results		
Net interest income	10 705	13 253
Net fee and commission income	3 141	3 600
Administrative expenses	(6 592)	(6 433)
Profit before income tax	6 386	11 595
Net profit after tax	5 162	9 433
Statement of financial position figures		
Total assets	648 590	672 552
Receivables from clients – net value	446 164	427 803
Deposits from clients	424 922	415 017
Issued capital	8 755	8 755
Alternative performance indicators*		
Rentability of average assets (ROAA)	0,8 %	1,4 %
Rentability of average Tier 1 Capital (ROAE)	7,1 %	14,2 %
Assets per employee	214,9	221,8
General Administrative Expenses per employee	2,2	2,1
Net profit per employee	1,7	3,1
Information about capital and capital adequacy		
Tier 1	77 644	68 522
Tier 2	120	5
Capital	**77 764**	**68 527**
Capital requirement for credit risk under the standardised approach:	777	3 049
Capital requirements for exposure to central government or central banks	142	133
Capital requirements for exposure to regional government or local authorities	22	16
Capital requirements for exposure to institutions	–	–
Capital requirements for exposure to businesses	81	314
Capital requirements for retail exposures	–	1 230
Capital requirements for exposures secured by real estate	1	882
Capital requirements for exposures at default	23	27
Capital requirements for high risk exposures	146	88
Capital requirements for equity exposures	362	359
Capital requirements for other items	–	–
Capital requirement for credit risk under the IRB approach:	**22 867**	**22 078**
Capital requirements for exposure to central government or central banks	212	213
Capital requirements for exposure to institutions	915	632
Capital requirements for exposure to businesses	18 516	19 017
Capital requirements for retail exposures	2 833	1 929
Capital requirements for other non credit-obligation assets	391	287
Capital requirements for position risk	333	367
Capital requirements for currency risk	–	–
Capital requirements for settlement risk	–	–
Capital requirements for commodity risk	6	1
Capital requirements for operational risk	2 063	1 872
Capital requirements for credit valuation adjustment	56	38
Capital requirement for other risk exposures	289	108
CET1 capital ratio	23,54 %	19,92 %
Tier 1 capital ratio	23,54 %	19,92 %
Total capital ratio	23,57 %	19,93%
Average number of employees	3 018	3 032
Number of branches	108	126

Reconciliation of equity to regulatory capital (separate)

UniCredit Bank Czech Republic and Slovakia, a.s.	31 Dec 2020 MCZK	31 Dec 2019 MCZK
Data from the Statement of Financial Position:		
Share capital	8 755	8 755
Share premium	3 495	3 495
Valuation reserves	1 312	(261)
Retained earnings, reserve funds and other capital funds	63 815	54 344
Profit for the year	5 162	9 433
Total equity	**82 539**	**75 766**
CET1 capital adjustments:		
Profit for the year	(2 659)	(5 061)
Reserve from revaluation of hedging instruments	(575)	796
Reserve from revaluation of available-for-sale securities	–	–
Intangible assets	(1 869)	(2 097)
Credit risk adjustments for non-defaulted exposures	–	1 590
Anticipated losses for non-defaulted exposures	–	(2 410)
Other adjustments	208	(62)
Total CET 1	**77 644**	**68 522**
Total Tier 1 (T1)	**77 644**	**68 522**
Credit risk adjustments for exposures at default	9 702	6 477
Anticipated losses for exposures at default	(9 464)	(6 472)
Non-deductible surplus above the risk-weighted assets limit	(118)	–
Total Tier 2 (T2)	**120**	**5**
Capital	**77 764**	**68 527**

*** Definition of used alternative performance indicators**

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

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

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

Assets per employee

Administrative Expenses per employee

Net profit per employee

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

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

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

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

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

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

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

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

Where X = 2020 and X-1 = 2019

Vision, Mission and Corporate Values

UniCredit Bank Czech Republic and Slovakia, a.s., is a universal commercial bank covering all the financial needs of its clients. We offer our clients the best expertise underpinned by long tradition and leadership in corporate and private banking, as well as an innovative approach to retail banking. We are the bank of first choice in both our traditional and new strategic segments. We have been one of the top banks in the Czech and Slovak market in terms of customer satisfaction for many years; we are an attractive employer and make a significant contribution to the fulfilment of the Team 23 Group Strategic Plan and UniCredit's results.

We are a part of the international UniCredit Group. As a part of the Group, UniCredit Bank Czech Republic and Slovakia, a.s., stands among the key countries of the Central and Eastern European region. The Group perceives our Bank to be an example of successful dynamic growth in the corporate client segment and in particular in the segment of individual clients. At the same time, within UniCredit Group we are a bank where heavy investments are made and a bank with substantial potential for further growth.

"Ethics & respect: Do the Right Thing!" Ethics and respect are corporate values shared throughout UniCredit Group which define our corporate culture and how we put our decisions into practice. To keep in mind the sustainability of our business in every situation, we follow a simple principle that helps us translate these values into everyday life: Do the Right Thing!

ESG – Environmental, Social, and Corporate Governance

At UniCredit, we remain fully committed to sustainable value creation for all stakeholders. Our commitment to always "Do the Right Thing" is our guiding principle for interactions with all our shareholders, clients, employees, communities, and the environment to generate sustainable results.

Our values unite us and define our Group culture, how we make decisions, and how we act on them. As One team, One UniCredit, we are convinced that our two values, Ethics and Respect (E&R), represent what is most important for the Group and for all our stakeholders today. Our set of commitments and targets covering Environmental, Social and Governance (ESG) demonstrate how sustainability is part of our Group's DNA and is fully integrated in our business strategies. A summary of all UniCredit Group's sustainable activities is provided in the annual Integrated Report, available at www.unicreditgroup.eu.

Sponsoring and charity

In addition to long-term support of socially responsible activities, UniCredit Bank has focused on supporting those affected by the pandemic. Together with our employees and the UniCredit Foundation, we provided considerable financial support to three Czech and two Slovak hospitals in the fight against the Covid-19 pandemic. Owing to a fundraiser, we managed to distribute CZK 4.9 million (EUR 180,000) for the purchase of protective equipment for medical staff and necessary equipment. Moreover, we considerably supported cancer research at the Institute of Microbiology. Cooperation with the TV Markíza Foundation continued in Slovakia this year as well. The foundation traditionally focuses on helping children. It received EUR 50,000 from the Bank, which was distributed among the Department of Paediatric Psychiatry of the Comenius University Faculty of Medicine, the National Institute of Children's Diseases in Bratislava, and the Child Safety Helpline.

We also supported Poradna při finanční tísni (Debt Advisory Centre), which has been our long-time partner, the Ronald McDonald House, Na kole dětem (Cycling for Children), the Jedlička Institute Sports Club, and a number of other charities. We are involved in the Fulfilled Wishes project. In 2020, we selected three local Czech and three local Slovak organisations nominated by our clients and donated CZK 100,000 to each of them. As part of UniCredit Group and its "Call for Europe" initiative, we as a local bank donated CZK 2.2 million (EUR 79,000) to six non-profit organisations that help children and young people under 18 in the Czech Republic and Slovakia.

As part of the traditional Group Gift Matching Program, the Bank supported more than 700 employees through our UniCredit Foundation, doubling their donations to a total of 27 non-profit organisations and projects aimed at helping children, young people and/or actively combating Covid-19. Owing to the doubling of donations, the total amount donated reached a record amount of more than CZK 2.6 million.

Environmental protection

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

As part of the digitisation project and paperless process implementation, we save hundreds of thousands of sheets of paper and printed materials every year.

Employment relations

UniCredit Bank ranks among the most attractive employers in the Czech Republic and Slovakia, not only because of its offer of responsible and demanding work in the banking sector, but also thanks to the care it gives its employees. Employees are entitled to meal vouchers, fresh water in the workplace, sick days and recovery days, and can also use UniCredit Bank products with special benefits, or use the company cottage in Horní Malá Úpa. They also appreciate an extra week of holiday, days off for regeneration, their birthday off work, or the opportunity to purchase UniCredit employee shares. The offer of flexible benefits allowing employees to choose from a large number of various activities they consider best for themselves is also wide.

The existing benefit programs grant all employees equal access to employee benefits and offer them freedom of choice. The most favoured benefits include contributions to pension funds or life insurance, language courses, cultural and sporting events or allowances for holiday. UniCredit Bank respects its employees and strives to support them in all situations and life stages. Therefore, the Bank also offers a series of support programs and a contribution system that include bonuses/contributions for life or work jubilees, a retirement bonus, a contribution while facing difficult life situations, or programs to support parents in their return from maternity/parental leave. Under normal health and safety circumstances, the Bank, in cooperation with trade unions, organises cultural and sporting events in cooperation with trade unions for employees, their families and seniors.

Anti-Corruption Rules

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

Macroeconomic situation

Czech Republic

In 2020, the Czech economy was dominated by the Covid-19 pandemic. The decline in GDP for the whole year reached 5.6%, representing the deepest decline since 1993. Economic performance was characterised by alternating weaker and stronger periods in response to the tightening and loosening of the government economic measures against the spread of the disease. As regards the domestic components of demand, private consumption and fixed capital formation played a role in GDP decline. Households reduced their consumption both due to the limited supply of services and in fear of losing income. Export demand fell dramatically at the beginning of the pandemic, but it offset part of its initial loss by the end of the year. On the other hand, imports of goods continued to report a slump for a longer period of time, with net exports contributing to moderating the decline in GDP since mid-2020. Exports and imports of services recorded year-round double-digit slumps in relation to the reduction of tourism.

The economic downturn did not lead to a significant increase in unemployment by the end of the year. However, higher morbidity and quarantine measures resulted in a drastic reduction in average hours worked, causing at least a moderate growth of hourly productivity. Early in the year, inflation increased due to the inertia of earlier impacts, but its year-on-year value (2.3%) ended well below the year-round average (3.2%) in December. The CNB repo rate peaked at 2.25% after rising by 25bp in February, but the CNB pushed it to a final 0.25% by May. The financial sector did not report any significant signs of failure. Banks offered existing borrowers a six-month moratorium on loan repayments, which was used by only a small proportion of them. Credit dynamics decelerated in relation to corporations until the end of the year, but this was not the case for mortgages, which hit a record volume. The banking sector‘s annual profit fell by almost half in relation to lower interest rates and the creation of loan loss provisions.

In terms of economic governance, the pandemic has created a need for the rapid adoption of a number of measures to stabilise the financial situation of businesses and households. Together with lower public sector revenues and increased costs in healthcare, these measures led to a record state budget deficit of CZK 367 billion. At the very end of the year and contrary to the already approved state budget for 2021, major amendments to the Income Tax Act have been legislated and, according to estimates, they will reduce the state‘s annual revenues by up to CZK 100 billion. On the contrary, Kurzarbeit was not enacted, which makes it necessary to continue to strive for the stabilisation of employment in companies through government regulations with no direct basis in law.

Slovakia

The key factor determining the development of the Slovak economy in 2020 was the Covid-19 pandemic. Measures adopted to prevent the virus from spreading limited its performance, especially in the spring during the first wave. Although the autumn wave was more difficult in Slovakia, it brought more targeted forms of measures which mainly affected the services sector. On the contrary, the industry already showed greater resilience. The Slovak economy fell by -5.2 % on average in in 2020, recording its first decline since 2009. The decline in economic activity also affected the labour market, but the adverse effects were dampened by temporary state support schemes, which also helped moderate the transmission of shock to household consumption. The economic downturn also translated into a slowdown in wage growth and, consequently, inflation, which decelerated in the spring, mainly due to external factors, in particular cheap oil, but food and service price growth also began to weaken gradually. At the end of the year, inflation decelerated to half of its level (from 3% to 1.6%).

The pandemic-induced recession in the eurozone has delayed the start of a new cycle of monetary condition tightening. On the contrary, the ECB kept key interest rates unchanged and sought to support the eurozone economy by restarting quantitative easing, which pushed interest rates in the interbank market even further into negative territory and further reduced the interest income of Slovak banks. These were also adversely affected by the postponements of payments by companies and households affected by the pandemic. Net interest income decreased by 4.0% despite the continued asset growth (8.2%). However, the loan growth dynamics did decelerate (from 6.3% to 4.9%), both in household and corporate financing. The banking sector's profit was also reduced by increasing risk costs due to growing risks associated with the pandemic, despite the rate of non-performing loans, which have not yet increased owing also to the possibility of postponing instalments. The net profit of Slovak banks thus decreased by 27.7% on average in 2020.

As regards the political scene, the key event of the year was the February parliamentary elections and the subsequent formation of a new four-party government coalition led by Prime Minister Igor Matovič. Since the beginning, the ongoing pandemic has affected the new government's agenda and prevented the planned consolidation of public finances. On the other hand, the public budget deficit rose to a more than 10-year high. Nevertheless, the new government coalition abolished the bank levy beginning mid-2020 in order to boost the profitability and stability of the domestic banking sector during the pandemic.

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

The 2020 results of UniCredit Bank Czech Republic and Slovakia, a.s., were affected by the impacts of the Covid-19 pandemic. Operating income decreased year-on-year, both in net interest income, which was due mainly to lower interest rates in the Czech Republic, and in fees and commissions, whose year-on-year decrease was due to lower client transaction activity, lower sales and fewer business opportunities. However, despite the deteriorating macroeconomic environment, the Bank was able to grow considerably year-on-year in client loans and client deposits, both in retail and corporate banking. Operating costs increased year-on-year, mainly due to the higher costs of information technology and preventive measures related to the Covid-19 pandemic. Due to lower income and higher operating costs, the cost-to-income ratio deteriorated on a year-on-year basis. The cost of credit risk also deteriorated on a year-on-year basis due to the economic recession and its impact on risk models. Despite the Covid-19 pandemic's impacts, the Bank strengthened its capital position in 2020.

Expected Economic and Financial Situation of UniCredit Bank Czech Republic and Slovakia, a.s., in 2021

The 2021 plan is based on the recovery of both economies and the gradual fading of the Covid-19 pandemic's impacts, which will be reflected in the organic growth of client transactions and further growth of the client base in all segments. The growth of operating costs will be kept below the expected level of inflation owing to the continuing focus on increasing efficiency and digitising processes. Due to the improvement of the macroeconomic environment, the cost of credit risk should decrease year-on-year in 2021. Profitability and return on capital will rise year-on-year and the Group will continue to put great emphasis on maintaining high capital adequacy. The development of client loans and client deposits will be balanced, thereby allowing the Group to grow further without the need for obtaining additional external sources of finance.

Corporate and Investment Banking

In the Corporate and Investment Banking Division, we continued to strengthen our strong position in the Czech and Slovak markets in 2020 despite the difficult macroeconomic environment. We achieved significant growth in the volume of loans provided, including significant transactions with an international reach. The total volume of loans provided to corporate clients grew by more than 4% compared to 2019. Thus, we successfully continued to fulfil our long-term strategic goals, which represent the position of key player in the segment of financing large multinational and national corporations while also focusing on increasing market share. We provided our clients, whose business and very existence have been severely affected by the Covid-19 pandemic, with maximum support, an individual approach and suitable solutions, with considerable support for a unique portfolio of local and European guarantee schemes.

The Division's priority in 2020 was also to strengthen the portfolio of CZK sight deposits, when, despite a significant reduction in key interest rates, we managed to increase volumes by more than CZK 16 billion, representing a year-on-year increase of more than 13%.

As regards lending, 2020 saw an increase in lending volume of more than CZK 11 billion. We achieved especially great results in the area of real estate financing, where we increased the volume of loans by more than 10% and revenues rose by more than 6%. We were also very successful in the SME segment, where we achieved a total increase in loans of almost CZK 5 billion. Excellent results were also reported in the segment of international clients, where we further strengthened the traditionally strong portfolio within the Group, benefiting from the pan-European presence of the UniCredit banking group. Our goal was also to strengthen our position in the field of operational financing, where we continued to develop and innovate our product range and the unique concept of consultancy in the area of managing our clients' working capital.

The growth in lending in 2020 was driven more considerably by cooperation with external entities granting bank guarantees to SMEs, thus making financing available to a larger range of clients. Particularly in the context of the Covid-19 pandemic, many new guarantee schemes were launched aimed at financing the operational and investment needs of corporate clients from all segments. Owing to our extended cooperation with Českomoravská záruční a rozvojová banka (ČMZRB), Exportní Garanční a pojišťovací společnost (EGAP), the European Investment Fund (EIF), Slovak Investment Holding (SIH), and Eximbanka SR, we were able to offer one of the widest portfolios of guarantee schemes in both markets and thus support the highest number of corporate clients ever.

In 2020, the Corporate and Investment Banking Division reinforced its unique position on the market of structured finance and syndicated loans, which was proved by the number of mandates arranged and the closing of structurally attractive transactions. We supported, for example, Sazka Group a.s., providing a complete refinancing of the group in the amount of EUR 640 million with UniCredit acting as the lead arranger, coordinator, and agent. Another major transaction was the financing of Dr. Max Group (CZK 2,600 million + EUR 533 million), which was coordinated by UniCredit, who acted as the arranger and agent. As an arranger, we also participated in many other club funding transactions - for example, financing for EP Infrastructure in the amount of EUR 800 million, financing of CETIN from PPF Group in the amount of EUR 625 million, a club for O2 in the total amount of CZK 9,240 million and, last but not least, for example, CZK 1,900 million in financing for TEDOM. A large number of transactions were also carried out in the SME and MID segment, where, as a result of generational turnover, either entire companies or part of their business shares are sold.

In Slovakia, in addition to standard project transactions, UniCredit Bank continued to increase its market share in the financing of renewable energy sources. The most significant transaction in this segment in 2020 was a EUR 12 million loan for a 11 MW photovoltaic power plant (PVP) portfolio. Owing to this transaction, the Bank also strengthened its leading position in PVP financing in Slovakia.

UniCredit Bank also maintains an important position in the financing of commercial real estate in the Czech Republic and Slovakia in all major segments of the real estate market – office, retail and industrial real estate, as well as in residential construction. In Czechia, new financing of real estate projects in total volume of more than CZK 17 billion was concluded in 2020. This volume was largely due to loans in the office and retail segment.
The top transaction of 2020 was a loan of over CZK 2.5 billion for CPI Property Group to refinance 2 office buildings in Prague and the second highest loan of over CZK 1.5 billion was the financing of the acquisition of the Kotva department store in Prague for the Generali Real Estate fund. As regards residential projects, we managed to conclude a number of transactions for existing and new clients from among developers and investment groups.

In Slovakia, we continued to cooperate with major foreign and domestic investors in the area of real estate financing. Despite the difficult situation caused by the global pandemic, we managed to secure funding for a large number of new projects. We are one of the club of banks that significantly participated in financing the expansion of the Eurovea complex in Bratislava. We are an important financial partner of the commercial-residential project Promenáda – Living Park in Nitra, as well as a financing bank and, at the same time, an agent of a consortium of banks that provided financing for the construction of the Nivy Station in Bratislava project for HB Reavis Group. In 2020, we also concentrated our activities intensively on supporting our existing clients whose businesses were negatively affected by the outbreak of the global Covid-19 pandemic.

The Industry Expertise Center, whose main task is to consolidate and maintain know-how, was supported, together with the Bank's sales network and specialised structures, to underpin the market position growth in strategic sectors. These include mostly the financing of energy and renewable resources, agriculture, public and municipal sectors, health care, and church entities in the Czech Republic and Slovakia. In the long term, the Bank maintains its leading market position in financing of renewable resources and energy.

In the area of healthcare, in 2020 we focused on supporting large healthcare facilities by financing investment and operational needs, as well as the purchase of receivables (forfaiting). The Bank also supported the construction of homes with a special regime caring primarily for the elderly.

UniCredit Bank is still very active in the public and municipal sector, both in terms of its direct financing (infrastructure and social projects) and in terms of administration and appreciation of deposits of regions, cities, and municipalities.

UniCredit Bank has long been present in the agricultural sector. In the Czech Republic, it continues to boost its market share growth through the creation of simple and fast credit products and land financing. In Slovakia, UniCredit maintains its leading position in the financing of the agricultural sector with a market share of approximately 40% in the number of serviced clients.

The growth trend of the first quarter of 2020 in the area of transaction banking was interrupted by the Covid-19 pandemic's impacts. Challenges such as a significant slump in market rates, price regulation in EU payments, and significant macroeconomic and social changes considerably affected the overall performance and focus of the Global Transaction Banking (GTB) Division. Growth business goals were adjusted to the potential; in some areas they were transformed more into support activities aimed at maintaining safe operability in the new conditions.

GTB's total revenues dropped by 16% on an annual basis. The most affected area were payments, card transactions via POS terminals, and the financing of export investment plans. On the other hand, we managed to partially offset the impacts by increasing revenues from operating and trade financing, receivables financing, or in the area of securities management services. In particular, the product line for addressing operational financing needs can boast double-digit growth.

Product development and business support focused primarily on clients' current needs in the context of the Covid-19 pandemic.

In addition to actively mediating support schemes, we introduced several innovations in the field of liquidity management and security, including improvements in the healthcare sector. For clients without an online shop option, we launched push payments, a digital sale method in an easy, quick and investment-free manner.

Our efforts and help were recognised by a number of awards, such as:

Trade finance products and services:
- Euromoney Trade Finance Survey 2020:
  - (#1) Market Leader in the Czech Republic and Slovakia
  - (#1) Best Service in the Czech Republic and Slovakia

Cash flow and liquidity management products and services
- Euromoney Cash Management Survey 2020
  - (#1) Best Service in the Czech Republic
  - (#1) Market Leader in Slovakia

Markets
Last year, financial markets were significantly affected by the Covid-19 pandemic and its impacts on the real economy.

Together with a radical change in sentiment and a very rapid accommodation of monetary policy, high volatility in the spring months contributed to the fact that the results of treasury products trading on the Bank's own account trailed behind expectations.

On the other hand, in the area of trading with corporate customers, the Bank exceeded its year-round plan, mainly due to the high transaction activity of clients and their interest in hedging the exchange rate immediately after the Czech koruna weakened in March. Higher trading volumes related to commodity risk hedging, including, for example, emission allowance prices, contributed to the record result as well.

Debt Capital Markets, which are part of the Markets segment, participated in arranging several major corporate issues in both local and international markets in 2020, despite the complicated conditions caused by the pandemic. At the same time, the team also focused on its own issuance activity in the form of structured investment products or operations related to the establishment of a new issuance programme for the issuance of covered bonds under German law in international markets. On this occasion, new legislation in this area, the so-called opt-in, was implemented as well.

UniCredit Factoring
Our 2020 goal was to increase the number of clients using the Supply Chain Financing product, i.e., financing a number of suppliers at the risk of a creditworthy customer, which automatically connects the supplier, customer and our company via an electronic platform.

The aim was to improve the risk profile of our customers and attract suppliers from the SME segment. We are pleased that we met the goal in this area and expanded our customer portfolio by several companies from the multinational corporation category and signed contracts with dozens of suppliers. The introduction of the "Payment Agent" product was successful as well. It was created by modifying the now classic Supply Chain Financing product, where, however, receivables are not assigned, resulting in no paperwork for suppliers, which means that payment settlement, including possible maturity extension, is managed by the customer. Its very fast implementation is also worth mentioning - within half a year we tuned not only the technical, but also the contractual tax and accounting aspect of the product.

In terms of performance parameters, 2020 was a particularly successful year. Although there was a decrease in operating income due to the pandemic, which had a major impact on factoring-type monoproducts (fewer receivables in the economy, rapid reduction or cancellation of insurance limits by commercial insurance companies), we recorded a major increase in operating profit and profit after tax (by 129.5% and 83.1%, respectively) in the amount of CZK 33.1 million owing to a significant dissolution of provisions with an impact on the income statement. We also reported year-on-year growth in the volume of financing provided and the return on allocated capital (RoAC). Consistent risk management was also reflected in a lower value of non-performing loans and a reduction of the "NPE ratio" below 1.5%. All of this took place without any state aid, as factoring companies were not included in any state-guaranteed support scheme despite efforts within their Association of Factoring Companies or the Czech Leasing and Finance Association.

UniCredit Leasing CZ

In 2020, UniCredit Leasing Group confirmed its stable position of a provider of non-bank financing in both markets. Based on the consolidated results, UniCredit Leasing CZ, a.s., including its subsidiaries in both markets, financed movable and immovable property in a total volume exceeding CZK 19.4 billion. The number of new concluded contracts reached 32 thousand. New clients account for 27.25% of all new concluded contracts.

In 2020, UniCredit Leasing Group confirmed its stable position of provider of non-bank financing in both markets. Based on the consolidated results, UniCredit Leasing CZ, a.s., including its subsidiaries in both markets, financed movable and immovable property in a total volume exceeding CZK 19.4 billion. The number of new concluded contracts reached 32 thousand. New clients account for 27.25% of all newly concluded contracts.

The total financed value of passenger cars up to 3.5 tonnes fell by 19.49% year-on-year due to the Covid-19 pandemic, but UCL still holds the same market share as in 2019. In April 2020, UniCredit Leasing added Harley Davidson Finance to its portfolio of branded financing in the Czech and Slovak markets, and since September it has become a financing provider for the Ford brand in the Czech Republic under the name FORD Credit.

In 2020, the cooperation with UniCredit Bank's Retail Division was systematically kicked off, expanding the long-term well-functioning cooperation with UniCredit Bank's Corporate and Investment Banking Division. We continued to develop and strengthen the lead management system, which enables the effective transfer of business opportunities between the banking entity and the leasing subsidiaries.

Our Group constantly introduces new features and major innovations in the field of non-bank financing and customer service. The changes were further underpinned by the global Covid-19 pandemic, which changed the market and accelerated the product and service digitisation process. In this area, the most important leasing activities in 2020 include the introduction of solutions for closing business cases using a dynamic electronic signature on tablets and completing consumers' onboarding online.

Retail and Private Banking

In 2020, despite the specific aggravated situation caused by the Covid-19 pandemic, the Bank continued to fulfil its strategic goal of strengthening its position as a universal provider of banking and financial services and being a leading bank in both markets. We want to achieve a considerable increase in market share not only by concentrating on select viable segments of the retail market, but mainly through innovations in availability through alternative distribution channels and in the product range.

On the retail market, the Bank provides a full range of banking products – current and savings accounts, savings and investment products, payment cards, housing financing products, and consumer credit. In cooperation with our strategic partners, we are increasingly focusing on investment products as well as bancassurance. With all these products, the Bank aims to provide innovative products and make maximum use of electronic distribution channels.

Our key business accomplishments in 2020 include a 9% growth in the retail loan portfolio, mainly owing to mortgage loans, and a 13.8% increase in retail clients' deposits. In the area of digital banking, we managed to increase the share of clients who actively use internet and mobile banking to 76%.

Coping with Covid-19 impacts

Following the outbreak of the Covid-19 pandemic, the safety and health of our employees and clients and the availability and continuity of our services for our clients became our 2020 priority. We introduced alternating operation in two shifts at our branches, thus ensuring that in the event of an illness of one of our colleagues, the other half of the team would remain able to ensure the operation of the branch. Owing to our so-called mobile bankers, we made sure that any understaffed branches could receive the required number of employees. This quick and thorough implementation of these measures resulted in all our branches remaining in operation throughout 2020.

The pandemic also upheld the importance of our strategic focus on digital business and transaction channels. During the year, we intensified our efforts in this regard by offering other services remotely and by significantly increasing the share of clients using mobile and internet banking.

Customer experience is an absolute priority for us and our efforts towards clients are evidenced by our Net Promoter Score results, where we scored exceptionally good results as regards individual clients within the Czech and Slovak Market in the UniCredit CEE Division in 2020.

Loans

In 2020, as in the previous year, we continued with our PRESTO Loan with a reward for due repayment, which was very popular among clients. This loan became popular both in the Czech Republic and in Slovakia, where all clients can save money owing to the reward for due repayment and get an effective interest rate of only 3.89% p.a. that's really for everyone. Subject to due repayment, the loan is repaid for the client by the Bank after 60, 66, 72 or 84 months.

As a standard, we offer four categories of loans in both countries: refinancing or transfer of loans, simple and fast general-purpose loans under special conditions for existing clients, general-purpose loans in general, and the PRESTO Loan for Housing. During 2020, in order to improve our portfolio quality, we continued to define stricter conditions both for maximum maturity (maximum maturity of 84 to 96 months) and as part of prudent lending in the pandemic situation.

The popularity of our flagship product PRESTO Loan - Loan Transfer was recognised by its high position in the ranking of financial products, including the Finparada.cz portal. Our focus on products with excellent conditions for clients with a good credit history is long-term and, therefore, this low-risk client segment was again the strongest segment within all disbursed loans. We extended product availability again in 2020 by launching an end-to-end process in Smart Banking, thus complementing other possibilities of drawing down loans without the need to visit our branch. In addition to Online Banking, Smart Banking became prominent in particular when, due to the protection of our clients' health, it was possible to take out loans without visiting our branch.

Mortgages

In terms of mortgage processes and settings, 2020 was marked by Covid-19. In terms of the development of interest rates, 2020 was more favourable for clients due to slightly decreasing interest rates. In the Czech Republic, we reported record sales owing to an attractive offer, with the highest number of mortgages and the highest volumes taken out in our entire history. Clients continued to prefer interest rates with longer fixation periods, especially ten-year fixations, and five-year fixations in the second half of the year. Owing to the growth in real estate prices, the average amount of mortgages grew as well, approaching CZK 3 million at the end of the year.

The Slovak environment was notably different; the volume of new loans did not reach last year's average. The sale of new loans responded sensitively to the new rules for approving loans introduced in the spring during the beginning of the current coronavirus crisis. The gradual easing of risk measures in the autumn decelerated the decline in the portfolio, and the volume of new loans has exceeded the volume of current and extraordinary payments since November. We continued to make our processes simpler and more transparent. We focused primarily on internal processes at headquarters. Owing to the regular process measurement and subsequent adjustments, we were able to process a record number of mortgages without significant queues and or delays.

We are also expanding our product range. In Slovakia, we introduced monthly paid loan repayment insurance and also a new type of loan for unspecified real estate, where the client has an approved loan amount and 6 months to choose a suitable property to buy. We have cancelled the requirement to submit proof of income for employed clients whose income can be verified in the register of the Social Insurance Agency in Slovakia.

Current accounts

In 2020, U konto remained our key acquisition product, which, despite extraordinary competition, remains one of the best products on the market.

We continued to implement innovative campaigns, whether in well-established cooperation with a food chain or in the unusual connection of the banking and film world through design payment cards. We also rewarded new clients for opening accounts and actively using our payment cards.

Investments and deposits

Given the pandemic, the past year also significantly affected financial markets and investment in general. In an environment of zero interest rates, investment products still represent the key way in which our clients can actually increase the value of their funds. The basis of our product range still consists of three Amundi Fund Solutions funds (conservative, balanced and dynamic), i.e., strongly diversified investment solutions together with active and flexible management, where each of these funds represents a comprehensive portfolio solution for a client's relevant risk profile. These funds are also used as the cornerstone of our U invest product - a programme of regular investment which provides our clients with flexible solutions to grow their assets in a simple and systematic way, while spreading the investment over time strongly eliminates the risk of potential wrong timing for purchases.

We are constantly expanding our range of solutions for both regular and one-off investments. The CPR - Global Disruptive Opportunities fund, which invests in shares of innovative companies that create megatrends, changes in established markets or new markets, has become very popular. We introduced a fund focused on the responsible investment trend not only for conservative clients called Amundi Multi-Asset Sustainable Future, which combines shares and bonds exclusively of companies meeting strict ESG criteria – environmental impact, social impact and corporate governance assessment.

In cooperation with Amundi, we prepared three issues of Amundi Buy and Watch funds during the year. These funds invest in a portfolio of several tens to hundreds of particular bonds with a maturity approximately equal to the predefined maturity of the Buy and Watch fund (4-6 years). The fund manager's goal is to hold these bonds until their maturity. Buy and Watch solutions provide investors with more revenue predictability than conventional bond funds. Compared to direct investment in a single bond, it offers similar revenues and, due to its wide portfolio diversification, lower risk associated with the investment.

Digital

In 2020, we again significantly increased the number of active Smart Banking and Online Banking users. In the spring, a new version of the Smart Banking application with a considerably upgraded user interface was implemented for retail clients in the Czech Republic. At the end of the year, the same version was offered to clients in Slovakia. Throughout 2020, the Bank worked hard to digitise processes in the field of accounts, consumer credit and mortgages. In November, a new digital platform was pilot-launched, becoming the basis for further development of omnichannel digital access not only for the Czech Republic and Slovakia but also for other CEE countries of UniCredit Group.

Small Business

In the Small Business segment, we adjusted the range of our products with the possibility of using the COVID II, COVID Prague and COVID III guarantee schemes in 2020, thanks to which we were able to finance sectors not financed by default. Moreover, we continued to improve and streamline our product range so that we would be ready to launch a new product next year. In the segment of liberal professions, we focused on bankers' professionalism with an emphasis on the understanding of the individual needs of each client group. Our efforts resulted in a growing market share, in particular in legal professions.

Payment cards

In 2020, we entered into a strategic agreement with VISA and reissued most of our card portfolio under the VISA brand. As part of this activity, we also introduced new modern vertical card designs, where we moved the payment card data to the back and removed the signature strip, which is no longer used today. Card data are realised using a laser. We supported this step with a competition in cooperation with VISA.

Another novelty is the introduction of the Dragon Pass service for Platinum and Infinite premium cards and the introduction of the new VISA Cinestar product, which is also a ticket to CineStar Club Extra, a loyalty programme for movie fans and CineStar visitors. To enable our clients to use their accounts to the fullest during the pandemic without having to visit our branch, we have launched automatic issuance of cards to clients who have an account with our Bank but have difficult access to funds in the account – such as a payment card.

Branch distribution network

Owing to ongoing development and penetration in digital client services, in 2020 the Bank merged several branches and transformed 8 branches in Slovakia into so-called Tied Financial Agents, which is an equivalent of the successfully implemented concept of franchise points of sale in the Czech Republic, where 56 franchises are active.

As of 31 December 2020, we operated a wide network of 108 branches and 421 ATMs across the Czech Republic and Slovakia. In 2020, we pilot-launched 20 ATMs in Slovakia with a cash deposit option, and we plan to deploy this functionality in other locations.

Private Banking

The Private Banking segment continued to take care of its existing client portfolio and, at the same time, despite the complications caused by the global Covid-19 pandemic, worked intensively to acquire new clients and achieved a further increase in the number of clients using our services last year. We acquired new clients owing to our very intensive cooperation with colleagues from Corporate Banking, with the aim to comprehensively serve Bank clients who are owners and managers of companies, as well as based on recommendations obtained from existing clients. Throughout 2020, we actively supplemented our range of investment solutions to respond quickly to the rapidly changing macroeconomic environment and developments in financial markets. During the year, we offered Private Banking clients several new funds of qualified investors, new funds with defined maturities and the possibility of subscribing two issues of corporate bonds, which was met with great interest on the part our private clients.

Supporting structures

Risk Management

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

The Bank manages its credit risk both at the level of individual business transactions and at the whole portfolio level, in particular in compliance with the basic principles defined in the Bank's credit policy and in order to adhere to the risk parameters set out in the credit strategy for the particular year. For the purposes of calculating the capital requirement for credit risk, the Bank uses an advanced approach based on its own estimates of risk parameters (Advanced IRB) for most of its portfolio (based on the CNB's approval). The Bank regularly monitors and evaluates expected losses to its credit portfolio and expected losses of newly concluded deals, as well as actually realised losses arising from impaired assets.

Based on regulatory approval, the Bank applies an advanced approach to the operational risk capital requirement (AMA), which has been used since 2008. In terms of operational risk management in 2020, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of the Covid-19 virus.

In the area of market risk management, the Bank manages the risks connected with business activities at the level of individual risks as well as individual types of financial instruments. All limits are monitored broken down into trading portfolio (Regulatory Trading Book) and banking book (IRRBB).

The basic management tool comprises limits for volumes of individual transactions, limits for portfolio sensitivity (BPV, CPV), stop loss limits (maximum loss limits LWL) and Value at Risk (VaR) limits. In 2020 the Bank did not record any significant events leading to a revaluation of the strategy or significant reset of the applicable limits.

Assets and Liabilities Management

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

Financial and client assets denominated in EUR are refinanced by the Bank largely through client and internal funds and partially through interbank funds, where the most important ones include deposits provided by the parent company as well as advantageous financing from the European Central Bank within the so-called TLTRO programme, to which the Bank has access through its Slovak branch. In 2020, the Bank increased its participation in the TLTRO programme and decreased deposits provided by the parent company. Subsidiaries also use financing from multinational development banks, such as the European Investment Bank.

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

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

Services

The Bank‘s operating activities in the Czech Republic and Slovakia in the spring of 2020 were affected by the beginning Covid-19 pandemic. In this context, during March and April, we completely redesigned the central operating model to a fully decentralised one, which, while maintaining all legislative, security, and business continuity standards, ensured the smooth operation of banking operations while maximising the health of all our employees.

Automation and robotisation have become the fundamental tools for the continuing increase in the efficiency of our processes. We also continued to focus on delivering high-quality services and further improved customer experience and satisfaction.

In 2020, the Bank continued to promote and will continue to promote a balanced approach, i.e., the achievement of cost savings thanks to the centralisation and specialisation of operational structures with concurrent preservation of the availability and quality of services provided to clients. Centralisation and specialisation lead to better control over the fulfilment of regulatory requirements regarding contractual arrangements and the quality of document processing between the Bank and its clients. Another example of this trend is the centralisation of most KYC processes in Corporate and Retail Divisions, which will be implemented from early 2021.

There has been no change in the provision of IT services and IT services are provided to the Bank by UniCredit Services S.C.p.A., its sister company within UniCredit Group.

In 2020, the first stage of the new Digital Platform for Retail Banking Products was successfully implemented with a view to expanding the product range in 2021. As regards digital and direct channels, new functionalities focused not only on the development of client functions, but also on the speed and reliability of applications, are continuously being developed.

The banking systems and reporting were adjusted with regard to the credit moratorium requirements.

As in previous years, activities aimed at increasing security, preventing data leakage, and fraud monitoring continue. The use of robotisation, in particular in back-office processes, is being further developed.

Human Resources

Human Resources play an important role in achieving the banking strategy as well as risk management and the provision of long-term and sustainable growth for the company. A strong and complex strategy for working with human capital and a consistent corporate culture are the key factors for achieving results in the long term. Therefore, the main priorities in the human resources area are directed at aligning the work with the people and the business strategy, more specifically, at talent search and development, leadership, succession planning, motivation and incentive systems, diversity, and commitment.

One of the Bank‘s core tasks was to ensure the protection, safety, and health of its employees during the spread of the new coronavirus. The Bank introduced a number of measures which were very often beyond those stipulated by legislation. The Bank started very quickly and operatively to take preventive and safety measures aimed at protecting the health of our employees and clients. In many respects, we met our employees’ needs and provided them with above-standard options with primary attention not only to protecting their health, but also to taking care of their family members, such as offering a work-from-home option and providing the technical equipment needed, paid time off for employees falling within the risk categories who could not perform their work from home, compensation for lost earnings for employees who had to take care of their loved ones for a long time, as well as providing protective aids unavailable at that time, etc.

Of course, the situation has also led to a maximum increase in the number of employees working from home where possible. As a form of support, we provided employees not only with the necessary technical equipment, but also with related management training to improve remote management styles and support work from home among managers, as well as training for ordinary employees aimed at getting familiar with a different way of work when working from home. Based on the trainings, we have also made practical manuals for working from home.

The field of education was considerably and significantly affected by the coronavirus as well. In a very short time, the concept of training had to be redesigned, as we managed the transformation of 90% of our trainings from face-to-face to online, including adaptation trainings to the network and a welcome meeting, so we were able to further develop our employees even in this difficult time. A total of 8,733 participants (2,299 unique employees) were on 555 (431 online) training dates. Ratings for these trainings ranged at around 9 out of 10 (10 being the best). Remote training related to hard skills have become more important as well – training on OneNote or Skype / Lync / Webex, where these tools help our employees to become more efficient when working remotely. Only in the area of certifications did the CNB's accredited suppliers fail to secure remote certification in time for their clients, including us, for our employees at branches who are in contact with clients, but they are already working on this possibility. The Bank continues in its strategic development of talented employees with managerial potential. We have created a special offer of development activities for 240 successors of non-managers, which is constantly updated and supplemented with new trainings or tips for their development. The offer also includes a new activity called Bank in a Nutshell, which helps all the people from the Bank learn more about the workload of individual departments and thus indirectly helps the internal mobility of people across the Bank, including headquarters and network.

During the pandemic, it is very difficult to maintain a corporate culture that is changing even at this time based on the situation. This mostly concerns new employees, where personal contact is very important. That is why the Management for You activity (sharing the most important strategic topics of employees, including questions) is all the more important. It is organised for our employees and moderated by our CEO and General Manager. A total of 27 meetings were held for a total of 767 participants. We continue this activity.

As part of collective bargaining, we concluded a new collective agreement with the Slovak trade union and an amendment to the existing collective agreement with the Czech trade union. Both documents lay down not only the conditions for wage increases, but also other interesting benefits and advantages for our employees in both countries (among other things, 4 days of paid leave for regeneration in the Czech Republic and childcare support for Slovak employees).

As regards compensation, in 2020 we focused on three main strategic projects: reviewing the classification of jobs in tariff classes, adjusting the variable compensation schemes and strengthening internal fairness, and reducing the pay gap, especially in the field of the gender pay gap. The strategic goal of reviewing the classification of jobs was to refine the comparison of the Bank's internal salary policy with market practice and to adjust the compensation level so as to ensure competitiveness in compensation in the labour market while maintaining cost sustainability. By adjusting the variable schemes, we have simplified and streamlined the existing system and, at the same time, the approach to variable compensation in the Czech and Slovak parts of the Bank has been unified, which strengthens the internal fairness of compensation, which we continued to focus on in the third strategic project where we reduced the gender pay gap, in line with UniCredit Group's strategic commitment.

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 2020 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.

March 2021

Jakub Dusílek
Chairman of the Board
of Directors

Massimo Francese
Member of the Board
of Directors

Report of the Supervisory Board

The Supervisory Board reviewed the statutory individual and consolidated financial statements and the financial statement for the Slovak branch of the bank prepared as at 31st December 2020 together with the audit's results by Deloitte Audit s.r.o., which is the independent auditor of UniCredit Bank for the year 2020, and the proposal for distribution of profit. The Supervisory Board acknowledges the conclusion by the auditor that the individual and consolidated financial statements give a true and fair view of the financial position of UniCredit Bank as at 31 December 2020 and its financial performance for the 2020 accounting period. The Supervisory Board acknowledges the conclusions by the auditor that the statutory financial statements truly reflect assets, liabilities and the profit for the year of UniCredit Bank in all substantial matters and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations and the Articles of Association of UniCredit Bank.

In compliance with the Czech laws, Provisions of the CNB and the Articles of Association of the Bank, the Supervisory Board has been supervising the implementation of the Bank's business policy and the exercise of authorities by the Management Board. The Supervisory Board held six 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 2020, 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.

March 2021

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 2020, the basis for calculating the contribution to the Guarantee Fund was CZK 612,516,015.11. The contribution to the Guarantee Fund is 2 % of this amount, i.e. CZK 12,250,320.30.

Do the right thing!
for our Clients

With over 16 million clients in 13 countries, we worked harder than ever in 2020 to help all our clients face new challenges: from billion euro funding programmes for multinational companies to mentoring new start-up businesses, UniCredit is committed to being part of the solution.

€10 MILLION OF NEW FINANCING FOR A 100-YEAR OLD PASTA MAKER

This loan was set up to meet the working capital needs of Gragnano-based Pastificio Di Martino. It was also the first large loan issued in under Italy's guaranteed loans programme.

Consolidated financial statements

Consolidated Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020 MCZK	2019 MCZK
Interest income, *of which:*		14 493	18 597
– interest income calculated using the effective interest method		13 071	17 604
Interest expenses		(2 402)	(4 019)
Net interest income	(1)	**12 091**	**14 578**
Fee and commission income		4 858	5 387
Fee and commission expenses		(1 317)	(1 385)
Net fee and commission income	(2)	**3 541**	**4 002**
Dividend income	(3)	6	5
Net income/(loss) from trading	(4)	1 859	1 885
Net income/(loss) from hedging against risk of changes in fair value	(5)	–	(12)
Net income/(loss) from the sale or repurchase of:	(6)	499	489
Financial assets at amortised cost		88	154
Financial assets at fair value through other comprehensive income		412	335
Financial liabilities		(1)	–
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, *of which:*	(7)	82	139
Mandatorily at fair value		82	139
Operating income		**18 078**	**21 086**
Impairment losses on:	(8)	(2 798)	(1 309)
Financial assets at amortised cost		(2 800)	(1 310)
Financial assets at fair value through other comprehensive income		2	1
Modification gain/(loss)		(57)	–
Administrative expenses	(9)	(7 092)	(6 949)
Net provisions for risks and charges:	(27)	(673)	342
Loan commitments and financial guarantees given		(570)	401
Other net provisions		(103)	(59)
Depreciation and impairment of property, equipment and right of use assets	(18)	(1 001)	(992)
Amortisation and impairment of intangible assets	(19)	(548)	(540)
Other operating income and expenses	(10)	759	694
Operating expenses		**(8 555)**	**(7 445)**
Net income/(loss) on property and investment property measured at fair value	(18)	(12)	(25)
Profit/loss from equity investments		52	70
Profit/(loss) from the sale of non-financial assets		–	228
Profit before income tax		**6 708**	**12 605**
Income tax	(28)	(1 391)	(2 483)
Profit after tax		**5 317**	**10 122**
Net profit attributable to the Group's shareholders		**5 317**	**10 122**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property used in business measured at fair value, *of which:*		(11)	261
Change in fair value		(3)	329
Transfers to other net equity items		(11)	n/a
Deferred tax		3	(68)
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, *of which:*		1 365	(1 001)
Change in fair value		1 699	(1 239)
Revaluation reclassified to profit or loss		–	–
Deferred tax		(334)	238
Reserve from revaluation of financial assets at fair value through other comprehensive income, *of which:*		(211)	(264)
Change in fair value		64	(53)
Revaluation reclassified to profit or loss		(326)	(224)
Deferred tax		51	13
Foreign exchange rate gains from the consolidation of a foreign branch		424	(171)
Other comprehensive income, net of tax		**1 567**	**(1 175)**
Other comprehensive income, net of tax, attributable to the Group's shareholders		**1 567**	**(1 175)**
Total comprehensive income, net of tax		**6 884**	**8 947**
Total comprehensive income, net of tax, attributable to the Group's shareholders		**6 884**	**8 947**

The notes on pages 41–119 form a part of these financial statements.

Consolidated Statement of Financial Position as of 31 December 2020

	Note	2020 MCZK	2019 MCZK
Assets			
Cash and cash balances	(11)	4 072	4 634
Financial assets at fair value through profit or loss, *of which:*	(12)	17 082	12 185
Held for trading		16 542	11 698
Mandatorily at fair value		540	487
Financial assets at fair value through other comprehensive income	(13)	20 518	23 181
Financial assets at amortised cost, *of which:*		598 431	626 735
Loans and advances to banks	(14)	136 955	185 975
Loans and advances to customers	(15)	461 476	440 760
Positive fair value of hedging derivatives	(16)	10 385	7 198
Equity investments	(17)	359	372
Property, equipment and right of use assets	(18)	6 879	6 406
Investment property	(18)	360	371
Intangible assets	(19)	2 608	2 345
Tax receivables, *of which:*	(28)	1 546	1 005
Current income tax		799	–
Deferred tax		747	1 005
Non-current assets held for sale		40	31
Other assets	(20)	2 072	2 130
Total assets		**664 352**	**686 593**
Liabilities			
Financial liabilities at fair value through profit or loss, *of which:*		16 812	11 537
Held for trading	(21)	16 812	11 537
Financial liabilities at amortised cost, *of which:*		541 139	576 627
Deposits from banks	(22)	105 519	141 092
Deposits from customers	(23)	425 147	414 953
Debt securities issued	(24)	10 473	20 582
Negative fair value of hedging derivatives	(25)	7 455	7 624
Changes in fair value of the portfolio of hedged instruments		1 636	1 096
Tax liabilities, *of which:*	(28)	905	1 481
Current income tax		57	659
Deferred tax		848	822
Other liabilities	(26)	9 312	8 733
Provisions for risks and charges	(27)	1 501	882
Total liabilities		**578 760**	**607 980**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		1 304	(263)
Retained earnings and reserve funds	(31)	66 721	56 504
Profit for the period		5 317	10 122
Total shareholder‘s equity		**85 592**	**78 613**
Total liabilities and shareholder‘s equity		**664 352**	**686 593**

The notes on pages 41–119 form a part of these financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2020

	2020 MCZK	2019 MCZK
Profit after tax	**5 317**	**10 122**
Adjustments for non-monetary items:		
Impairment losses of:	2 855	1 309
Financial assets at amortised costs	2 857	1 310
Financial assets at fair value through other comprehensive income	(2)	(1)
Revaluation of financial instruments	252	637
Net provisions for risks and charges:	673	(342)
Loan commitments and financial guarantees given	570	(401)
Other net provisions	103	59
Depreciation and impairment of property, equipment and right of use assets	1 001	992
Amortisation and impairment of intangible assets	548	540
Net income/(loss) from the sale or repurchase of:	113	113
Financial assets at amortised cost	–	–
Financial assets at fair value through other comprehensive income	113	113
Financial liabilities	–	–
Profit/(loss) from equity investments	13	(40)
Profit/(loss) from the sale of non-financial assets	–	(228)
Taxes	1 391	1 808
Unrealised foreign currency gains/(losses)	424	(171)
Other non-monetary adjustments	(4 558)	(3 170)
Operating profit before change in operating assets and liabilities	**8 029**	**11 570**
Financial assets at fair value through profit or loss, *of which:*	(6 108)	(2 852)
Held for trading	(6 133)	(2 850)
Mandatorily at fair value	25	(2)
Financial assets at amortised cost, *of which:*	27 311	(14 697)
Loans and advances to banks	48 946	14 091
Loans and advances to customers	(21 635)	(28 788)
Other assets	58	(451)
Financial liabilities at fair value through profit or loss, *of which:*	6 188	2 733
Held for Trading	6 188	2 733
Financial liabilities at amortised cost, *of which:*	(25 250)	8 995
Deposits from banks	(35 452)	(31 127)
Deposits from customers	10 202	40 122
Other liabilities	481	233
Income tax paid	(2 457)	(2 072)
Net cash flows from operating activities	**8 252**	**3 459**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	1 203	5 590
Cash proceeds from the sale of property and equipment and intangible assets	1 061	1 613
(Acquisition) of property and equipment and intangible assets	(649)	(2 171)
Dividends received	6	5
Net cash flows from investment activities	**1 621**	**5 037**
Dividends paid	–	(6 070)
Financial liabilities at amortised cost – debt securities issued and repaid	(10 044)	(2 260)
(Payment) of Lease liabilities	(391)	(374)
Net cash flows from financial activities	**(10 435)**	**(8 704)**
Cash and cash balances at the beginning of the period	**4 634**	**4 842**
Cash and cash balances at the end of the period	**4 072**	**4 634**
Interest received	15 496	18 692
Interest paid	(3 528)	(3 794)

The notes on pages 41–119 form a part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2020

MCZK	Issued capital	Share premium	Reserve from revaluation of: hedging instruments	Reserve from revaluation of: financial assets at fair value through other compr. income	Reserve from revaluation of: property measured at fair value	Reserve from revaluation of: exchange rate gains/ (losses) of a foreign branch	Retained earnings and reserve funds: Reserve fund and other capital funds	Retained earnings and reserve funds: Special-purpose reserve fund	Retained earnings and reserve funds: FX differences from consolidation	Retained earnings and reserve funds: Retained earnings	Profit for the period	Equity
Balance as of 1 January 2019	**8 755**	**3 495**	**203**	**828**	**n/a**	**(119)**	**5 240**	**12 423**	**(88)**	**36 045**	**8 957**	**75 739**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit							3	817		8 137	(8 957)	–
Dividend payment										(6 070)		(6 070)
Consolidation impact									(23)	20		(3)
Total comprehensive income for the current period												
Net profit for the current period											10 122	10 122
Other comprehensive			(1 001)	(264)	261	(171)						(1 175)
Balance as of 31 December 2019	**8 755**	**3 495**	**(798)**	**564**	**261**	**(290)**	**5 243**	**13 240**	**(111)**	**38 132**	**10 122**	**78 613**
Balance as of 1 January 2020	**8 755**	**3 495**	**(798)**	**564**	**261**	**(290)**	**5 243**	**13 240**	**(111)**	**38 132**	**10 122**	**78 613**
Transactions with owners, contributions from and distributions to owners												
Allocation of the prior year profit								1 231		8 891	(10 122)	–
Dividend payment												
Consolidation impact									64	31		95
Total comprehensive income for the current period												
Net profit for the current period											5 317	5 317
Other comprehensive			1 365	(211)	(11)	424						1 567
Balance as of 31 December 2020	**8 755**	**3 495**	**567**	**353**	**250**	**134**	**5 243**	**14 471**	**(47)**	**47 054**	**5 317**	**85 592**

The notes on pages 41–119 form a part of these financial statements.

Notes to the financial statements (consolidated)

I. Introduction

General Information

The UniCredit Bank Czech Republic and Slovakia, a.s. group (hereinafter the "Group") consists of the parent company UniCredit Bank Czech Republic and Slovakia, a.s., a joint stock company (hereinafter the "Bank" or the "Parent Company") with its registered office Želetavská 1525/1, 140 92, Praha 4 – Michle, 12 subsidiaries and 1 associate. The Bank was established on 1 January, 1996 and is registered in the Commercial Register in Prague, Section B, Insert 3608. The identification number of the Bank is 64948242. The "UniCredit Group" refers to the group of companies controlled by the UniCredit Bank's parent company UniCredit S.p.A.

The Bank was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company.

Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A which is the ultimate parent company of the entire UniCredit Group holding 100% of the Bank's shares.

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 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, 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.

Scope of Activities

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

The Bank's principal activities include:

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

Through its subsidiaries and an associate, the Bank additionally provides the following types of services:

- Lease and instalment sale of machinery and equipment;
- Lease to own (lease purchase);
- Lease of cars and instalment sale of cars;
- Consumer and commercial loans granted for the purchase of cars, machinery and equipment;
- Mediation of services and sales;
- Mediation of insurance policies conclusion;
- Purchase, sale and lease of real estate;
- Real estate activities;
- Real estate administration and maintenance; and
- Operational financing by way of factoring local and foreign receivables.

II. Basis for the preparation of the financial statements

1. Statement of compliance

The Consolidated financial statements of the Group (hereinafter also "Financial Statements") for 2020 and comparatives for 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) no. 1126/2008 as amended including valid interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), further "IFRS".

Purpose of preparation

The purpose of preparing these financial statements in the Czech Republic is to comply with Act on Accounting No. 563/1991 Coll. The Group prepares its financial statements and annual report under special regulation 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Basis of preparation

These financial statements were authorised for issue by the board of directors and are subject to approval at the General Meeting of Shareholders.

After assessing all potential effects of the Covid-19 on business activities, the Group assessed that there is no effect that would significantly affect the Group's ability to continue its operations in the foreseeable future. The Group achieved a positive economic result for 2020. The Group will continue to monitor the potential impact of Covid-19 and will take all necessary steps to mitigate the negative impacts on the Group, its employees and clients.

These consolidated financial statements were prepared based on the going concern assumption that the Group will continue to operate in the foreseeable future.

The annual separate and consolidated financial statements for 2019, the Annual Report for 2019, the profit distribution, retained earnings and the determination of royalties to the Supervisory Board members for 2019 were approved by the Parent Company's General Meeting held on 1 April 2020. Due to prevailing CNB expectations and guidelines the Parent Company's General Meeting held on 20 November 2020 approved a proposal on redistribution of 2019 profit and recapitalization of the dividend in the total amount of 5 061 MCZK (allocation to Retained earnings and Special purpose Reserve fund in EUR).

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

All presented amounts are in millions of Czech crowns (millions of CZK) unless stated otherwise.

The consolidated financial statements were prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative contracts, other financial assets and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, and properties used in business (reclassified from the cost model to the revaluation model as of 31 December 2019) and properties held for investment, all of which have been measured at fair value. The methods for determining fair value are presented in section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. Recognised assets and liabilities that are hedged against the risk of changes in fair value and would not otherwise be measured at fair value are remeasured at fair value to the extent of the hedged risk.

Regulatory requirements

The Group is subject to the regulatory requirements of the Czech National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rates and foreign exchange position of the Group.

2. 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 UniCredit group in accordance with International Financial Reporting Standards as adopted by the European Union.

Certain subsidiaries maintain their accounts under Czech or Slovak Accounting Standards and the Group makes reclassifications and adjustments to figures under IFRS.

As of 31 December 2020, the consolidation group includes the Parent Company and the following entities (hereinafter „consolidation entities“):

Name of the entity percentage	Business activities Consoli-dation method	Registered office		Owner	Ownership
UniCredit Factoring Czech Republic and Slovakia, a.s.	Factoring	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Leasing CZ, a.s.	Leases	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit pojišťovací makléřská spol. s r.o.	Mediation of services	Prague	UniCredit Leasing CZ, a.s.	100%	Full
RCI Financial Services, s.r.o.*	Financing of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	50%	Equity
ALLIB Leasing s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
BACA Leasing Alfa s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CA-Leasing OVUS s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
HVB Leasing Czech Republic s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Leasing Slovakia, a.s.	Leases	Bratislava	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Broker, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Leasing Insurance Services, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full

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

Changes in the Group during year 2020
There were no changes in the Group in 2020.

Principles of Consolidation
Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of the subsidiary. Relevant activities of the subsidiary are those which most significantly affect its variable returns.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable to the owners of the Bank. The Bank has no non-controlling interests.

Subsidiaries
Subsidiaries are entities controlled by the Group. 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. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated during consolidation.

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.

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 pooling of interest method, i.e. taking over the carrying amounts of the acquired business and concurrently reporting these transactions prospectively, ie without adjustments in comparative periods, with the difference of the consideration transferred and the carrying amount of net assets acquired being recognised directly in equity.

Disclosure of interests in other entities
IFRS 12 requires disclosure about significant judgments and assumptions used to define the character of an investment in a company or in an agreement, investments in subsidiaries, joint agreements and affiliates and in non-consolidated structured entities. Based on the analysis performed by management, the Group does not have any interest in consolidated structured entities, nor in unconsolidated structured entities.

3. Foreign Currency and Foreign Currency Translation

The Czech crown is the functional currency of the Bank and the entities based in the Czech Republic. Euro is the functional currency of the Slovak branch and the entities based in the Slovak Republic (hereinafter also "foreign operations"). The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the foreign operations are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as "Foreign exchange rate gains or losses from the branch". Figures in brackets represent negative amounts.

Transactions in foreign currencies (ie other than the functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank 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 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 at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was measured. Foreign exchange differences arising on translation are recognised in profit or loss as "Net income/loss from financial assets and liabilities held for trading".

III. Significant accounting policies

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

1. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Group classifies financial instruments in the following categories:
- Financial assets measured at amortised cost ("AC"),
- Financial assets measured at fair value through other comprehensive income ("FVTOCI"),
- Financial assets mandatorily measured at fair value through profit or loss ("FVTPL"),
- Financial assets held for trading ("FVTPL"),
- Financial liabilities measured at amortised cost ("AC") and
- Financial liabilities measured at fair value through profit or loss ("FVTPL").

The Group has applied a IFRS 9 approach to the classification and measurement of financial assets that takes into account:
- The business model for managing financial assets and
- Characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at *amortised cost* if both the following conditions are met:
- The asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred, or are expected to occur.

A financial asset is measured at *fair value through other comprehensive income* if both the following conditions are met:
- The asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income can also include investments in equity instrument if they are not held for trading and are designated so on initial recognition.

A financial asset is measured at *fair value though profit or loss* if it is not measured at amortised cost or at fair value through other comprehensive income, or if it is designated at FVTPL on initial recognition.

All financial liabilities of the Group, except for financial liabilities held for trading, financial liabilities designated at FVTPL on initial recognition and hedging derivatives, are measured at amortised cost.

a) Business Model Assessment

Business model ("BM") refers to the way the Group manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The following is considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) is evaluated and reported to the entity's key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the Group are compensated (eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity; and
- Whether sales activity and the collection of contractual cash flows are integral or incidental to the business model

The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument but is determined at a higher level of aggregation.

The business model assessment resulted in the following business models of the Group:

Business model "Held to collect" comprises the banking book and was assigned mainly to the lending portfolio and the portfolio of debt securities that are held with the intention to collect contractual cash flows.

Although the objective of the business model is to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus this business model can be to hold loans and bonds to collect contractual cash flows even where limited sales of financial assets occur or are expected to occur in the future.

Sales are consistent with the held-to-collect business model in the following situations:
- The sales are due to an increase in the credit risk of a financial asset;
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent).

The *business model "Held to collect and sell"* comprises the banking book and was assigned mainly to:
- The portfolio of debt securities whose objective is achieved by both collecting contractual cash flows and selling financial assets; these are used primarily for liquidity, interest and duration management, and
- Equity instruments irrevocably designated at FVTOCI on initial recognition.

The *"Other" business model* was assigned to financial instruments (debt securities, derivatives and equity instruments) that are not allocated to any of the above business models and the main strategy is:
- Trading:
  - To realise cash flows through sale of the assets or
  - To manage the instruments actively on fair value basis in order to realise fair value changes arising from market factor changes like yield curves, credit spreads etc.
- Managing Risk Weighted Assets, or
- Liquidity and interest rate management up to one year.

b) Analysis of Contractual Cash Flow Characteristics
For the classification of financial assets based on the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows – assessment whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest ("SPPI Test"). This analysis is only performed at initial recognition of the instrument.

For this purpose, interest is defined as a consideration for the time value of money, the credit risk associated with the principal during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

This analysis is performed for loan products either at "contract template" level for standardised products, or at contract by contract level for tailored corporate loan contracts. For securities, the analysis is performed at ISIN level using mainly an external data provider.

Modified Time Value of Money
The time value of money is the element of interest that provides consideration for the passage of time. It does not take into account other risks (credit, liquidity, etc) or costs (administrative, etc) associated with holding a financial asset.

In some cases, the time value of the money element may be modified (imperfect). This is the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case, the Group must assess the modification to determine whether the contractual cash flows still represent solely payments of principal and interest, ie the modification term does not significantly alter the cash flows from a perfect benchmark instrument. For this assessment, the Group uses a Benchmark tool developed at UniCredit Group level.

c) Recognition and Measurement of Financial Assets

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

gains and losses and impairment losses are recognised in the Group's profit or loss from the trade date.

Financial assets at amortised cost are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts during the expected life of the financial asset or liability to the gross carrying amount of the financial asset or amortised cost of the liability. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using an effective interest rate over the expected life of the financial asset at amortised cost. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate.

Financial assets at amortised cost represent loans and advances to banks, loans and advances to customers and debt securities.

"Purchased or originated credit-impaired financial assets" (POCI) are financial assets that are credit-impaired on initial recognition. The Group recognises POCI when additional financing is granted to a credit-impaired borrower or if a restructuring results in the "renewed ability to draw existing unused credit lines/commitments". The Group identified no POCI assets during 2020, or in 2019.

POCI is measured at amortised cost using credit-adjusted EIR. On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the credit-adjusted EIR. The credit-adjusted EIR is calculated using the expected cash flows inclusive of future lifetime expected credit losses – ie the estimated contractual cash flows are reduced by lifetime expected credit losses. For subsequent measurement, the expected credit losses for POCI assets are measured as lifetime expected credit losses. However, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance, and not the total amount of expected credit losses.
Interest income on POCI, is calculated using the credit adjusted EIR applied to the amortised cost of financial asset.

Gains and losses arising from financial assets carried at amortised cost are recognised in profit or loss when the financial asset is derecognised (in the item *"Net income/(loss) from the sale or repurchase of: Financial assets at amortised cost")* or impaired (in the item *"Impairment losses on: Financial assets at amortised cost")*, and through the amortisation process in the item *"Interest income"* using the effective interest rate method.

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

Financial assets at FVTOCI are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value.

Gains and losses arising from a change in the fair value of debt instrument assets at fair value through other comprehensive income are recognised in other comprehensive income and become the equity item *"Reserve funds from revaluation"*, with the exception of expected credit losses that are reported in profit or loss as *"Impairment losses on: Financial assets at fair value through other comprehensive income"*. When 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/(loss) from the sale or repurchase of: Financial assets at fair value through other comprehensive income"*. Interest income from fair value through OCI debt securities is recognised in the income statement as "*Interest income*" using the effective interest rate method.

Financial assets at FVTOCI include debt instruments and equity instruments (designated at FVTOCI on initial recognition).

"Equity instruments designated at FVTOCI on initial recognition" – on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This decision is made on an investment–by–investment basis for each investment and covers strategic interests. Subsequent changes in fair value from revaluation are recognised during the life of the equity instrument in the item *"Reserve funds from revaluation"* and, on its derecognition, the subsequent changes are not recognised in profit or loss. After derecognition of the investment, the final cumulative changes in fair value are transferred to retained earnings.

Dividend income from equity instruments is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

Financial assets at fair value through profit and loss
"Financial assets at fair value through profit or loss" are recognised in the Group's accounting books from the moment of settlement.

Any gains or losses arising from changes in the fair value of the assets are recognised in the Group's profit or loss since the trade date.

Initial and subsequent measurement of the financial assets at fair value through profit or loss is at fair value.

Financial assets at FVTPL include financial assets:
- *Held for trading* (debt instruments or derivatives)
- *Mandatorily at fair value*
- *Designated at FVTPL* on initial recognition.

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

A gain or loss arising from sale or redemption, or a change in the fair value of a held for trading financial asset is recognised in profit or loss in the item *"Net income/(loss) from trading"*, including gains or losses related to derivative contracts that are linked to assets and/ or liabilities designated at fair value. Interest income from financial assets held for trading is recognised in profit or loss in the item *"Interest income"*. If the fair value of a financial instrument falls below zero, which may happen in the case of derivative contracts, it is recognised in the item *"Financial liabilities at fair value through profit or loss: Held for trading"*.

All purchases and sales that require delivery within the time frame established by regulation or market convention *("regular way")* are recognised as *spot transactions*. Regular way transactions / spot transactions are recognised at the settlement date, which is the date when a financial instrument is delivered. Transactions that do not meet the regular way settlement criteria are treated as derivatives.

A *derivative* is a financial instrument or other contract that has all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the "underlying"), provided for a non-financial variable that the variable is not specific to a party to the contract;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- It is settled at a future date (except for regular way transactions).

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

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

Derivatives are recognised in the Group's accounting books from the trade date. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of the assets are recognised in the Group's profit or loss in the item *"Net income/(loss) from trading"* since the trade date.

Derivatives are classified as trading derivatives unless they qualify as hedging instruments in effective hedging. For hedging derivatives policy, see section III. Significant Accounting Policies, point 4. Hedging Derivatives.

Financial assets are classified as *"Financial assets at fair value through profit or loss: Mandatorily at fair value"* if they do not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income. The following assets are classified in this portfolio:
- Debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- Debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- Units in investment funds;
- Equity instruments not held for trading for which the Group does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses from *"Financial assets at fair value through profit or loss: Mandatorily at fair value"*, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*". Interest income from financial assets mandatorily at fair value is recognised in profit or loss as *"Interest income"*.

"Financial assets at fair value through profit or loss: Designated at FVTPL"- the Group has the option at initial recognition to irrevocably designate a non-derivative financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency, ie an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on a different basis. In 2020 and in 2019 the Group held no such assets.

These assets are accounted as for *"Financial assets held for trading"* however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*".

Interest income from financial assets designated at FVTPL is recognised in profit or loss as *"Interest income"*.

d) Modification and Derecognition of Financial Asset

A financial asset is derecognised when the rights to contractual cash flows from an asset expire or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realised, expired or surrendered.

Assets measured at fair value through other comprehensive income and assets at fair value through profit or loss that are sold are generally derecognised and the corresponding receivables from the buyer are recognised at the settlement date.

The Group also derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified in stage 1 for the purposes of ECL calculation unless it is credit impaired, in which case it is classified as POCI.

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

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such case, the Group recognises gains or losses from modification (modification accounting), representing the difference between:
- The present value of modified expected cash flows (disregarding the credit losses) discounted using the original EIR and
- The current gross carrying amount.

This difference is recognised in profit or loss in the item "*Modification gains/ (losses)*".

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing a failure to meet the SPPI test as if performed at the modification date) are considered to be changes that do not significantly affect the related cash flows.

e) Write-offs

The Group writes off a financial asset or a part thereof when it has no reasonable expectations of recovering the respective cash flows (from the receivable itself or the collateral received). When performing a write-off, the gross carrying amount of the asset is reduced together with the related loss allowance. Write-offs and recoveries on written-off loans are reported in line *"Impairment losses on: Financial assets at amortised cost"*.

The receivable is written-off when:
- The expected costs of recovery of the receivable are higher than its expected recovery;
- All collaterals have been realized and no further performance can be expected;
- Defaulted unsecured receivable for which no performance has been accepted in the last 36 months and no legal action has been initiated during this period;
- Termination of bankruptcy against the debtor due to lack of assets or after meeting the schedule resolution;
- Dissolution of a legal entity without a legal successor (eg liquidation) or death of a natural person, when partial satisfaction has already occurred or cannot be satisfied at all.

Financial assets written off which are subject to further enforcement are recorded in the off-balance sheet. If the Group, after writing off a financial asset, collects additional amounts from the client, the additional recovery is recognised in the income statement under the item *"Impairment losses on: Financial assets at amortised cost"*.

f) Recognition, Measurement and Derecognition of Financial Liabilities

"Financial liabilities at amortised cost" comprise financial instruments (other than liabilities held for trading or those designated at fair value) representing the various forms of third-party funding. Financial liabilities at amortised cost include deposits from banks, deposits from customers and debt securities issued.

These financial liabilities are recognised at the settlement date initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method. Such interest is recognised in the item *"Interest expenses"*.

"Debt securities issued" are recognised net of repurchased amounts; the difference between the carrying value of a liability and the amount paid to buy it is recognised in the income statement in the line *"Net income/(loss) from the sale or repurchase of: Financial liabilities"*. Subsequent disposal by the Issuer is considered as a new issue which does not produce gains or losses.

The item *"Financial liabilities at fair value through profit or loss"* includes financial liabilities held for trading and financial liabilities designated at FVTPL on initial recognition. Related interest is recognised in the item *"Interest expenses"*.

"Financial liabilities at fair value through profit or loss: Held for trading" include financial instruments held by the Group principally for the purpose of short-term profit taking. These instruments include short sales (obligations to deliver financial assets borrowed by a short seller (ie an entity that sells financial assets it does not yet own)) and derivatives that are not designated as hedging instruments.

"Financial liabilities at fair value through profit or loss: Held for trading", including derivatives contracts, are measured at fair value on initial recognition, as well as on each reporting date subsequent to the initial recognition of the transaction.
A gain or loss arising from sale or redemption or a change in the fair value of a held for trading financial liability is recognised in profit or loss in the item *"Net income/(loss) from trading"*.

"Financial liabilities at fair value through profit or loss: Designated at FVTPL" – financial liabilities, like financial assets, may also be designated, according to IFRS 9, on initial recognition as measured at fair value, provided that:

- This decision provides more relevant information as:
  - It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of assets or liabilities or recognition of the respective profits or losses on a different basis; or
  - The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Group on this basis; or
- The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Group can include the entire hybrid contract in this category, with the exception of cases where:
  - The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
  - It is clear from the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
- The financial liability that arises when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

Financial liabilities presented in this category are measured at fair value at initial recognition as well as during the life of the transaction. The changes in fair value are recognised in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss",* except for those changes in fair value related to changes in credit risk of these financial liabilities (so-called own credit risk). In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to other comprehensive income. If such accounting treatment results in an inconsistency that arises from the application of different methods of measuring assets and liabilities, and related gains or losses, then the changes in fair value deriving from changes in credit risk are also recorded in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss"*.

In 2020 and in 2019 the Group held no such liabilities.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

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

Reclassifications are expected to be very infrequent. Such changes must be determined by the Group's key management personnel as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties.

The following external or internal changes may result in a business model change:

- Changes in laws and regulations concerning certain assets that obliges the entity to review its business model;
- Changes in strategy concerning certain asset's class, asset's geography, product type;
- Business combinations that induce the entity to review its business model concerning certain financial assets;

- The Group begins or ceases to perform an activity that is significant to its operations.

The following are not considered to be changes to a business model:
- A change in intention related to specific financial assets (even in circumstances of significant changes in market conditions);
- A temporary disappearance of a particular market for financial assets; or
- A transfer of financial assets between parts of the entity with different business models.

Any reclassification is applied by the Group prospectively, so the Group does not adjust any previously recognised gains, losses (including impairment gains or losses) or interest.

Investments in equity instruments that are designated as at FVTOCI at initial recognition and financial assets at fair value through profit or loss that are designated as at FVTPL may not be reclassified, as a decision to designation is irrevocable.

h) Day 1 Profit/Loss

If the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in profit or loss, except for Level 3 fair value measurement. The Group typically does not conduct this type of transactions with Day 1 Profit/Loss.

2. Impairment of Financial Instruments

The Group recognises impairment losses on its debt financial instruments, other than those measured at FVTPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and loan commitments. The impairment is based on expected credit losses whose measurement reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supporting information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For reporting and provisioning purposes, the Group uses a three-stage model in line with IFRS 9 that takes into account changes in credit risk since initial recognition ("staging"):
- Stage 1 includes financial assets with a credit risk which has not increased significantly since initial recognition, as well as assets with low credit risk at the balance sheet date. The 12-month expected credit losses (or shorter depending on the maturity of the instrument) are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 2 includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 3 includes impaired credit exposures. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category includes non-performing receivables.

Impairment models are adapted to comply with the accounting requirements stated in IFRS 9, and also follow the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

Subject to expected losses calculation are financial assets at amortised cost and the applicable off balance sheet exposures (such as loan commitments and financial guarantee contracts), all credit exposures assets classified at Fair Value through Other Comprehensive Income and Lease receivables.

Furthermore, specific adjustments are developed to the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters used for regulatory reporting purposes (Basel) to compound the Expected Credit Loss (ECL), and a model is developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is the time horizon which the ECL is expected to be calculated on.

On LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are to:
- Remove the conservatism only required for regulatory purposes;
- Introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- Include forward-looking information; and
- Extend the credit risk parameters in a multiyear perspective.

As for PDs, dedicated lifetime PD curves are developed for each main client segment based on cumulated default rates, and are calibrated to reflect a point in time and forward-looking expectation regarding portfolio default rates.

The Expected Credit Loss derived from such adjusted parameters is also compounded taking into consideration macroeconomic forecasts.

A key aspect deriving from the model when compounding the final Expected Credit Loss is the stage allocation model, which allocates credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets). Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant increase in credit risk since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

Stage 2 allocation assessment includes a combination of relative and absolute triggers. The main triggers include:
- The relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set to include all the key variables of each transaction that could affect the Group's expectation about PD changes over time (eg age, maturity, level of PD at origination). This procedure assesses whether there has been a material deterioration in credit quality since initial recognition;
- Absolute triggers such as backstops required by the regulation (ie 30 days past due); and
- Other internal relevant triggers (eg new classifications to Forborne).

The Group uses the "client default" definition in line with Regulation No. 575/2013 of the European Parliament and of the Council; specifically, a debtor's default involves situations where:

a. The debtor is in default with at least one repayment of the principal or related interest on any of its payables to the Group for a period greater than 90 days; and/or
b. It is likely that the debtor will be unable to settle its payables on a timely basis and in full without the Group resorting to realising collateral.

Standard cases where the debtor will be unable to settle its payables:
- Changes in contractual cash flows due to granting relief to the debtor (the "forbearance measure");
- The loan has been restructured or deferred for a long period;
- The debtor has committed credit fraud or has violated the financial commitments of the loan;
- The debtor is dead or insolvent;
- It is probable that the debtor will enter into bankruptcy or legal restructuring of its debts, etc.

From 1 January 2021, the new definition of default / client failure is valid. For further details see section IV. Critical Accounting Judgements, Estimates and Assumptions.

In this evaluation, expected disposal scenarios are also considered as far as UniCredit Group Non-Performing Assets Strategy foresees the recovery of defaulted assets via their transfer.

When defining the perimeter of impaired assets, the Definition of Default currently applied by UniCredit Group has been adopted, which incorporates some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so-called "debtor approach").

Financial assets at amortised cost
Financial assets at amortised cost predominantly include loans and advances to banks, loans and advances to customers and trade receivables and are reported net, ie reflecting impairment losses.

Individual impairment losses adjust the carrying amount of individually assessed financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument. Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on historical losses while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

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

Trade receivables
Trade receivables impairment is calculated using a simplified approach based on days past due.

For additional information on Credit Risk Management, please refer to section V. Other Notes, point 35 b).

Loan commitments and financial guarantees
Under IFRS 9, the impairment requirements also apply to loan commitments and financial guarantees off the statement of financial position. The Group assesses on a forward-looking basis the expected credit losses associated with exposures from loan commitments and financial guarantee contracts.

When estimating life-time Expected Credit Loss for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The Expected Credit Loss is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of scenarios.

For financial guarantees, the Group estimates Expected Credit Losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of scenarios.

The Expected Credit Losses related to loan commitments and financial guarantee contracts are recognised under the item

"Provisions for risks and charges" in the statement of financial position and under the item *"Net provisions for risks and charges: Loan commitments and financial guarantees given"* in the income statement.

For Covid-19 impacts on credit risk and impairment see section V. Other Notes, point 35 b).

3. Fair Value Measurement Principles

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and financial liabilities is based on their quoted market price on an active market at the balance sheet date without 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 that maximises market observable inputs and minimizing those unobservable.

Where discounted cash flow techniques are used, estimated future cash flows are based on 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 and of the Group.

Bonds in the Group's portfolio are valued on a daily basis using available market rates quoted by market participants using 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 no market price is available as a source of valuation or the number of actual contributions is not sufficient, the Group will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Group continues to apply this method until:

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

Subsequently, the Group will carry out the valuation comprising new aspects of the market price, including an assessment of possible impairment losses (see section III. Significant Accounting Policies, point 2. Impairment, namely impairment of financial assets at fair value through other comprehensive income).

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

Financial assets and financial liabilities are classified into fair value levels 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.

The Group evaluates the levels at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Fair Value Adjustments

Fair value adjustment is defined as the amount to be added to the market observed mid-price or to the theoretical price generated by a valuation model to obtain a fair value of the position. Therefore FVA are aimed at ensuring that the fair value reflects the exit price of a certain position.

Adjustments used are as follows:
- Credit/debit valuation adjustment (CVA/DVA);
- Model Risk;
- Close-out Costs;
- Other Adjustments.

Credit/Debit valuation adjustment (CVA/DVA)
Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

Group CVA/DVA methodology is based on the following inputs/ assumptions – simulation approach:
- New products that can be valuated are automatically included for CVA,
- Two sided bilateral CVA is used,
- EAD derived by simulation techniques – the whole portfolio of trades as well as risk mitigation techniques such as netting and margining with this counterpart is taken into account,
- PD – precise computation of counterparty exposure
  - Implied by current market default rates, obtained from Credit Default Swaps,
  - Use single name CDS where available, use sector curve approximations (based on internal rating and sector).

Funding Cost and Benefit Adjustment (FCA/FBA)
Funding Valuation Adjustment (FundVA) is the sum of a Funding Cost Adjustment (FCA) and of a Funding Benefit Adjustment (FBA) that accounts for the expected future funding costs/benefits for derivatives that are not fully collateralised. Most material contributors are in-the-money trades with uncollateralised counterparties.

UniCredit FVA methodology is based on the following inputs:
- Positive and Negative exposure profiles derived from leveraging on a risk-neutral spin-off of the Counterparty Credit Risk internal model;
- PD term structure implied by current market default rates obtained from credit default swaps;
- A funding spread curve that is representative of the average funding spread of peer financial groups.

Model Risk
Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available. In general, model risk is represented by the possibility that a financial instrument's evaluation is sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing. The model risk adjustment refers to the risk that the actual fair value of the instrument differs from the value produced by the model.

Close-out Costs
This measures the implicit costs of closing an (aggregated) trading position. The short position could be closed by a long position and vice versa, or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. Close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid, but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. In addition a close-out adjustment of the NAV is applied when there are penalties relating to a position write-off in an investment fund.

Other Adjustments
Other fair value adjustments not included in the previous categories may be taken into consideration to align the evaluation to the current exit price, according to the level of liquidity of the market and valuation parameters, eg adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

For Fair Value disclosures see section V. Other Notes, point 37. Fair Value of Financial Assets and Financial Liabilities.

4. Hedging Derivatives
Hedging derivatives are carried at fair value. Positive fair value is presented in the item *"Positive fair value of hedging derivatives"*, negative fair value is presented in the item *"Negative fair value of hedging derivatives"*. 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
- For hedging future forecast transactions, it is highly probable that the transaction will occur.

As regards hedge accounting, the Group additionally used the option under IFRS 9 to continue applying the existing requirements for hedge accounting pursuant to IAS 39.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable firm 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 the income statement 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"* or *"Interest expenses"*.

If a 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 in equity item *"Reserve funds from revaluation"*. The ineffective part of the hedge is recognised in the income statement.

If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative previously 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 above 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 the income statement.

"Macro hedging" – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them). Accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates.

The Group applies macro hedging to some financial liabilities. Net changes, gains or losses, in the fair value of the macro-hedged liabilities attributable to the hedged risk are recognised in the liability item *"Changes in fair value of the portfolio of hedged instruments"* and offset the income statement item *"Net income/(loss) from hedging against the risks of changes in fair value"*.

5. Repo transactions and reverse repo transactions

Securities sold under an agreement to repurchase them at a specified future date are also known as *"repo transactions"* or *"sale and repurchase agreements"*. Securities sold in such transactions are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, as the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another counterparty under a repo transaction are measured in accordance with the appropriate accounting policy for such financial asset.

Securities sold under a repo transaction are recorded as assets in the line *"Financial assets at fair value through other comprehensive income"* or in the line *"Financial assets at fair value through profit or loss: Held for trading"*, and received loan, including accrued interest, is included in the line *"Financial liabilities at amortised cost: Deposits from banks"* or in the line *"Financial liabilities at amortised cost: Deposits from customers"*.

Debt securities purchased under agreements to purchase and resell at a specified future date, also known as "*reverse repos*" are not recorded in the Group´s statement of financial position but are presented in the off-balance sheet. The consideration paid (provided loan), including accrued interest, is recorded in the line *"Financial assets at amortised cost: Loans and advances to banks"* or in the line *"Financial assets at amortised cost: Loans and advances to customers"*.

The difference between the sale and repurchase considerations for both repo and reverse repo transactions are recognised on an accrual basis over the period of the transaction using the EIR and are recognised in the income statement in *"Interest income"* or *"Interest expenses"*.

For sale of a security acquired from reverse repo, the Group derecognises the securities acquired from off-balance sheet and records a payable from a *"short sale"*, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading"* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

"Sell-buy" and "Buy-Sell" transactions are accounted for in the same way as *"repo transactions" and* "*reverse repos*".

6. Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements continue to be recognised in the statement of financial position if the risks and rewards of ownership are retained by the Group and are measured in accordance with the appropriate accounting policy for such financial assets.

Financial assets borrowed under securities borrowing agreements are not recognised in the Group's statement of financial position but are presented in off-balance sheet.

For sale of a security acquired on the basis of securities borrowing arrangements, the Group derecognises the securities acquired from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading",* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

Income and expenses arising from the borrowing and lending of securities are recognised on an accrual basis over the period of the transactions in the item *"Fee and commission income"* or *"Fee and commission expenses"*.

7. Offsetting

Financial assets and liabilities may be offset against each other, 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 settled on a net basis. In the current and comparative period, the Group does not offset any financial assets and financial liabilities.

8. Cash and cash balances

Cash comprises cash in hand and cash in transit. Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. *"Cash and cash balances"* are not carried at fair value on the statement of financial position, but are carried at amounts that approximate to fair value, due to their short-term nature and generally negligible credit risk.

Cash, cash balances at central banks and other demand deposits consist of cash balances and advances with the Czech National Bank and National Bank of Slovakia.

The item *"Cash and cash balances"* does not include the compulsory minimum reserve which is presented in the item *"Financial assets at amortised cost: Loans and advances to banks"*.

The compulsory minimum reserve held at the Czech National Bank and at the National Bank of Slovakia is a required deposit with restricted drawing which must be held by all commercial banks licensed in the Czech Republic and in Slovakia respectively.

9. Property and Equipment

Accounting policy applied in 2019

Property and equipment are assets which may be used for a period longer than one year. The Group has property and equipment to conduct its activities.

Property and equipment are initially recognised at cost including all costs directly attributable to bringing an asset into use.

After being recognised as an asset:

- Buildings and lands used in the business are measured according to cost model;
- Tangible assets used in the business, other than lands and buildings, are measured according to cost model.

In the cost model, 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 the respective estimated useful lives) for individual categories of property and equipment 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 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
• Low value tangible assets	2–3 years

Tangible assets (including right of use 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 the item "*Other operating income and expenses*". The insignificant costs of repair, maintenance and technical improvement are expensed as they are incurred. Vice versa, major repairs and technical improvements 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. Profit or loss from the sale is presented in the item *"Profit/(loss) from the sale of non-financial assets"*.

Change in accounting policy since 31 December 2019 related to Buildings and lands

For the purposes of preparing the financial statements at 31 December 2019, the Group decided to change subsequent measurement of the following assets:

- Buildings and lands used in business (ruled by IAS 16 "Property, plant and equipment") being reclassified from the cost model to the revaluation model for the measurement subsequent to initial recognition;

- Buildings and lands held for investment (ruled by IAS 40 "Investment property"; see further details in the following point 10. Investment Property) being reclassified from the cost model to the fair value model.

This decision was driven by the decision of the ultimate parent company UniCredit S.p.A. made by its Board of Directors during a meeting held on 2 December 2019.

The Group believes that measuring real estate assets at fair values (instead of at cost) provides more reliable and relevant information about the Group's financial position and economic result in line with the provisions of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

The Group believes that the change in the measurement of properties will provide a more accurate representation of the financial position, as fair values will reflect the increase in the value of the properties which the Group expects to occur as a result of the enhancement of the properties with a view to potential disposal of the properties. In 2019, UniCredit Group adopted a new strategy of managing its real estate portfolio which it will actively seek to optimise in the light of changing market circumstances and changes to its operational models. The Group expects to realise value from a portion of the portfolio over the medium term through targeted disposals.

The fair value model allows the Group to represent the changes in value of the properties at the moment they arise, in compliance with the objectives of the newly-adopted active management of the real estate portfolio. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in the sale price) and cost which, as stated, may no longer be meaningful if the acquisition of real estate assets did not take place recently.

In addition, the adoption of a fair value model allows a more accurate representation of the financial position of the Group, as it represents the value of the real estate properties at a single reference date – the date of preparation of the financial statements. This avoids heterogeneity in valuation inherent in the cost model which reflects market conditions at different times, ie the purchase dates.

Voluntary changes in accounting principles (accounting policies) are regulated by IAS 8 which establishes, as a general rule, that these changes must be made retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. Paragraph 17 of IAS 8 states that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost model to the revaluation model must be made prospectively. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle in IAS 8. Therefore no adjustment of the opening balances of the comparative year and of the comparative data have been made

Consequently, for the properties used in business, under IAS 16, the transition from a cost valuation to a valuation at fair value, required the determination of the related fair value at 31 December 2019.

The differences between this value and the previous value determined by applying the "cost" criterion are recognised:
- If negative, in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value*",
- If positive, in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation*".

The "*Reserve funds from revaluation*" will be linearly transferred to the item "*Retained earnings and reserve funds*" over the residual life of the particular property used in business. In the event of the sale of the asset, the reserve not yet reversed will be reclassified to the item "*Retained earnings and reserve funds*".

The pay out of the revaluation surplus to shareholders is restricted and is eligible only in the event of the disposal of property.

As the change in the measurement method took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made in line with cost model.

From 2020 on, properties used in business, measured according to the IAS 16 revaluation model, will continue to be depreciated using the straight-line method over their useful life from the higher revalued amount.

The Group has chosen to apply the "restatement approach" when accounting for revaluation. This approach adjusts the gross carrying amount so that it matches the revaluation of the carrying amount of the property used in business and a concurrent adjustment of the cumulated depreciation (ie the restatement approach requires adjustment of the gross carrying amount and the cumulated depreciation by the ratio given by Fair Value/Net Carrying Amount before revaluation).

There is no exception from retrospective application for investment properties either in IAS 8 or in IAS 40 "Investment properties".

As a result, except for cases where it is not feasible to determine the related effects, the change in accounting policy is applied retrospectively.

Starting from 2020, investment property will continue to be measured at fair value with recognition of the differences in the income statement and will no longer be subject to depreciation and / or impairment.

Fair value was determined through the use of external independent expert valuations on semi-annually basis (as of 30 June and 31 December).

Impacts deriving from the change in the valuation criterion for tangible assets
In the consolidated financial statements as at 31 December 2019, the change in the measurement model of the real estate properties resulted in an overall positive balance sheet effect of MCZK 425 as detailed below:

- For properties used in business, the recognition of a revaluation of MCZK 329 gross of the tax effect. This value, net of deferred tax, in the amount of MCZK 261 was attributed to the item "*Reserve funds from revaluation"* in equity. In addition to this higher value, net losses of MCZK (1) were recognised in the income statement gross of the tax effect in the item "*Net income/(loss) on property and investment property measured at fair value"*.
- For investment property, the recognition in 2019 income statement of a result equal to MCZK 203 gross of the tax effect (MCZK 164 net of the tax effect).

10. Investment Property

Investment property is represented by lands and buildings and represents assets held by the Group in order to earn rentals or for further capital appreciation.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value and changes in fair value (positive as well as negative) are recognised in P&L in the item *"Net income/(loss) on property and investment property measured at fair value"*. Fair value of investment property is reported in the item *"Investment property"*.

No depreciation charges or impairment adjustments are recognised.

Rental income is recognised in the item *"Other operating income and expenses"*.

11. Intangible Assets

Intangible assets are assets which may be used for a period longer than one year.
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 period (over respective estimated useful lives) for intangible assets is as follows:

- Software and intangible assets — 2–7 years or in accordance with the contract

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.

12. Leases

As of 1 January 2019, the Group has implemented the new standard IFRS 16 "Leases", which revises the current set of international accounting principles and interpretations on leasing accounting.

IFRS 16, effective from 1 January 2019 and endorsed by EU by Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a new definition for leases (ie received leases) and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor (ie provided leases). Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

a) Provided Finance Lease

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

Receivables from finance leases are reported as equal to the net investment in the lease upon receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equal the gross investment in the lease (as finance lease contracts include a clause on 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 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.

Group receivables from finance leases 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.

Significant contractual conditions for finance leases are as follows:

- The subject of the lease is specified in the text of the lease contract or in the acceptance certificate (part of the lease contract);
- The duration of the lease begins on the day of the acceptance of the subject of the lease by the lessee and ends upon the expiration of the agreed lease term;
- The lessee is authorised to purchase the subject of the lease from the lessor;
- The subject of the lease remains in the exclusive ownership of the lessor throughout the duration of the lease. The ownership is transferred to the lessee/buyer on the day the purchase price as per the purchase agreement is credited to the lessor's account;
- The purchase price and all amounts in the lease contract are net of VAT. The VAT rate is set by law and is indicated separately in invoices;
- The consideration for the lease includes an extraordinary lease payment, contractual flat fee (e.g. the processing and administration of the lease contract) and the number of lease payments indicated by the contract and calculated from the acquisition cost (in CZK or a foreign currency);
- The subject of the lease must be insured throughout the lease term; and
- The lessor may prematurely terminate the lease contract at any time without a notice period by withdrawal or by a notice with immediate effect if the lessee significantly breaches or fails to meet the obligations and commitments arising from the lease contract. In such a case, the lessee is obliged to make all the remaining lease payments to the lessor in line with the payment calendar. Payments are due upon the premature termination of the lease contract.

The finance lease receivables are presented in the item "*Financial assets at amortised cost: Loans and advances to customers*".

b) Provided Operating Leases

Other leases are classified as operating leases. The leased asset continues to be owned by the lease company after the termination of the lease contract.

Income from operating leases is reported in "*Other operating income and expenses*".

c) Received Operating Leases

IFRS 16 requires that a lessee recognises an asset, representing the right of use of the underlying asset, and at the same time, a liability reflecting future payments of the lease contract for all of the leasing types.

At initial recognition, such an asset is measured on the basis of the lease contract cash flows which include, in addition to the present value of lease payments, any initial direct cost attributable to the lease, lease payments paid before the commencement date and any other costs required to dismantle/remove the underlying asset at the end of the contract and is decreased by incentives received. Right of use assets are reported in the item "*Property, equipment and right of use assets*".

After initial recognition, the right-of-use is measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any accumulated impairment losses. The depreciation period is equal to the determined lease term. Accumulated depreciation and any accumulated impairment losses are reported in the item "*Depreciation and impairment of property, equipment and right of use assets*".

The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

In line with the standard, the Group decided not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets. Related expenses are presented on an accrual basis in the item "*Administrative expenses*".

To calculate the lease liability and related assets based on the right of use, the Group discounts future lease payments using an appropriate discount rate. Lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, as the obligation to pay this tax originates at the moment an invoice issued by the lessor and not as of the date of commencement of the lease contract.

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

Details related to determining of lease term see part Determining lease term in the section IV. Critical Accounting Judgements, Estimates and Assumptions.

Lease liabilities are reported in the item "*Financial liabilities at amortised cost: Deposits from customers*" based on the counterparty. After initial recognition, lease liabilities are increased by the interest expenses calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expenses are reported in the item "*Interest expenses*".

The vast majority of right of use assets / lease liabilities is related to the Group's headquarter and its branches.

A summary of amounts in relation to operating leases received under IFRS 16 as of 31 December 2020 and 31 December 2019 is presented in the following tables:

Consolidated Statement of Comprehensive Income	Point in the section V. Other Notes	2020	2019
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(356)	(352)
Interest expenses	1. Net interest income	(19)	(21)
Consolidated Statement of Financial Position	Point in the section V. Other Notes	31 Dec 2020	31 Dec 2019
Right of use assets	18. Property, equipment and right of use assets	2 598	1 953
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	2 646	2 047

13. Factoring

Factoring represents the purchase of short-term receivables at nominal values that originated on the basis of supplies of goods or services made by a supplier to a customer and that are not past due.

The factoring company pays part of the purchase price "pre-financing" to the supplier. Receivables from purchased receivables are reported in *"Financial assets at amortised cost: Loans and advances to customers"* net of the payable arising from the purchased receivables. Once the customer makes the payment, the remaining part of the purchase price is paid to the supplier.

In return for its services, the Group collects a fee for the provided pre-financing. The fee is recognised in revenues at the point in time when the transaction takes place and reported in the item *"Fee and commission income"*. In addition to the fee, the Group charges interest, the absolute amount of which depends on the amount of pre-financing made and the length of the time period between the provision of part of the purchase price and collection of the payment from the customer. This interest is reported in the item *"Interest income"*.

14. Provisions for Risks and Charges

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

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

A restructuring provision is recognised when the following criteria are met:

- The Group has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place as the implementation of the plan has commenced or its main features have been announced.

When creating provisions for off-balance sheet items, the Group proceeds analogically as for the impairment losses on financial assets at amortised cost or financial assets at fair value through other comprehensive income, in line with IFRS 9 requirements.

The provisions for off-balance sheet items are recorded in the statement of financial position in the item *"Provisions for risks and charges"*.

15. Deferred Incentives

The Group accounts for deferred incentives on an accrual basis. Related liability is recognised in the item *"Other liabilities"* against the income statement item *"Administrative expenses"*.

The Group Incentive System and the Local Incentive System are applied to the identified positions. Payment of the bonus for the given period is spread out over a multiple-year period.

Based on the Group Incentive System, the bonus payment is spread over 6 years (senior management) or 4 years (other identified staff). In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to a bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments or shares.

Based on the Local Incentive System, the bonus payment is spread over 4 years. In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments.

16. Contingent Assets and Liabilities

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The Group does not recognise contingent assets/liabilities in the statement of financial position, but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50% (more likely than not), the Group recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100% (virtually certain), the Group recognises an asset and revenue.

17. Interest Income and Interest Expenses

Interest income and interest expenses are recognised in the income statement in the period to which they relate, using the effective interest rate method. Interest income is recognised using the effective interest rate on financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting, financial assets measured at FVTOCI. Interest expenses are also calculated using the effective interest rate method for all financial liabilities at amortised cost.

Interest from loans and deposits is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial assets at amortised cost or at FVTOCI classified in stage 1 and 2 (ie performing assets) is calculated from the gross carrying amount (ie before allowances). Interest income on financial assets at amortised cost or at FVTOCI classified in stage 3 (ie credit impaired assets) is calculated from the net carrying amount (ie after allowances) using "*unwinding*".

Interest on financial assets and liabilities at FVTPL is calculated using the effective interest rate method.

In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Net interest income comprises interest income and interest expenses calculated using the effective interest method and other methods. Interest income calculated using the effective interest method is disclosed separately in the income statement to provide symmetrical and comparable information.

18. Fee and Commission Income and Expenses

Fee and commission income and expenses consist of fees and commissions received/paid by the Group 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/expenses.

Fees and commissions from financial services provided by the Group, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services.

Fees and commission income are accounted for in the income statement as the Group satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules.

In particular:

- If the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognised in the income statement when the service is provided;
- If the performance obligation is satisfied over-time, the related revenue is recognised in the income statement in order to reflect the progress of satisfaction of such obligation.

Transaction fees coming from securities transactions and payment services are typically booked at the point in time when the service is provided and immediately withdrawn from customer account.

Fees related to management, administration, deposit and custody services, account administration and payment cards are normally recognised over time during the term of the contract. The revenue is measured on straight-line basis and is evenly distributed during the term of the contract as this method best depicts the Group's commitment to stand ready for fulfilment of customer requests. These services are mostly invoiced on regular basis (typically monthly), selected services are invoiced in advance.

Fees related to loans provided, other than those related to the origination, which form a part of the effective interest income, are either booked at the point in time when the service is provided or recognised over time during the term of the contract based on the type of services provided.

The amount of revenues linked to fee and commission income is determined based on contractual conditions. Variability that would have impact on amount that the Group expects to receive is not usually foreseen for services provided by the Group.

If a contract regards different goods/services which are not priced and charged on the stand-alone price level, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client. The stand-alone selling prices for free-of-charge customer options are determined using the adjusted market assessment method. Contract liability given by the customer options is not material.

The Group has decided, as practical expedient permitted under IFRS 15, not to disclose the amount of transaction price allocated to unsatisfied performance obligations related to fees and commissions from financial services. This is because the Group does not typically contract respective services for period that would be enforceable longer than 12 months. The only significant contract with deferred revenue for longer period than 12 months (contract with non-refundable up-front fees not related to specific services transferred to customer and thus linearly amortised to the item "*Fee and Commission Income*" during live of the contract – 5 and 15 years respectively) is included in the item *"Other liabilities"* in amount of MCZK 586 as of 31 December 2020 (as of 31 December 2019 MCZK 661).

19. Dividend income

Dividend income is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

20. 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 (item *"Tax liabilities: Income tax")* or receivable (item *"Tax receivables: Income tax")* 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, based on tax rates that have been enacted or substantially enacted. A deferred tax asset (item *"Tax receivables: Deferred tax"*) is only recognised to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised. A deferred tax liability (item *"Tax liabilities: Deferred tax"*) is recognised for all taxable temporary differences.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.
These exceptions are subsequently reclassified from OCI to the income statement, together with the respective deferred loss or gain. The Group also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Group only offsets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Group's intention to settle on a net basis.

21. Segment Reporting

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

The Group's primary segment reporting is broken down by types of customers, which correspond to the Group's various operations: retail and private banking, corporate and investment banking and other. The performance of all the segments is monitored monthly by the Board of Directors and other members of the Group's management. The reporting segments generate income primarily from the provision of loans and other banking products.

Retail and private banking encompasses in particular providing loans, mortgages, bank account maintenance, payment services (including payment cards), term and saving deposits, investment advisory services.

Corporate and investment banking, leases include especially the following products and services: providing banking services to companies and public institutions, including loans, leasing, factoring, 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 customers, investment advisory, and consulting on mergers and acquisitions.

Other reporting segment includes banking services that are not included within the aforementioned segments.

22. Standards and Interpretations Effective in the Current Period

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting

Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 *Presentation of Financial Statements*" and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** – Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 3 *Business Combinations*** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*** – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's financial statements.

23. Standards and Interpretations Published by the IASB, but not yet Effective or not yet Adopted by the European Union

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and are not yet effective:

- **Amendments to IFRS 16 *Leases*** – Covid-19-Related Rent Concessions – adopted by the EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.)

- **Amendments to IFRS 4 *Insurance Contracts*** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*** – Interest Rate Benchmark Reform – Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

New and amended IFRS standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the date of publication of these financial statements (the effective dates stated below are for IFRS as issued by IASB):

- **IFRS 17 *Insurance Contracts*** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 3 *Business Combinations*** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 1 *Presentation of Financial Statements*** – Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 *Property, Plant and Equipment*** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018-2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the Group's financial statements in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

IV. Critical accounting judgments, estimates and assumptions

These disclosures supplement the commentary on financial risk management (see section V. Other Notes, point 35. Financial Risk Management).

The presentation of the consolidated financial statements in conformity with IFRS requires Group management to make judgments, 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 relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions and other areas, are based on the information available at the balance sheet date.

Impact of Covid-19

In 2020, the Covid-19 affected the Czech Republic and Slovakia, and related measures introduced by governments to limit its spread affected economic activity and, as a result, the group's profitability. This requires a careful evaluation of certain items in the financial statements as at 31 December 2020, the recoverability of which depends on future cash flow projections, by reassessing cash flows to reflect assumptions about the impact of the Covid-19.

While these assessments were made on the basis of information considered adequate and substantiated as at 31 December 2020, the current scenario is affected by high uncertainty, the outcome of which is currently unpredictable and which may require an assessment of changes made to the pandemic. and economic recovery.

The slowdown in economic activity resulting from the Covid-19 and related measures also affected the assessment of the return on credit exposures and the calculation of related loan impairment losses. In this context, it should be noted that in accordance with IFRS9, their assessment depends on forecasts of future developments and on the development of the macroeconomic scenarios used to calculate these losses. With regard to Covid-19 and related measures, the group updated the macroeconomic scenario used in line with that approach.

Further details are provided in section V. Other Notes, point 35 b).

Business model assessment

The classification of financial assets is driven by the business model. Management applies judgment when determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment of whether cash flows are solely payments of principal and interest

Judgment is required to determine whether a financial asset's cash flows are solely payments of principal and interest and whether they are in line with the SPPI test. Judgment is required to assess whether risks and volatility of contractual cash flows are related to the basic lending arrangement. Features that require judgments include the modification of time value of money, assessment of whether prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments.

Impairment of financial assets

Financial assets accounted for at amortised cost and at fair value recognised through other comprehensive income (except for the FVTOCI option), lease receivables, trade receivables and loan commitments and financial guarantees (not accounted at FVTPL) are subject to impairment under ECL model. Impairment is determined in the amount of the 12-month (or shorter depending on the instrument's maturity) expected credit loss for assets that have not experienced a significant increase in credit risk since initial recognition, and in the amount of lifetime expected losses for assets which have experienced a significant increase in credit risk since initial recognition or which are impaired. When assessing impairment, the return on financial assets is evaluated separately using the best possible estimate of the present value of future cash flows that are expected to be received. When estimating these cash flows, the Group management makes judgments about the debtor's financial situation and the net realisable value of any underlying collateral.

The creation of impairment allowances for expected credit losses and identified financial guarantee contracts and loan commitments involves many uncertainties concerning the outcomes of the risks stated above and requires Group management to make many subjective assessments when estimating the amount of losses. Measurement of impairment allowances for expected credit losses for financial assets of amortised cost and at fair value through other comprehensive income requires the application of models and significant judgments regarding future economic conditions and credit behaviour. Given current economic conditions, the result of estimates may differ from the impairment provisions recognised as at 31 December 2019 that are reported in items "*Impairment losses on: Financial assets at amortised cost*", "*Impairment losses on: Financial assets at fair value through other comprehensive income*" and "*Net provisions for risks and charges: Loan commitments and financial guarantees given*".

The default definition represents a significant accounting estimate used when determining the impairment.

Change in definition of target being predicted by credit risk models triggered review of such models. IFRS9 related components were redeveloped using new definition of default / client failure (hereinafter "nDoD"), Basel models used as an input for ECL calculation were recalibrated to the long-term average riskiness calculated under NDoD.

As regulated by Final Report Guidelines on the application of the definition of default (EBA/GL/2016/07) the impact of definition of default was analyzed and based on the prudent approach the expected impact was reflected in 2020 financial figures (within loan loss provisions without reassigning specific clients to Stage 3) including the default detection and process changes effect including impact within bank's subsidiaries.

Main changes implemented within above mentioned regulation:
- New thresholds applied, absolute and relative,
- DPD counter start and end rules update,
- Probation rules update,
- Overdue aggregation and joint obligation rules update,
- Distressed restructuring rules update.

Determining Fair Values
Determining fair value of financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy, section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. 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.

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

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

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is under its control and affects its ability to exercise or not exercise the option to renew or to terminate.

Hedge Accounting
When 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.

When accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Provisions for liabilities
The amounts recognised as provisions are based on management's judgment and represent the best estimate of expenses needed to settle a liability of uncertain timing or uncertain amount.

V. Other notes

1. Net interest income

	2020	2019
Interest income		
Financial assets at amortised cost:		
Loans and advances to central banks	2 312	5 693
Loans and advances to banks	377	613
Loans and advances to customers:	10 624	11 398
finance lease	638	668
other than finance lease	9 986	10 730
Financial assets at fair value through other comprehensive income	396	568
Financial assets at fair value through profit or loss:		
Held for trading	25	23
Mandatorily at fair value	7	–
Hedging derivatives	752	302
Interest income	**14 493**	**18 597**
Interest expenses		
Financial liabilities at amortised cost:		
Deposits from central banks	(22)	(1)
Deposits from banks	(200)	(495)
Deposits from customers	(1 273)	(2 013)
Debt securities issued	(215)	(281)
Financial liabilities at fair value through profit or loss:		
Held for trading	(19)	(36)
Hedging derivatives	(654)	(1 172)
Lease liabilities	(19)	(21)
Interest expenses	**(2 402)**	**(4 019)**
Net interest income	**12 091**	**14 578**

Negative interest expenses from liabilities are reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2020 MCZK 190 (as of 31 December 2019 MCZK 72)
- Loans and advances to banks – as of 31 December 2020 MCZK 276 (as of 31 December 2019 MCZK 462)
- Loans and advances to customers – as of 31 December 2020 MCZK 8 (as of 31 December 2019 MCZK 11)

Negative interest income from assets is reported in interest expenses in the following lines:
- Deposits from central banks – as of 31 December 2020 MCZK (13) (as of 31 December 2019 MCZK (1))
- Deposits from banks – as of 31 December 2020 MCZK (22) (as of 31 December 2019 MCZK (7))
- Deposits from customers – as of 31 December 2020 MCZK (-) (as of 31 December 2019 MCZK (-))

2. Net fee and commission income

	2020	2019
Fee and commission income from		
Securities transactions	15	8
Management, administration, deposit and custody services	711	723
Loans	1 461	1 512
Payment services	672	923
Account administration	621	548
Payment cards	964	1 198
Other	414	475
Fee and commission income	**4 858**	**5 387**
Fee and commission expenses from		
Securities transactions	(13)	(12)
Management, administration, deposit and custody services	(104)	(99)
Loans	(220)	(206)
Payment services	(51)	(55)
Payment cards	(800)	(887)
Other	(129)	(126)
Fee and commission expenses	**(1 317)**	**(1 385)**
Net fee and commission income	**3 541**	**4 002**

3. Dividend income

	2020	2019
Dividend income		
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	4	3
Financial assets at fair value through other comprehensive income	2	2
Total	**6**	**5**

4. Net income/(loss) from trading

	2020	2019
Net realised and unrealised gain/(loss) from debt instruments held for trading	79	(17)
Net realised and unrealised gain/(loss) from derivatives held for trading	16	682
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 764	1 220
Net income/loss from trading	**1 859**	**1 885**

5. Net income/(loss) from hedging against risk of changes in fair value

	2020	2019
Hedging instruments	561	198
Hedged instruments	(561)	(210)
Net income/loss from hedging against risk of changes in fair value	**–**	**(12)**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

6. Net income/(loss) from the sale or repurchase

	2020	2019
Financial assets at amortised cost: Loans and advances to customers	88	154
Financial assets at fair value through other comprehensive income	412	335
Financial liabilities: Debt securities issued	(1)	–
Net income/loss from the sale or repurchase	**499**	**489**

7. Net income/(loss) from financial assets/liabilities at fair value through profit or loss

	2020	2019
Shares	79	139
Debt securities	3	–
Net income/loss from financial assets and liabilities at fair value through profit or loss	**82**	**139**

8. Impairment losses

	2020	2019
Financial assets at amortised cost, of which:	**(2 800)**	**(1 310)**
Loans and advances to banks	**(4)**	**2**
Stage 1	(2)	2
Stage 2	(2)	–
Loans and advances to customers	**(2 796)**	**(1 312)**
Corporate Customers	**(2 620)**	**(777)**
Stage 1	(456)	142
Stage 2	(500)	(7)
Stage 3	(1 664)	(912)
Retail Customers	**(176)**	***(535)***
Stage 1	(6)	(126)
Stage 2	(10)	(216)
Stage 3	(160)	(193)
Financial assets at fair value through other comprehensive income	**2**	**1**
Stage 1	2	1
Total	**(2 798)**	**(1 309)**

9. Administrative expenses

	2020	2019
Personnel expenses		
Wages and salaries paid to employees	(2 453)	(2 557)
Social costs	(925)	(940)
Other	(284)	(190)
	(3 662)	**(3 687)**
Other administrative expenses		
Rent and building maintenance	(271)	(258)
Information technologies	(1 537)	(1 357)
Promotion and marketing	(159)	(221)
Consumables used	(78)	(51)
Audit, legal and advisory services	(143)	(156)
Administrative and logistic services	(196)	(170)
Deposits and transactions insurance	(539)	(540)
Other services	(224)	(262)
Other	(283)	(247)
	(3 430)	**(3 262)**
Total	**(7 092)**	**(6 949)**

A summary of remuneration to key managers is presented in the following table:

	2020	2019
Short-term employee benefits	176	167
Post-employment benefits	11	20
Other long-term employee benefits	13	32
Total	**200**	**219**

Key managers are persons with authority and direct or indirect responsibilities as regards planning, managing and supervising the Group's activities, including all (executive and other) managers. Information on equity-based bonuses is included in section V. Other Notes, point 30. Equity-based bonuses.

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

	2020	2019
Employees	3 347	3 249
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	34	30

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

10. Other operating income and expenses

	2020	2019
Income from rent	627	665
Income from rent of investment properties	30	79
Other income related to leases	109	107
Other income	547	508
Total other operating income	**1 313**	**1 359**
Other taxes	(28)	(43)
Fines and penalties	(141)	(192)
Other expenses related to leases	(124)	(118)
Other	(261)	(312)
Total other operating expenses	**(554)**	**(665)**
Total	**759**	**694**

The following table summarises cash flows to be received from operating leases where the Group is the lessor:

	Due within 1 year	Due in 1–5 years	Due in the following years
2020			
Cash flows to be received from operating leases	522	782	52
2019			
Cash flows to be received from operating leases	428	705	99

11. Cash and cash balances

	31 Dec 2020	31 Dec 2019
Cash in hand	3 891	4 400
Other balances with central banks	181	234
Total	**4 072**	**4 634**

For cash flow reporting purposes, cash is defined as cash and cash equivalents.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Debt securities	1 034	2 392
Derivatives	15 508	9 306
Total	**16 542**	**11 698**

From debt securities, no securities are provided as collateral as of 31 December 2020 and as of 31 December 2019.

(ii) Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Debt securities		
Public administration	1 034	2 392
Total	**1 034**	**2 392**

(b) Mandatorily at fair value

	31 Dec 2020	31 Dec 2019
Shares and Other debt securities	540	487
Total	**540**	**487**

Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Shares and Other debt securities		
Other financial institutions	540	487
Total	**540**	**487**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Debt securities	20 511	23 175
Shares	7	6
Total	**20 518**	**23 181**

From debt securities, MCZK 4 990 are provided as collateral (as of 31 December 2019: MCZK 2 360).

Debt securities are included in financial assets at fair value through other comprehensive income pursuant to paragraph 4.1.2.a) of IFRS 9 – classified based on the business model and meeting the SPPI test.
Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVTOCI option.

(b) Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Debt securities		
Government institutions	15 078	16 099
Other	5 433	7 076
Shares		
Other	7	6
Total	**20 518**	**23 181**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2020 are classified by credit quality in stage 1 with the total allowance of MCZK 3 (as of 31 December 2019: MCZK 5).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2020	Net book value 2019	Share of the Group at 31 Dec 2020	Share of the Group at 31 Dec 2019
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**		

14. Financial assets at amortised cost – loans and advances to banks

(a) Analysis of Receivables from Banks, by Type

	31 Dec 2020	31 Dec 2019
Current accounts	29	31
Term deposits	16 753	18 907
Loans	3 106	623
Reverse repurchase commitments (see section V, point 32)	116 184	165 823
Obligatory minimum reserves with central banks	883	591
Total	**136 955**	**185 975**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2020 are classified by credit quality at stage 1 with the total allowance of MCZK 4 (as of 31 December 2019: MCZK 2).

Only MCZK 64 of financial assets at amortised cost – loans and advances to banks as of 31 December 2020 are classified by credit quality at stage 2 with the total allowance of MCZK 2 (as of 31 December 2019 MCZK 5 of financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2 with the total allowance of MCZK 0).

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

	31 Dec 2020	31 Dec 2019
Czech Republic	128 469	184 030
Slovakia	3 892	32
Other EU countries	3 429	1 665
Other	1 165	248
Total	**136 955**	**185 975**

15. Financial assets at amortised cost – loans and advances to customers

(a) Analysis of Receivables from Customers, by Type

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2020												
Current accounts (overdrafts)	23 263	(160)	23 103	6 603	(181)	6 422	3 104	(2 481)	623	32 970	(2 822)	30 148
Mortgage loans	102 785	(375)	102 410	10 983	(290)	10 693	4 354	(2 287)	2 067	118 122	(2 952)	115 170
Credit cards	4	0	4	3	0	3	2	(1)	1	9	(1)	8
Leases	18 980	(156)	18 824	3 755	(165)	3 590	1 314	(893)	421	24 049	(1 214)	22 835
Factoring	7 842	(42)	7 800	59	(4)	55	35	(11)	24	7 936	(57)	7 879
Other loans	125 139	(502)	124 637	7 824	(338)	7 486	4 910	(1 405)	3 505	137 873	(2 245)	135 628
Total	**278 013***	**(1 235)**	**276 778**	**29 227**	**(978)**	**28 249**	**13 719**	**(7 078)**	**6 641**	**320 959**	**(9 291)**	**311 668**

* The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	31 050	(133)	30 917	5 254	(106)	5 148	2 828	(2 527)	301	39 132	(2 766)	36 366
Mortgage loans	95 427	(199)	95 228	7 065	(115)	6 950	2 632	(2 127)	505	105 124	(2 441)	102 683
Credit cards	11	–	11	1	–	1	2	(1)	1	14	(1)	13
Leases	18 760	(94)	18 666	1 804	(70)	1 734	1 084	(693)	391	21 648	(857)	20 791
Factoring	5 542	(32)	5 510	1 050	(57)	993	104	(39)	65	6 696	(128)	6 568
Other loans	129 554	(328)	129 226	7 211	(128)	7 083	1 953	(1 381)	572	138 718	(1 837)	136 881
Total	**280 344**	**(786)**	**279 558**	**22 385**	**(476)**	**21 909**	**8 603**	**(6 768)**	**1 835**	**311 332**	**(8 030)**	**303 302**

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2020												
Current accounts (overdrafts)	1 030	(7)	1 023	251	(13)	238	291	(251)	40	1 572	(271)	1 301
Mortgage loans	122 621*	(132)	122 489	3 561	(133)	3 428	799	(272)	527	126 981	(537)	126 444
Credit cards and consumer loans	7 459**	(84)	7 375	1 356	(177)	1 179	412	(294)	118	9 227	(555)	8 672
Leases	2 546	(17)	2 529	279	(13)	266	112	(61)	51	2 937	(91)	2 846
Other loans	10 080	(71)	10 009	479	(34)	445	230	(139)	91	10 789	(244)	10 545
Total	**143 736**	**(311)**	**143 425**	**5 926**	**(370)**	**5 556**	**1 844**	**(1 017)**	**827**	**151 506**	**(1 698)**	**149 808**

* The balance also includes modification loss of MCZK 36 recorded as of 31 December 2020.
** The balance also includes modification loss of MCZK 5 recorded as of 31 December 2020.

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	1 105	(8)	1 097	134	(10)	124	372	(305)	67	1 611	(323)	1 288
Mortgage loans	109 689	(130)	109 559	3 147	(148)	2 999	811	(279)	532	113 647	(557)	113 090
Credit cards and consumer loans	8 206	(106)	8 100	1 192	(171)	1 021	380	(253)	127	9 778	(530)	9 248
Leases	2 513	(13)	2 500	136	(6)	130	61	(33)	28	2 710	(52)	2 658
Other loans	10 753	(52)	10 701	437	(27)	410	178	(115)	63	11 368	(194)	11 174
Total	**132 266**	**(309)**	**131 957**	**5 046**	**(362)**	**4 684**	**1 802**	**(985)**	**817**	**139 114**	**(1 656)**	**137 458**

From financial assets at amortised cost – Loans and advances to customers MCZK 134 047 are provided as collateral (as of 31 December 2019: MCZK 77 041).

(b) Classification of Gross Receivables from Customers according to Internal Rating

	31 Dec 2020	31 Dec 2019
Performing receivables – stage 1 and 2		
Internal rating 1	15 007	13 422
Internal rating 2	29 715	34 408
Internal rating 3	61 524	48 988
Internal rating 4	120 515	112 384
Internal rating 5	114 925	116 413
Internal rating 6	83 037	78 503
Other internal rating	26 692	29 218
Receivables without internal rating	5 487	6 705
Total	**456 902**	**440 041**
Non-performing receivables – stage 3	15 563	10 405
Total	**472 465**	**450 446**

(c) Analysis of Net Receivables from Customers, by Sector

	31 Dec 2020	31 Dec 2019
Financial institutions	25 107	8 642
Non-financial institutions	273 615	289 253
Government sector	12 946	5 407
Individuals and others	149 808	137 458
Total	**461 476**	**440 760**

(d) Analysis of Net Receivables from Customers, by Type of Collateral Provided and Classification

	Maximum exposure to credit risk	Bank and similar guarantee	Mortgage	Corporate guarantee	Movable assets	Other security	Total collateral	Net exposure
31 Dec 2020								
Stage 1	420 203	3 272	110 359	6 361	5 221	38 617	163 830	256 373
Stage 2	33 805	184	7 866	571	651	0	9 272	24 533
Stage 3	7 468	38	2 452	26	1 527	728	4 771	2 697
Total	**461 476**	**3 494**	**120 677**	**6 958**	**7 399**	**39 345**	**177 873**	**283 603**
31 Dec 2019								
Stage 1	411 515	3 629	104 202	4 553	7 324	51 688	171 396	240 119
Stage 2	26 593	59	5 253	154	212	0	5 678	20 915
Stage 3	2 652	20	1 182	43	35	647	1 927	725
Total	**440 760**	**3708**	**110637**	**4750**	**7 571**	**52 335**	**179 001**	**261 759**

The item "Net exposure" includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 43 345 (as of 31 December 2019: MCZK 38 653). For the project funding of commercial real estate (IPRE), the collateral quality is taken into account when determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

If the exposure is fully collateralised, no loss allowance is calculated.

(e) Analysis of Net Receivables from Customers, by Geographical Sector

	31 Dec 2020	31 Dec 2019
Czech Republic	302 138	285 139
Slovakia	138 654	133 856
Other EU countries	17 395	18 131
Other	3 289	3 634
Total	**461 476**	**440 760**

(f) Analysis of Net Receivables from Customers, by Industry Sector

	31 Dec 2020	31 Dec 2019
Real estate services	73 233	73 267
Financial services	14 416	8 430
Wholesale	30 802	31 993
Households (individuals)	126 572	126 539
Retail (entrepreneurs)	11 997	11 997
Leasing and rental	3 815	3 815
Automotive industry	11 186	11 186
Power industry	29 797	29 797
Other	159 658	143 736
Total receivables from customers	**461 476**	**440 760**

(g) Analysis of Forborne receivables

The Group's approach to forbearance reporting is disclosed in section V. Other Notes, point 35. Financial Risk Management.

Analysis of forborne receivables by sectors:

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2020							
Non-financial institutions	16 233	3 211	19 444	(363)	(2 124)	(2 487)	16 957
Other financial corporations	19	–	19	–	–	–	19
Individuals and others	652	141	793	(59)	(67)	(126)	667
Total	**16 904**	**3 352**	**20 256**	**(422)**	**(2 191)**	**(2 613)**	**17 643**

All forborne performing receivables are classified as stage 2 receivables, while all forborne non-performing receivables are classified as stage 3 receivables.

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2019							
Non-financial institutions	13 806	2 428	16 234	(162)	(1 960)	(2 122)	14 112
Other financial corporations	–	–	–	–	–	–	–
Individuals and others	182	90	272	(1)	(39)	(40)	232
Total	**13 988**	**2 518**	**16 506**	**(163)**	**(1 999)**	**(2 162)**	**14 344**

Net balance of forborne receivables represented 3.82% of the total net receivables from customers as of 31 December 2020 (2019: 3.25%).

The table below provides an analysis of forborne receivables balance based on past due days:

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2020			
Performing receivables			
Before due	15 500	(379)	15 121
Past due	1 404	(43)	1 361
Total forborne performing receivables	**16 904**	**(422)**	**16 482**
Non-performing receivables			
Up to 90 days past due	2 398	(1 437)	961
91 to 180 days past due	188	(114)	74
181 days to 1 year past due	57	(40)	17
Over 1 year past due	709	(600)	109
Total forborne non-performing receivables	**3 352**	**(2 191)**	**1 161**
Total	**20 256**	**(2 613)**	**17 643**
31 December 2019			
Performing receivables			
Before due	12 969	(137)	12 832
Past due	1 019	(26)	993
Total forborne performing receivables	**13 988**	**(163)**	**13 825**
Non-performing receivables			
Up to 90 days past due	2 254	(1 836)	418
91 to 180 days past due	60	(11)	49
181 days to 1 year past due	35	(25)	10
Over 1 year past due	169	(127)	42
Total forborne non-performing receivables	**2 518**	**(1 999)**	**519**
Total	**16 506**	**(2 162)**	**14 344**

The table below shows movements in gross balance of forborne receivables:

Balance as of 1 January 2019	9 717
Transfer to forborne receivables balance	10 604
Additions	385
Write-offs	–
Settled	(1 606)
Transfer from forborne receivables balance	(2 562)
Other	(32)
Total gross balance of forborne receivables as of 31 December 2019	**16 506**
Balance as of 1 January 2020	16 506
Transfer to forborne receivables balance	8 945
Additions	594
Write-offs	(121)
Settled	(2 330)
Transfer from forborne receivables balance	(3 255)
Other	(83)
Total gross balance of forborne receivables as of 31 December 2020	**20 256**

The table below shows movements in the impairment of forbearance:

Balance as of 1 January 2019	(1 693)
Transfer to forborne receivables balance	(1 061)
Charge during the current year	(190)
Release during the current year	248
Receivables written off – use	0
Transfer from forborne receivables balance	536
Other decreases	(2)
Total impairment of forborne receivables as of 31 December 2019	**(2 162)**
Balance as of 1 January 2020	(2 162)
Transfer to forborne receivables balance	(1 504)
Charge during the current year	(538)
Release during the current year	287
Receivables written off – use	121
Transfer from forborne receivables balance	1 216
Other decreases	(33)
Total impairment of forborne receivables as of 31 December 2020	**(2 613)**

(h) Impairment of Receivables from Customers

Movement in Impairment of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2020	(783)	(473)	(6 771)	(8 027)
Charge during the current year	(1 020)	(862)	(3 379)	(5 261)
Release during the current year	564	362	1 715	2 641
Net effect on profit or loss from impairment	(456)	(500)	(1 664)	(2 620)
Receivables written off – use	11	–	1 367	1 378
FX differences	(7)	(5)	(10)	(22)
Total impairment of receivables from customers as of 31 December 2020	**(1 235)**	**(978)**	**(7 078)**	**(9 291)**
Balance as of 1 January 2019	(942)	(468)	(7 474)	(8 884)
Charge during the current year	(723)	(517)	(2 678)	(3 918)
Release during the current year	865	510	1 766	3 141
Net effect on profit or loss	142	(7)	(912)	(777)
Receivables written off – use	15	1	1 613	1 629
FX differences	2	1	2	5
Total impairment of receivables from customers as of 31 December 2019	**(783)**	**(473)**	**(6 771)**	**(8 027)**

Retail Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2020	(312)	(365)	(982)	(1 659)
Charge during the current year	(410)	(307)	(365)	(1 082)
Release during the current year	404	297	205	906
Net effect on profit or loss from impairment	(6)	(10)	(160)	(176)
Receivables written off – use	6	1	126	133
FX differences	1	4	(1)	4
Total impairment of receivables from customers as of 31 December 2020	**(311)**	**(370)**	**(1 017)**	**(1 698)**
Balance as of 1 January 2019	(195)	(150)	(920)	(1 265)
Charge during the current year	(360)	(350)	(387)	(1 097)
Release during the current year	234	134	194	562
Net effect on profit or loss	(126)	(216)	(193)	(535)
Receivables written off – use	9	1	130	140
FX differences	–	–	1	1
Total impairment of receivables from customers as of 31 December 2019	**(312)**	**(365)**	**(982)**	**(1 659)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2020				
Transfer of the gross amount of receivables from Stage 1	(23 327)	17 997	5 330	–
Transfer of the gross amount of receivables from Stage 2	3 623	(5 799)	2 176	–
Transfer of the gross amount of receivables from Stage 3	148	117	(265)	–
2019				
Transfer of the gross amount of receivables from Stage 1	(18 165)	15 097	3 068	–
Transfer of the gross amount of receivables from Stage 2	4 533	(5 218)	685	–
Transfer of the gross amount of receivables from Stage 3	395	109	(504)	–

Retail Customers	Stage 1	Stage 2	Stage 3	Total
2020				
Transfer of the gross amount of receivables from Stage 1	(4 666)	4 221	445	–
Transfer of the gross amount of receivables from Stage 2	2 920	(3 242)	322	–
Transfer of the gross amount of receivables from Stage 3	162	90	(252)	–
2019				
Transfer of the gross amount of receivables from Stage 1	(4 298)	3 870	428	–
Transfer of the gross amount of receivables from Stage 2	1 702	(1 901)	199	–
Transfer of the gross amount of receivables from Stage 3	318	109	(427)	–

i) Receivables Written-Off and Being Subject to Enforcement

The amount of written-off receivables due from customers still subject to enforcement as of 31 December 2020 was MCZK 3 073 (as of 31 December 2019: MCZK 3 126).

j) Receivables from Finance Leases

	31 Dec 2020	31 Dec 2019
	Cash Flow to be received (gross receivables from finance lease)	
Receivables from finance leases:		
Within 1 year	10 295	9 403
From one year to two years	7 510	6 189
From two years to three years	4 748	4 495
From three years to four years	2 946	3 081
From four years to five years	1 453	2 298
More than five years	1 778	915
Total cash flows to be received from finance leases	28 730	26 381
Unearned finance income	(1 744)	(2 023)
Lease receivables	**26 986**	**24 358**

k) Impact of Covid-19

The outbreak of the Covid-19 significantly affected the functioning of the Group.

In order to mitigate the impact of the Covid-19, laws were passed in the Czech Republic and Slovakia that allowed for the postponement of loan repayments. The Group provided deferred payments in connection with the Covid-19 in accordance with the following laws:

- No. 177/2020 Coll., Act on Certain Measures in the Area of Loan Repayment in Connection with the Covid-19, which was approved in the Czech Republic; and
- No. 67/2020 Coll., As amended by Act No. 75/2020 Coll., The Act on Certain Extraordinary Measures in the Financial Area in Relation to the Spread of Dangerous Infectious Human Disease Covid-19, which was approved in Slovakia.

in the following form:

Czech Republic
- Relevant law concerning the provision of deferred payments to legal and natural persons with effect from 17 April 2020.
- For all clients, upon their request, allows a maximum deferral of 9 monthly installments in the period ending October 31, 2020.
- Clients may request a deferral for a shorter period ending on 31 July 2020.
- Individuals can request a deferral of full installments (ie deferral of principal and interest payments), legal entities can only request a deferral of principal payments (interest payments continue to be paid during the deferral period).
- During the deferral period, the interest on the principal is not suspended, but the accrued interest is not capitalized to the value of the principal, ie there is no interest on accrued interest during the deferral period.

Slovakia
- Relevant law concerning the provision of deferred payments to legal and natural persons with effect from 9 April 2020.
- For all clients, based on their request, allows a maximum deferral of 9 months (6 months for leasing products).
- Clients may request a deferral during the pandemic period, which was officially declared on March 12, 2020.
- Individuals may request a deferral of full installments (ie deferral of principal and interest payments), legal entities may choose between deferral of full installments or only deferral of principal payments (interest payments continue to be paid during the grace period) or deferral of which the entire principal is repaid only at the final maturity (so-called bullet payment).
- During the deferral period, the interest on the principal is not suspended, but the accrued interest is not capitalized to the value of the principal, ie there is no interest on accrued interest during the deferral period.

Deferral of payments in connection with COVID 19 leads to a modification of contractual cash flows in accordance with IFRS 9. According to the Group's internal rules, this modification is not considered a significant modification and therefore does not lead to the derecognition of the asset of the original asset. The Group assessed the impact of the modifications due to the deferral of payments in connection with Covid-19 which is recognised in profit or loss in the item „*Modification gains/ (losses)*".

Overview of loans subject to moratoria in the Czech Republic and Slovakia

31 Dec 2020	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair losses – perform	Impair losses – non perform	Impair losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	13 151	12 345 **	261	12 606	(183)	(96)	(279)	12 162	165	12 327
Corporate Customers*	3 387	30 617 ***	3 487	34 104	(527)	(1 271)	(1 798)	30 090	2 216	32 306
Total	**16 538**	**42 962**	**3 748**	**46 710**	**(715)**	**(1 367)**	**(2 082)**	**42 247**	**2 381**	**44 628**

* Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
** The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
*** The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2020	31 Dec 2019
Fair value hedging	2 425	1 370
Cash flow hedging	7 960	5 828
Total	**10 385**	**7 198**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

17. Equity investments

	Assets	Liabilities	Equity	Operating income	Profit/(loss)	Net book value
31 December 2020						
RCI Financial Services, s.r.o. (50%)	3 657	3 032	625	225	104	359
Total						**359**
31 December 2019						
RCI Financial Services, s.r.o. (50%)	4 080	3 401	679	287	140	372
Total						**372**

Changes in Investments in Associates

	2020	2019
Balance at 1 January	372	332
Change in the income statement	52	70
Dividend	(65)	(30)
Change in equity	–	–
Total at 31 December	**359**	**372**

18. Property, equipment and right of use assets and investment property

	31 Dec 2020	31 Dec 2019
Property and equipment for operations		
Buildings and land	860	849
Leasehold improvements of rent buildings	191	166
Fixtures and fittings	29	23
IT equipment	70	38
Assets provided under operating leases	2 688	2 882
Other	443	485
Property and equipment held as an investment		
Buildings and land	360	371
Right of use assets		
Buildings and land	2 598	1 963
Total	**7 239**	**6 777**

(a) Movements in Property and Equipment Held for Operations

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Cost at 1 January 2019	1 602	960	176	666	4 093	540	8 037
Accumulated depreciation and impairment at 1 January 2019	(1 044)	(798)	(147)	(594)	(1 108)	(243)	(3 934)
Net Book Value at 1 January 2019	**558**	**162**	**29**	**72**	**2 985**	**297**	**4 103**
Revaluation to Fair value – change of accounting policy	1 081	n/a	n/a	n/a	n/a	n/a	1 081
Accumulated depreciation adjustment (based on revalued amount) – change of accounting policy	(753)	n/a	n/a	n/a	n/a	n/a	(753)
Additions	18	41	2	28	1 300	183	1 572
Disposals	–	–	–	–	(681)	(8)	(689)
Depreciation charges	(19)	(32)	(5)	(59)	(492)	(33)	(640)
Transfer to the item "*Non-current assets held for sale*"	(31)	–	–	–	–	–	(31)
Other and FX rate gains or losses	(5)	(5)	(3)	(3)	(230)	46	(200)
Net Book Value at 31 December 2019	**849**	**166**	**23**	**38**	**2 882**	**485**	**4 443**
Fair Value (Buildings and land) / Cost at 31 December 2019	2 587	994	168	664	4 021	729	9 163
Accumulated depreciation and impairment at 31 December 2019	(1 738)	(828)	(145)	(626)	(1 139)	(244)	(4 720)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Operating leases	Other	Total
Fair Value (Buildings and land) / Cost at 1 January 2020	2 587	994	168	664	4021	729	9 163
Accumulated depreciation and impairment at 1 January 2020	(1 738)	(828)	(145)	(626)	(1 139)	(244)	(4 720)
Net Book Value at 1 January 2020	**849**	**166**	**23**	**38**	**2 882**	**485**	**4 443**
Increases in fair value	39	n/a	n/a	n/a	n/a	n/a	39
Reductions in fair value	(52)	n/a	n/a	n/a	n/a	n/a	(52)
Additions	43	74	12	37	902	75	1 143
Disposals	–	–	–	–	(675)	(119)	(794)
Depreciation charges	(31)	(42)	(5)	(36)	(506)	(25)	(645)
Transfer to the item "*Non-current assets held for sale*"	(7)	–	–	–	–	–	(7)
Other and FX rate gains or losses	19	(7)	(1)	31	85	27	154
Net Book Value at 31 December 2020	**860**	**191**	**29**	**70**	**2 688**	**443**	**4 281**
Fair Value (Buildings and land) / Cost at 31 December 2020	2 682	1 021	173	650	3 857	697	9 080
Accumulated depreciation and impairment at 31 December 2020	(1 822)	(830)	(144)	(580)	(1 169)	(254)	(4 799)

(b) Movements in Property Held as an Investment

	Buildings and land	Total
Fair Value at 1 January 2019	**646**	**646**
Disposals	(251)	(251)
Change in Fair Value	(24)	(24)
Fair Value at 31 December 2019	**371**	**371**
Fair Value at 1 January 2020	**371**	**371**
Disposals	–	–
Change in Fair Value	(11)	(11)
Fair Value at 31 December 2020	**360**	**360**

(c) Movements in Right of Use Assets

	Buildings and land	Total
Net Book Value at 1 January 2019	**2 213**	**2 213**
Additions	122	122
Disposals	(11)	(11)
Depreciation	(352)	(352)
Other and FX rate gains or losses	(9)	(9)
Net Book Value at 31 December 2019	**1 963**	**1 963**
Cost at 31 December 2019	2 315	2 315
Accumulated depreciation and impairment at 31 December 2019	(352)	(352)
Net Book Value at 1 January 2020	**1 963**	**1 963**
Additions	1 019	1 019
Disposals	(26)	(26)
Depreciation	(356)	(356)
Other and FX rate gains or losses	(2)	(2)
Net Book Value at 31 December 2020	**2 598**	**2 598**
Cost at 31 December 2020	3 303	3 303
Accumulated depreciation and impairment at 31 December 2020	(705)	(705)

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2019	3 514	3 514
Accumulated amortisation and impairment at 1 January 2019	(1 335)	(1 335)
Net Book Value at 1 January 2019	**2 179**	**2 179**
Additions	630	630
Amortisation charges	(540)	(540)
Other	76	76
Net Book Value at 31 December 2019	**2 345**	**2 345**
Cost at 31 December 2019	3 747	3 747
Accumulated amortisation and impairment at 31 December 2019	(1 402)	(1 402)
Cost at 1 January 2020	3 747	3 747
Accumulated amortisation and impairment at 1 January 2020	(1 402)	(1 402)
Net Book Value at 1 January 2020	**2 345**	**2 345**
Additions	706	706
Amortisation charges	(548)	(548)
Other	105	105
Net Book Value at 31 December 2020	**2 608**	**2 608**
Cost at 31 December 2020	4 914	4 914
Accumulated amortisation and impairment at 31 December 2020	2 306	2 306

20. Other assets

	31 Dec 2020	31 Dec 2019
Deferred expenses and accrued income	434	1 000
Trade receivables	291	175
Receivables from securities	12	6
Clearing and settlement accounts	1 268	788
Other	84	180
Total	**2 089**	**2 149**
Impairment losses on other assets	(17)	(19)
Net other assets	**2 072**	**2 130**

21. Financial liabilities held for trading

Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Liabilities from short sales	2 115	3 010
Derivatives	14 697	8 527
Total	**16 812**	**11 537**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2020	31 Dec 2019
Deposits from central banks	39 378	6 631
Current accounts	6 180	5 527
Loans	12 165	10 838
Term deposits	31 569	106 657
Sale and repurchase agreements (see section V, point 32)	16 062	11 433
Other	165	6
Total	**105 519**	**141 092**

Item "Deposits from central banks" includes as of 31 December 2020 MCZK 39 551 of funding from Targeted Longer-Term Refinancing Operations (hereinafter "TLTRO"), namely TLTRO III which was drawn by the Bank in June 2020 (2019: TLTRO II of MCZK 6 706). Outstanding TLTRO II borrowings has been repaid in June 2020 (original maturity in March 2021).

The TLTRO liabilities are banking book funding instruments to be subsequently measured at amortised cost according to IFRS 9, 4.2.1. Financial conditions incorporated into TLTROs are reflecting ECB monetary policy initiatives to prospectively reduce market cost of funding for banking institutions by using non-conventional tools and reflected in money market operations. In addition to the more favourable conditions already introduced in March 2020 (to be applied in the period from 24 June 2020 to 23 June 2021), the Governing Council of ECB on 10 December 2020 decided to extend similar favourable conditions for the period from 24 June 2021 to 23 June 2022.

For banks that reach the lending performance threshold during the predefined reference periods the borrowing rates can be as low as 50 basis points below the average interest rate on the Deposit Facility Rate (hereinafter "DFR") during the periods from 24 June 2020 to 23 June 2021 and from 24 June 2021 to 23 June 2022, and as low as DFR during the rest of the life of the respective TLTRO III transaction.

Referencing EIR rules for markets-driven remunerations, changes in market index (e.g. base rate and spread) will be reflected by adjusting instruments' carrying amount calculated by referencing the evolution of the "TLTRO index" and limited to the accrued (to-date) portion.
As a result, TLTRO III EIR for a 3year funding range between -0.33% and -0.83%, coherently with (i) benchmark achievements for Cumulative Net Lending (hereinafter "CNL") as at March 2021 and December 2021 and (ii) current Main Refinancing Operation and DFR levels.

In 2020 Bank recognized, a Net Interest Income contribution equal to MCZK 190 (hereof, interest from TLTRO II of MCZK 14 and interest from TLTRO III applying -0.83% of MCZK 176), based on expected CNL threshold achievements as supported by actual eligible business volumes as well as expected business developments incorporated into the 2021 budget and existing deal pipeline.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2020	31 Dec 2019
Current accounts	404 210	354 051
Term deposits	15 538	55 287
Lease Liabilities	2 646	2 047
Other	2 753	3 568
Total	**425 147**	**414 953**

Lease liability	**2020**	**2019**
As at 1 January	2 047	2 297
Additions	993	111
Accretion of interest	19	21
Lease payments	(391)	(374)
Other and FX rate gains or losses	(22)	(8)
Total at 31 December	**2 646**	**2 047**

The Group had total cash outflows for leases of MCZK 428 in 2020, incl. those leases that are not in-scope of IFRS 16 (in 2019: MCZK 425).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2020	31 Dec 2019
Mortgage bonds	7 772	16 812
Structured bonds	2 271	3 329
Other issued debt securities	430	441
Total	**10 473**	**20 582**

Structured bonds (included in the line "Structured bonds" and partly in the line "Mortgage bonds") include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 2 420 (at 31 December 2019: MCZK 4 068). The positive fair value of these derivatives of MCZK 5 is reported under "Financial assets held for trading" (at 31 December 2019: MCZK 4); the negative fair value of these derivatives of MCZK 97 is recognised under "Financial liabilities held for trading" (at 31 December 2019: MCZK 182).

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2020	31 Dec 2019
Fair value hedging	745	360
Cash flow hedging	6 710	7 264
Total	**7 455**	**7 624**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

26. Other liabilities

	31 Dec 2020	31 Dec 2019
Deferred income and accrued expenses	1 770	1 807
Trade payables	645	715
Payables to employees	284	618
Unsettled security transactions	172	20
Clearing and settlement accounts	6 005	5 219
Other	436	354
Total	**9 312**	**8 733**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2020	31 Dec 2019
Provisions for off-balance sheet credit exposures	1 293	721
a. Stage 1	179	113
b. Stage 2	346	100
c. Stage 3	768	508
Legal disputes	88	37
Provision for restructuring	69	62
Other	51	62
Total	**1 501**	**882**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	113	100	508	721
Charge during the year	168	268	646	1 082
Release during the year	(102)	(23)	(387)	(512)
Other – FX rate gains or losses	–	1	1	2
Total provisions for off-balance sheet credit items at 31 December 2020	**179**	**346**	**768**	**1 293**
Balance at 1 January 2019	146	43	929	1 118
Charge during the year	92	127	244	463
Release during the year	(125)	(70)	(665)	(860)
Other – FX rate gains or losses	–	–	–	–
Total provisions for off-balance sheet credit items at 31 December 2019	**113**	**100**	**508**	**721**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2020	37	62	62	161
Charge during the year	54	47	9	**110**
Usage during the year	(5)	(30)	(21)	**(56)**
Release of redundant provisions and other	2	(10)	1	**(7)**
Total other provisions at 31 December 2020	**88**	**69**	**51**	**208**
Balance at 1 January 2019	70	12	120	202
Charge during the year	24	59	–	83
Usage during the year	(35)	(5)	(56)	(96)
Release of redundant provisions and other	(22)	(4)	(2)	(28)
Total other provisions at 31 December 2019	**37**	**62**	**62**	**161**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2020	31 Dec 2019
Current tax payable	(1 381)	(2 386)
Prior year tax	28	24
Deferred tax	(38)	(121)
Total income tax	**(1 391)**	**(2 483)**

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

	31 Dec 2020	31 Dec 2019
Profit/loss for the year before tax	6 708	12 605
Tax calculated using the tax rate of 19%	(1 275)	(2 395)
Impact of prior years on the current tax payable	28	132
Non-taxable income	43	43
Tax non-deductible expenses	(112)	(239)
Impact of prior years on the deferred tax	(20)	(1)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(45)	(23)
Recognition of previously unrecognised deferred tax	(15)	1
Other	5	(1)
Total income tax	**(1 391)**	**(2 483)**

The effective tax rate of the Group is 20.74% (2019: 19.70%*)*.

(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.

When 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.

Group Management believes that the Group will be able to fully recover deferred tax assets reported as of 31 December 2020 based on the current and anticipated future level of taxable profits.

(i) Deferred Tax Asset

	31 Dec 2020	31 Dec 2019
Tax non-deductible provisions	126	144
Impairment of loans and off-balance sheet items	979	915
Differences arising from the net book values of tangible assets	68	98
Reserve from revaluation of hedging instruments	3	188
Reserve from revaluation of financial assets at fair value through other comprehensive income	7	–
Other	136	103
Offsetting against deferred tax liability	(572)	(443)
Net deferred tax asset	**747**	**1 005**

(ii) Deferred Tax Liability

	31 Dec 2020	31 Dec 2019
Impairment of loans and off-balance sheet items	39	835
Differences arising from the net book values of tangible assets	115	119
Differences arising from the net book values of intangible assets	146	94
Reserve from revaluation of hedging instruments	139	–
Reserve from revaluation of financial assets at fair value through other comprehensive income	90	149
Reserve from revaluation of property measured at fair value	65	68
Other	826	–
Offsetting against deferred tax asset	(572)	(443)
Net deferred tax liability	**848**	**822**

The Group additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions recognized Unicredit Bank of MCZK 11 and by UniCredit Leasing Slovakia, a.s. of MCZK 26.

29. Issued capital and share premium

The recorded, issued and fully paid capital of the Group amounted to MCZK 8,755 as of 31 December 2020 and 2019.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2020				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2019				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2020 Number of shares	31 Dec 2020 MCZK	31 Dec 2019 Number of shares	31 Dec 2019 MCZK
Ordinary shares of CZK 16,320,000	100	1 632	100	1 632
Ordinary shares of CZK 13,375,000	200	2 675	200	2 675
Ordinary shares of CZK 10,000	436 500	4 365	436 500	4 365
Ordinary shares of CZK 7,771,600	10	78	10	78
Ordinary shares of CZK 46	106 563	5	106 563	5
Total issued capital		**8 755**		**8 755**

The shares are freely transferrable. Ordinary shares include the entitlement to participate in the Group's governance and the entitlement to a share on profit.

The most significant topics that are within the scope of authority of the general meeting and that a shareholder can therefore make decisions about include:

a. Decisions about changes to the Articles of Association, unless it is a change resulting from the increase of share capital by the Board of Directors as per Section 511 et seq. of Act No. 90/2012 Coll., on Business Corporations (BCA), or a change that occurred based on other legal facts;
b. Decisions on the increase in share capital or on authorising the Board of Directors as per Section 511 et seq. of the BCA, or about the possibility of offsetting a cash receivable from a bank against a receivable for the payment of the issue rate;
c. Decisions to decrease the share capital and to issue bonds as per Section 286 et seq. of the BCA;
d. Appointing and recalling members of the Supervisory Board, Audit Committee and other bodies set by the Articles of Association;
e. Approving regular, extraordinary or consolidated financial statements and in cases defined by the law also interim financial statements, decisions about the allocation of profit and or other own resources or about the settlement of loss and the determination of shares in profit for the members of the Board of Directors and the Supervisory Board;
f. Decisions about remuneration of members of the Supervisory Board and the Audit Committee;
g. Decisions about filing a request for equity securities of the Bank to be accepted for trading on a European regulated market or to be excluded from trading on a European regulated market;
h. Appointing the Bank's auditors based on the recommendation of the Audit Committee; and
i. Decisions about establishing discretionary funds of the Bank and the methods of their creation and use.

The effective date for the exercise of the right to a dividend is the same as the effective date for participation at the General Meeting; this date is the seventh calendar day before the General Meeting is held. The right to a dividend lapses after the three-year legal period passes in line with Section 629 of Act No. 89/2012 Coll., Civil Code.

After the dissolution of the Bank, each shareholder has a right to a share in the liquidation proceeds in line with Section 37 of the BCA; this share is paid out in cash. The decision to dissolve the Bank with liquidation, to appoint and recall a liquidator including the determination of remuneration, and the approval of the proposed distribution of the liquidation proceeds are within the authority of the General Meeting.

Both at 31 December 2020 and 31 December 2019, the Group held no treasury shares.

30. 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.

31. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

	31 Dec 2020	31 Dec 2019
Reserve funds	5 243	5 243
Special-purpose reserve fund	14 471	13 240
Retained earnings	47 054	38 132
Exchange rate differences arising on consolidation	(47)	(111)
Total	**66 721**	**56 504**

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

As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank. In 2020, this fund was increased by MEUR 47 (profit of the Slovak branch for 2019).

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

(a) Reverse Repurchase Transactions

	31 Dec 2020	31 Dec 2019
Loans and advances to banks	116 185	165 823
Fair value of securities received	116 185	162 878

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2020 and as of 31 December 2019.

(b) Repurchase Transactions

	31 Dec 2020	31 Dec 2019
Deposits from banks	16 062	11 433
Fair value of securities provided	16 086	11 193

33. Contingent liabilities, contingent assets and financial derivatives

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

(a) Contingent Liabilities

Legal Disputes

As of 31 December 2019, the Group assessed the legal disputes in which it acted as a defendant. The Group recorded provisions for these legal disputes (see section V, point 27). 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

Czech and Slovak tax legislation has significantly changed in recent years. Many complicated legislation areas remained unresolved, and it may not be possible to determine the interpretation of taxation authorities in specific cases in advance. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations are adopted in practice or in the event that official interpretations are available.

Loan Commitments, financial guarantees and other commitments given

Loan commitments issued by the Group include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include undrawn loans 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.

Financial guarantees include irrevocable commitments made by the Group to repay debts in lieu of the debtor owed to the guarantee beneficiary in case the debtor defaults on their obligation to pay subject to terms and conditions of the individual contracts. As such, commitments bear similar risk to loans, the Group creates the relevant provisions using a similar algorithm as for provisions (see section V. Other Notes, point 35. Financial Risk Management).

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 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 section V. Other Notes, point 35. Financial Risk Management).

The Group recorded provisions for off-balance sheet items to cover expected credit losses and arising from the impairment losses on the off-balance sheet items due to credit risk. As of 31 December 2020, the aggregate provisions amounted to MCZK 1 293 (as of 31 December 2019: MCZK 721), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2020			
Letters of credit and financial guarantees	**46 575**	**(700)**	**45 875**
– Stage 1	43 059	(95)	42 964
– Stage 2	2 981	(164)	2 817
– Stage 3	535	(441)	94
Other contingent liabilities (undrawn credit facilities)	**140 852**	**(595)**	**140 257**
– Stage 1	131 659	(88)	131 571
– Stage 2	8 726	(180)	8 546
– Stage 3	467	(327)	140
Total	**187 427**	**(1 295)**	**186 132**
31 Dec 2019			
Letters of credit and financial guarantees	**45 283**	**(464)**	**44 819**
– Stage 1	42 116	(64)	42 052
– Stage 2	2 686	(26)	2 660
– Stage 3	481	(374)	107
Other contingent liabilities (undrawn credit facilities)	**130 357**	**(257)**	**130 100**
– Stage 1	122 373	(49)	122 324
– Stage 2	7 632	(74)	7 558
– Stage 3	352	(134)	218
Total	**175 640**	**(721)**	**174 919**

(b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 393.7 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 213.9 (MUSD 10) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

	Nominal value	Positive fair value	Negative fair value
31 Dec 2020			
Trading instruments – interbank market (OTC)			
Options	84 938	886	909
Interest rate swap contracts	682 521	8 560	8 270
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	169 210	3 472	2 752
Foreign exchange forwards and swaps	35 394	268	507
Other instruments	8 402	2 290	2 259
Total	**980 465**	**15 476**	**14 697**
Trading instruments – stock exchange			
Futures	1 496	32	–
Total trading instruments	**981 961**	**15 508**	**14 697**
Hedging instruments			
Interest rate swap contracts	607 228	9 340	6 508
Cross currency swap contracts	136 572	1 045	947
Total hedging instruments	**743 800**	**10 385**	**7 455**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2019			
Trading instruments – interbank market (OTC)			
Options	76 298	705	701
Interest rate swap contracts	538 519	4 883	4 304
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	143 887	2 289	1 777
Foreign exchange forwards and swaps	40 320	145	500
Other instruments	2 310	1 249	1 245
Total	**801 334**	**9 271**	**8 527**
Trading instruments – stock exchange			
Futures	1 880	35	–
Total trading instruments	**803 214**	**9 306**	**8 527**
Hedging instruments			
Interest rate swap contracts	629 060	6 719	6 761
Cross currency swap contracts	112 354	479	863
Total hedging instruments	**741 414**	**7 198**	**7 624**

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

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2020				
Trading instruments				
Interest rate instruments	63 160	390 849	254 039	708 048
Equity instruments	2 713	2 341	–	5 054
Currency instruments	177 865	81 096	–	258 961
Other	6 824	1 578	–	8 402
Total	**250 562**	**475 864**	**254 039**	**980 465**
Hedging instruments				
Interest rate instruments	91 139	316 673	199 416	607 228
Currency instruments	49 566	56 549	30 457	136 572
Total	**140 705**	**373 222**	**229 873**	**743 800**
31 Dec 2019				
Trading instruments				
Interest rate instruments	66 883	308 187	189 506	564 576
Equity instruments	3 560	4 871	–	8 431
Currency instruments	162 796	63 221	–	226 017
Other	2 226	84	–	2 310
Total	**235 465**	**376 363**	**189 506**	**801 334**
Hedging instruments				
Interest rate instruments	100 548	269 524	258 988	629 060
Currency instruments	77 425	11 864	23 065	112 354
Total	**177 973**	**281 388**	**282 053**	**741 414**

34. Segment reporting

The Group presents the segment information based on performance criteria as disclosed in section III. Significant Accounting Policies, point 21. Segment reporting.

(a) Segment Information by Client Category

	Retail and private banking	Corporate and investment banking, leases	Other	Total
31 Dec 2020				
Net interest and dividend income	2 955	7 922	1 220	**12 097**
Other net income	1 467	4 812	501	**6 780**
Depreciation/impairment of property and equipment and intangible assets	(651)	(487)	(411)	**(1 549)**
Impairment loss	(132)	(2 754)	31	**(2 855)**
Segment expenses	(3 734)	(4 488)	457	**(7 765)**
Profit before tax	(95)	5 005	1 798	**6 708**
Income tax	–	–	(1 391)	(1 391)
Result of segment	**(95)**	**5 005**	**407**	**5 317**
Segment assets	159 435	491 567	13 350	**664 352**
Segment liabilities	189 465	374 877	14 418	**578 760**
31 Dec 2019				
Net interest and dividend income	3 539	8 859	2 185	**14 583**
Other net income	1 849	4 692	701	**7 242**
Depreciation/impairment of property and equipment and intangible assets	(627)	(565)	(340)	**(1 532)**
Impairment loss	(826)	(554)	71	**(1 309)**
Segment expenses	(3 093)	(3 688)	402	**(6 379)**
Profit before tax	842	8 744	3 019	**12 605**
Income tax	–	–	(2 483)	(2 483)
Result of segment	**842**	**8 744**	**536**	**10 122**
Segment assets	149 276	524 293	13 024	**686 593**
Segment liabilities	183 885	407 144	16 951	**607 980**

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

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

(b) Information on Geographical Areas

	Czech Republic	Slovakia	Total
31 Dec 2020			
Net interest and dividend income	9 173	2 924	**12 097**
Other net income	4 440	2 340	**6 780**
Depreciation/impairment of property and equipment and intangible assets	(1 043)	(506)	**(1 549)**
Impairment loss	(2 439)	(416)	**(2 855)**
Segment expenses	(5 512)	(2 253)	**(7 765)**
Profit before tax	4 619	2 089	**6 708**
Income tax	(1 011)	(380)	(1 391)
Result of segment	**3 608**	**1 709**	5 317
Segment assets	523 223	141 129	664 352
Segment liabilities	437 187	141 573	578 760

	Czech Republic	Slovakia	Total
31 Dec 2019			
Net interest and dividend income	11 793	2 790	**14 583**
Other net income	5 566	1 676	**7 242**
Depreciation/impairment of property and equipment and intangible assets	(1 061)	(471)	**(1 532)**
Impairment loss	(538)	(771)	**(1 309)**
Segment expenses	(4 564)	(1 815)	**(6 379)**
Profit before tax	11 196	1 409	**12 605**
Income tax	(2 068)	(415)	(2 483)
Result of segment	**9 128**	**994**	**10 122**
Segment assets	552 651	133 942	**686 593**
Segment liabilities	509 338	98 642	**607 980**

35. Financial risk management

(a) Introduction

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

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

The principal part of the Group is the Bank; for this reason, the below description primarily relates to the risk management in the Bank. Risk management in subsidiaries is described in section V. Other Notes, point 35b (vi).

(b) Credit Risk

The Group is exposed to credit risk as a result of its trading, lending, hedging investment and brokerage activities.

Credit risk is managed at the level of individual customers (transactions) and at the portfolio level.

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. These departments are organisationally independent of the business divisions and report directly to a member of the Board of Directors in charge of the Risk management division (Chief Risk Officer).

Under its credit risk management policy, the Group defines the general principles, methods and tools applied when identifying, measuring and managing credit risk. The Group's credit risk management policy is set by the Strategic Credit Risk Management department. This policy is reviewed on a regular basis at least once a year.

In its internal guidelines, the Group defines the underwriting approval competencies, including the definition of responsibilities and competencies of the Credit Committee.

The table below presents the maximum credit risk exposure related to balance sheet assets. Maximum credit risk exposure excludes impact of received collateral:

	2020	2019
Cash and cash balances	4 072	4 634
Financial assets at fair value through profit or loss, *of which:*	17 082	12 185
Held for trading	16 542	11 698
Mandatorily at fair value	540	487
Financial assets at fair value through other comprehensive income	20 518	23 181
Financial assets at amortised cost, *of which:*	598 431	626 735
Loans and advances to banks	136 955	185 975
Loans and advances to customers	461 476	440 760
Positive fair value of hedging derivatives	10 385	7 198
Other assets	2 072	2 130
Total	**652 560**	**676 063**

The table below presents the maximum credit risk exposure related to off-balance sheet items. Maximum credit risk exposure excludes impact received collateral:

	2020	2019
Letters of credit and financial guarantees	46 573	44 819
Other contingent liabilities (undrawn credit facilities)	145 954	130 100
Total	**192 527**	**174 919**

(i) Credit Risk Management at the Level of Individual Customers

Corporate customers

Credit risk at the level of individual customers is managed by analysing customers' financial health and determining maximum credit risk exposure (credit limit). Analysis is focused on the customers' competitive position in the relevant market, a rating of their financial statements, prediction of future liquidity, etc. The result of this analysis is, inter alia, a rating that reflects the probability of client default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is undertaken prior to the granting of a loan. Subsequently the rating is reviewed and creditworthiness is reassessed at least annually.

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc). When classifying customers, the Bank assesses (in addition to the number of days past due with regard to overdue receivables, if any) financial indicators related to the client (such as the structure of and proportion between the statement of financial position, the income statement, and the cash flow statement), management quality, ownership structure, individual customers' market position, reporting quality, production equipment, account-use history, etc. Customers in default are assigned internal ratings of 8–, 9 or 10.

Retail customers

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

Credit registries

The Bank uses information provided by credit registries as an additional source of information for assessing a client's financial standing for both Corporate and Retail Client

Collateral

In accordance with its credit risk management strategy, prior to granting the loans, the Bank may require that the customers post collateral for the loans. The amount and type of collateral depends on the client's financial health and the type of the loan. The Bank considers the following to be acceptable types of collateral: cash, investment grade securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of mortgage over real estate property. When determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing the collateral for personal collateral (eg guarantees) and the nominal value of the collateral for non-personal collaterals such as pledge of property. The collateral is valued based on expert appraisals made by a special department of the Bank or external valuations. The realisable value of collateral is determined based on this appraised value by applying an adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management at the Portfolio Level

The Bank regularly analyses and monitors 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 expected losses from its credit exposure on regular basis. The expected loss is determined based on internal estimates of risk parameters, ie the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.

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

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a regular basis, in accordance with IFRS 9 Financial instruments; in particular, it divides its receivables into non-performing receivables = receivables in default (stage 3) and performing receivables = receivables without default (stages 1 and 2).

Stage 2 receivables are receivables which have experienced significant increase in credit risk between two subsequent balance sheet dates. All receivables are regularly monitored for default and significant increase in credit risk.

Impairment Losses on Non-Performing Receivables
Impairment losses related to individual non-performing receivables (ie stage 3 under IFRS 9 Financial Instruments) are recognised if carrying amount of individual receivables is less than recoverable amount and the Bank does not write off such receivables (fully or partially). The Bank assesses recoverable of the amount of all receivables in respect of which the debtors are in default: (i) individually if the amount of the receivable exceeds an equivalent of MEUR 1, (ii) collectively using recovery rate derived from the relevant model which reflects historic recovery experience. The Bank writes off receivables if no income is anticipated on it or on the collateral received with regard to the given receivable.

The impairment loss is (i) for individually assessed receivables equal to the difference between the receivable's gross carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate; (ii) for collectively assessed receivables equal to the lifetime expected credit loss determined on portfolio basis.

Impairment Losses on Performing Receivables
For performing receivables that have experienced no significant increase in credit risk since origination (ie stage 1), the Bank determines the impairment loss as the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (1-year expected loss).

For Performing receivables that have experienced a significant increase in credit risk since origination, but are still performing receivables (ie stage 2), the Bank determines the impairment loss as the expected loss until the final maturity of the receivable (lifetime expected credit loss).

Provisions for Off-Balance Sheet Items
The Bank recognises such provisions using the same methods as are used in determining impairment losses on receivable portfolios while taking into account conversion factors related to the specific type of the off-balance exposure.

(iv) Forbearance
The Bank classifies loan receivables as forborne if the originally agreed payment conditions were changed since the loan provision due to customers' financial difficulties (changes predominantly include payment deferral, temporary payment reduction, postponement of the ultimate due date, etc). These items are recognised in the statement of financial position either as non-performing loan receivables or performing loan receivables.

Loan receivables with a change in the originally-agreed payment conditions are generally classified as non-performing loan receivables. Following a robust assessment, the Bank may categorise individual receivables as performing receivables, despite a change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious and the Bank does not anticipate incurring a loss from the future collection of such loan receivables.

Performing receivables also include receivables originally classified as non-performing receivables upon the change of payment conditions and which were subsequently transferred into the category of Performing loan receivables because the debtor complied with newly-agreed conditions in line with the Bank's internal rules. This group accounts for the majority of loan receivables reported as forborne – performing receivables.

Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout Department and are subject to standard restructuring and workout procedures and monitoring. The exception is receivables that are not assessed as non-performing receivables upon a change of the payment conditions. These loans are only managed by Credit Restructuring & Workout Department after a thorough assessment of the need to use the know-how of this specialised unit. When releasing receivables from the management of this unit, the statues of individual cases and the need to use the know-how of the Credit Restructuring & Workout staff is also carefully reviewed.

The period for which the client is designated as forborne is referred to as the probation period and lasts a minimum of two years from the client default /forbearance if the forbearance was without client default. In addition, this period can only be terminated if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days. For amortizing loans, the debt must be reduced by at least 10% during probation period.

Due to the size of the forborne portfolio and the above procedures and practices, we have not identified any serious threats for the Bank resulting from this portfolio. This is supported by the fact that a portion of receivables with changed payment conditions in order to overcome the debtor's deteriorated financial position is reclassified once more as non-performing (recognised in the Bank's statement of financial position as non-performing forborne receivable – see above).

(v) Recovery of Receivables
The Bank has established the Credit Workout & Restructuring Department which manages the receivables whose recoverability is at risk (both Non-performing and Performing). 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 loan (comparison of future expenses versus income).

(vi) Risk Management in Subsidiaries

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

These specific features primarily include the following:

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

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

(vii) Impact of Covid-19 on Credit Risk

The Group faced during 2020 significant macroeconomic change resulting in increase of risk in several risk categories including credit risk. The spread of the virus passed across European countries during first quarter 2020 followed by partial economy lockdowns resulting in significant economic recession.

The most affected sectors were retail trade, transport, tourism and in general services.

Local governments introduced several local government-guaranteed programs supporting Group lending continuation and to support local companies to overcome potential liquidity crisis.

Gradually there were introduced also government programs covering partial direct costs of companies hit by lockdown to prevent high unemployment rate growth and to stabilize the labor market short term. Across countries in Europe as well as in Czech Republic and Slovakia there were local public memorandum presented and issued by law enabling postponement of repayments to the debtors, in particular in Czech Republic and Slovakia both in so called “opt-in” option.

Concessions on the Group’s side are defined to support the drawback deriving from a temporary slow-down of the economy and support client’s liquidity fully in line with law and regulator’s regulation rules. The impact on the portfolio asset quality of the Group is mitigated by:

– Regular and also additional portfolio’s analysis
– Ex-ante, ongoing and ex-post evaluation of client’s risk profiles including standard and non-standard reviews and additional UTP checks as regulated by EBA
– Update of corporate underwriting principles and rules connected especially to risky industries clusters, clients’ liquidity situation, unutilized frames management and prudent new clients onboarding
– Update of retail underwriting principles and rules with strong concentration on support of current clients and several short-term new restrictions to avoid credit risk increase
– Acquisitions of public guarantee schemes
– Update of monitoring principles and monitoring reporting especially (but not only) related to “under moratoria” portfolio development
– Classification principles aligned with EBA/GL/2020/02 issued as of April 2nd, 2020 incl. follow-up updates during 2020 as well as local prudent specifics, e.g. stage 2 classification for moratoria receivables fulfilling the interest rate local moratoria law limit (cap)

Moratoria overview in the Group as of 31 December 2020

	Number of clients	Gross Carrying Amount	Impairment	Net carrying amount
Retail Customers	13 151	12 606**	(279)	12 327
Corporate Customers*	3 387	34 104***	(1 798)	32 306
Total	**16 538**	**46 710**	**(2 082)**	**44 628**

* Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
** The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
*** The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Overview of in the Group newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 as of 31 December 2020

	Number of clients	Gross Carrying Amount
Total	602	5 203

Regulators measures
As response to Covid-19 spread EBA issued several statements during 2020, from credit risk point of view one of the most important and affecting Group's portfolio development Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of Covid-19 with application date as of 2 April 2020 followed by several amendments regarding clarification, prolongation and reactivation of moratoria period. In parallel with local law initiatives the statements provided clarity and reasonable uniformity in the classification and moratoria approach of the banks across the markets.

As reaction to Covid-19 Czech National Bank (hereinafter "CNB") updated the recommendation regarding new mortgages financing. The limits were released to support the economy recovery.

The release was applied to Loan to Value ("LTV"), Debt Service to Income ("DSTI") and Debt to Income ("DTI") limits. Detailed description is available on CNB website, recommendations are valid as of 1.4.2020 and as of 8.7.2020.

CNB and National Bank of Slovakia (hereinafter "NBS") were updated by the Group representatives several times during the year on calls dedicated special to Covid-19 and related development and Group measures.

UniCredit Bank Czech Republic and Slovakia credit risk and underwriting measures

The reaction of the Group was immediate starting from February 2020 implementing measures in corporate underwriting process (analyzing and covering Covid-19 connected risks to defend asset quality position of the Group).

Parallel to appropriate additional loan loss provisions created at specific and portfolio level (see part FLI and Multiscenario Overlay Factor below) the Group implemented new criteria in retail financing segment and updated during the year based on economic development. In corporate segment, the Group implemented risk mitigation rules in underwriting process based e.g. on industry clusters.

The Group also implemented moratoria underwriting process covering all by law driven new legal requests and successfully managed to the process in line with client's requests and the related reporting activities, internally and externally.

On the top the Group update monitoring system covering the moratoria but also after moratoria period (exit from moratoria) was implemented, mainly:
– risk clusters of clients under Moratoria for better aim of other activities towards that clients,
– deep payment traffic analyses specifically designed for clients under moratoria to be able to detect and have information about impact of Covid-19 to client business and afterwards if recovery activities in client business activities are in line with expectations,
– new flags and warning signals connected to moratoria for better identification and filtering such clients
– monitoring of backlog in post moratoria review and their notification,
– detailed Post moratoria delinquency monitoring.

Regular reporting for management, other local purposes, relevant reporting to UniCredit Group and regulators was ensured. Based on partial economic lockdown and expected economic slowdown including follow-up negative effects on consumers the set of retail risk rules was updated already within first half of 2020.

Acceptable limits for LTV, Debt Ratio ("DR"), DTI, DSTI were updated with stricter approach to keep appropriate prudential approach and defend asset quality. The same applied for customer income recognition/acceptance rules following the evaluation of industry risk clustering. Follow-up rules updates were done during the year to ensure fast Group reaction incl. release of some of mentioned rules during the year, but still keeping prudent approach with not fully utilization of all limits used according to regulators recommendations.

Loan loss provisions
Due to updates of the macro-scenarios for individual European countries which took into account the negative expectations caused by Covid-19, there were also updates of the forward looking information (hereinafter "FLI") component of expected credit loss calculation, according to IFRS 9, which was implemented on the Group in the 2nd and 4th quarter 2020.

Asset quality impact: worsening in Corporate, neutral in Retail
As shown in the migration tables bellow, the year 2020 is worse mainly in the higher migration from stage 2 to defaulted stage 3. In the corporate segment that reacts obviously faster on the macro economic slowdown is the amount of new defaults migrating from

stage 2 more than tripling the volume from 2019, i.e. from 0,7 BCZK to 2,2 BCZK. Direct migration from stage 1 to stage 3 increased as well in the corporate segment by 74% (from 3,0 BCZK to 5,3 BCZK).

The 2020 development of migration between stages is rather neutral in the retail segment. Increased migration to stage 3 (mainly from stage 2) can be seen but there are also positive movements like increased migration from stage 2 to stage 1 or higher reductions (repayments) of exposures within stage 2. Due to frequent law moratoria utilization in 2020, despite the measures described above, there may be delayed identification of defaults during the year 2021.

Migrations between stages

	Corporate Customers			Retail Customers		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer of Gross carrying amount from stage 1	(23 327)	17 997	5 330	(4 666)	4 221	445
Transfer of Gross carrying amount from stage 2	3 623	(5 799)	2 176	2 920	(3 242)	322
Transfer of Gross carrying amount from stage 3	148	117	(265)	162	90	(252)
	Corporate Customers			Retail Customers		
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer of Gross carrying amount from stage 1	(18 165)	15 097	3 068	(4 298)	3 870	428
Transfer of Gross carrying amount from stage 2	4 533	(5 218)	685	1 702	(1 901)	199
Transfer of Gross carrying amount from stage 3	395	109	(504)	318	109	(427)

FLI and Multiscenario Overlay Factor

The IFRS 9 impairment requirements set out that expected credit loss must be assessed based on past, current and forward-looking information. In this regard, the Group usually updates macroeconomic scenarios on a half year basis and account for the related effects in half year and year-end financial reports. Considering Covid-19 and associated lock-down measures, the Group has updated macro-economic scenarios as at 31 March 2020 and confirmed the outcomes for 30 June 2020 having observed no significant updates in macroeconomic data used. Further update of internally developed macro-economic scenarios for 2021 – 2023 was confirmed to be used for the risk management purposes in November 2020.

To mitigate the impact uncertainty of macro-economic forecasts, multiscenario overlay factor was implemented in Q4. Through this component sensitivity of Expected Credit Loss (“ECL”) evolution to different scenarios was incorporated into the calculation. The process defined to include multiple macroeconomic scenarios is fully consistent with forecast processes used by the Group for additional risk management purposes (for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and Internal Capital Adequacy Assessment Process (“ICAAP”) Framework) and also takes advantage of independent UniCredit Research function. Specifically, the Group has selected three macroeconomic scenarios to determine the forward-looking component: a baseline scenario, one positive scenario and one adverse scenario. The baseline scenario is the reference central scenario and therefore is the most probable realization. Positive and adverse scenarios represent possible alternative realizations, respectively a better and a worst one compared to the baseline in terms of evolution of the economy.

So called ‘baseline’ scenario expects, that in the near term, a high number of Covid-19 cases and restrictions to mobility and business activity will see output fall around the turn of the year 2020. However, strong support from fiscal policy will mitigate the impact on jobs and incomes, while the CNB and European Central Bank (hereinafter “ECB”) will keep “controlling” yield curves, hence preserving favorable financial conditions. Economic growth is seen bouncing back in the spring of 2021 as milder weather allows governments to loosen some of the restrictions, while the distribution of effective vaccines and new treatments to suppress virus transmission will support confidence and activity more clearly starting at around mid-2021. As the public health situation improves and confidence returns, we expect households to run down some of the savings accumulated during the crisis, thus boosting consumer spending. Overall, both Czech and Slovak economies would be on track for solid growth in 2021. This would be followed by a normalization of growth rates in 2022 and 2023 with growth returning to potential.

In the negative scenario, we assume that Europe will face a further wave of the pandemic at the beginning of 2021. Economies start reopening in spring 2021 as milder weather conditions allow governments to relax some of the containment measures. However, the roll-out of vaccines is slower than assumed in the baseline scenario, initially due to bottlenecks in the process and, later, because a relatively large share of the population is reluctant to get their shot. Therefore, herd immunity is only reached towards the end of the three-year forecasting horizon. Given these assumptions, the Covid-19 dampens private demand by more than assumed in the baseline scenario, and scarring effects are larger. Governments will continue to push ahead with expansionary policies to mitigate the effects of the pandemic and to preserve social stability. Generally favorable financial conditions are expected despite the further build-up of debt in the public and private sectors.

The growth shock is around 5pp for both countries in 2021. We assume that unemployment increases in both countries in 2021 compared to the baseline and declines only slightly in 2H22, leaving the 2022 average above that from the baseline scenario. Thereafter, a more pronounced decline could narrow the difference to the baseline in 2023. Demand weakness leads to a widening of the output gap which, together with lower oil prices, puts downward pressure on inflation.

The positive scenario assumes that the expected roll-out of vaccines (along with new medical treatments) boosts confidence and Gross Domestic Product ("GDP") by more than we project in the baseline scenario. While the picture for 2021 remains in line with the baseline projections or even slightly below it like in case of Slovak GDP, the pace of recovery in 2022 turns out to be materially stronger as households continue to reduce precautionary savings while firms resume investment plans that have been put on hold. Driven by pent-up demand, GDP is back to its pre-pandemic trend level by the end of 2022. Governments progressively scale back their support measures. As new debt issuance slows, there is less need for monetary policy to remain very expansionary.

We set the probabilities at 55% for the baseline scenario, 40% for the negative (pandemic "mild") scenario, and 5% for the positive scenario.

The speed of the roll-out of vaccines and their effectiveness will play a crucial role in shaping the growth trajectory in 2021-23. The above probabilities reflect the assumption that the distribution of vaccines will not hit any major supply-side bottlenecks, that a sufficiently large share of the population will be willing to get their shots, and that immunity will not prove short lived. But we are in uncharted waters, and there is a meaningful risk that things might not go as smoothly as expected regarding one or more of these assumptions. This explains the 40% probability assigned to the negative scenario. The positive scenario envisages that all the negative effects of the Covid-19 evaporate by the end of 2022, when GDP would be back to its pre-pandemic trend level. The probability of the positive scenario is seen as 5%.

In case of Stage 1, Stage 2 and Stage 3 – collective final expected credit loss is calculated using weighted average of ECLs under above mentioned scenarios.

See below overview of mentioned scenarios and its cumulative impact.

		Baseline (55%)		
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**
Czech Rep.	**Real GDP, yoy % change**	4,7	3,6	2,9
Czech Rep.	**Monthly Wage, nominal EUR**	1 397,5	1 499,5	1 585,9
Czech Rep.	**Unemployment rate, %**	4,7	4,0	3,4
Czech Rep.	**Short term rate,average**	0,4	0,8	1,3
Czech Rep.	**House Price Index, yoy % change**	–2,0	2,0	1,0
Slovakia	**Real GDP, yoy % change**	5,7	3,9	3,4
Slovakia	**Monthly Wage, nominal EUR**	1 160,4	1 205,9	1 264,9
Slovakia	**Unemployment rate, %**	8,1	7,5	6,6
Slovakia	**House Price Index, yoy % change**	2,0	4,0	2,0
Slovakia	**Euribor 3m (avg)**	–0,5	–0,5	–0,4
		Negative (40%)		
Country	**Macroeconomic scenario**	**2021**	**2022**	**2023**
Czech Rep.	**Real GDP, yoy % change**	0,0	3,7	2,7
Czech Rep.	**Monthly Wage, nominal EUR**	1 349,0	1 459,6	1 583,4
Czech Rep.	**Unemployment rate, %**	4,9	4,5	3,9
Czech Rep.	**Short term rate,average**	0,5	0,6	0,9
Czech Rep.	**House Price Index, yoy % change**	–2,1	2,0	1,0
Slovakia	**Real GDP, yoy % change**	0,6	3,9	3,8
Slovakia	**Monthly Wage, nominal EUR**	1 127,7	1 174,8	1 241,3
Slovakia	**Unemployment rate, %**	8,5	7,6	6,6
Slovakia	**House Price Index, yoy % change**	–4,1	3,0	3,2
Slovakia	**Euribor 3m (avg)**	–0,5	–0,5	–0,5

			Positive (5%)	
Country	Macroeconomic scenario	2021	2022	2023
Czech Rep.	Real GDP, yoy % change	4,7	5,9	3,4
Czech Rep.	Monthly Wage, nominal EUR	1 438,8	1 609,9	1 730,1
Czech Rep.	Unemployment rate, %	4,1	3,4	3,1
Czech Rep.	Short term rate,average	0,5	1,0	1,7
Czech Rep.	House Price Index, yoy % change	2,2	3,6	4,9
Slovakia	Real GDP, yoy % change	4,6	5,9	4,7
Slovakia	Monthly Wage, nominal EUR	1 188,5	1 287,6	1 379,4
Slovakia	Unemployment rate, %	6,4	5,8	6,3
Slovakia	House Price Index, yoy % change	–0,4	4,5	3,6
Slovakia	Euribor 3m (avg)	–0,5	–0,5	–0,5

Country	Cumulative GDP change between 2020 and 2023	Baseline	Negative	Positive
Czech Rep.	Real GDP, 3y % change	**11,6**	**6,4**	**14,6**
Slovakia	Real GDP, 3y % change	**13,6**	**8,4**	**15,9**

Sensitivity analysis
Since GDP forecast stated in the above-mentioned scenarios is assumed not to be linearly correlated to the ECL, it was agreed to provide two sensitivities based on opposite GDP assumptions:
- ECL sensitivity considering an upside scenario (i.e. the positive IFRS9 scenario), and
- ECL sensitivity considering based on a downside scenario (i.e. the negative IFRS9 scenario).

In both cases the sensitivity is calculated as ratio between:
- the difference of ECL between the baseline and alternative scenario
- the difference of GDP in basis point between the baseline and alternative scenario.

The 3 years cumulated GDP growth (country specific) is used in all calculations further.

The ECL under each of the three scenarios (baseline, negative and positive) were calculated considering the latest portfolio available.

(c) Market Risk

(i) Trading
The Group holds trading positions in various financial instruments, including financial derivatives. The majority of the Group's business activities are driven by the requirements of the Group's customers. Depending on the predicted demand of its customers, the Group holds a 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 short term profit taking on the expected future development of financial markets and the instruments are classified in line with IFRS 9 Financial instruments as held for trading. The Group's business strategy is thus affected by short term profit taking and market-making and its goal is to maximise net income from trading.

The Group manages risks associated with its trading activities at the level of individual types of risk and types of financial instruments. The basic tools used for market 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 description quantitative methods applied in risk management are included in the following section "Market risk management".

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

(ii) Market Risk Management
Below are described selected types of risk to which the Group is exposed through its trading activities as well as managing the positions resulting from these activities and managing these risks. There is also market risk exposure in the Group's banking book which corresponds to portfolios of financial instruments not held for trading. Market Risk is measured for the Trading and Banking book separately and also collectively. The procedures applied by the Group to measure and manage these risks are described in detail in the following paragraphs.

The Group is exposed to market risk 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 to interest rate risk resulting from the Group's structure of assets and liabilities. The Group monitors interest rate risk by measuring the sensitivity of particular assets and liabilities which mature/reprice in specific time interval. This sensitivity is expressed by the change in the 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 mismatch 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 market risks arising from the Group'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 Group's Value at Risk model calculations have the following limitations:

– The one-day holding period assumes that all 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 basis for determining possible future developments 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 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).

The VaR calculation divides the calculated risk into interest rate and credit portions. The credit portion of VaR is calculated based on the volatility of the credit spread between securities and the risk free interest rate. For this purpose, the yield curves of particular Issuers, industries, or groups of Issuers with identical rating are downloaded into the system for market risk management. Specific securities are mapped to these yield curves and the volatility of the credit spread is calculated. The Group regularly reassesses the mapping of debt securities with the relevant yield curves and, if necessary, the debt securities are re-mapped to curves that reliably reflect the credit risk of the specific debt securities

The outputs of the VAR calculation model are back-tested and compared with the results of the changes to 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:

	At 31 Dec 2020	Average for 2020	At 31 Dec 2019	Average for 2019
Aggregate VaR	298.0	295.6	247.5	193.7
VaR of currency instruments	0.1	1.5	2.4	5.6
VaR of equity instruments	–	–	–	–

Covid-19 impacts on Market Risk

As far as Market Risk is concerned, the abrupt market movements and the increased market volatility triggered at beginning of the year by the outbreak of Covid-19 resulted in a general increase in both managerial and regulatory risk measurement metrics. Loss Warning Limit was hit in the first Covid-19 wave. The evolution of the crisis and the related risk metrics development is under strict monitoring by both risk and business functions. Positions in the Trading Book were significantly reduced.

During the period market parameters were more volatile and interest rates dropped back to its minimum levels.

Value at Risk ("VaR")

Starting from March 2020, the VaR sharply increased, due to the massive increase of volatility in the markets in different asset classes in the course of uncertainty around the Coronavirus crisis. Later when positions were reduced VaR limit utilization dropped and stayed at low levels for the rest of the year.

Interest Rate Risk

The Group is exposed to interest rate risk because of mismatch in interest-bearing assets and liabilities maturities, re-pricing periods and notionals in defined time buckets (gap or mismatch risk). In the event of a change in interest rates, the Group is also exposed to interest rate 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 (basis risk and yield curve risk). Interest risk management is focused on optimising the Group's net interest income in accordance with the strategies approved by the Board of Directors.

The Group's overall interest rate position as of 31 December 2020 is characterised by sensitivity to a decrease in rates – this is reflected in the negative aggregate basis point value (BPV) – if the interest rates in 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 internal Liquidity Management Policy and the internal Funds Transfer Pricing Policy and by the Strategy of Interest Rate Risk Management in the Banking Book approved by the Board of Directors. Part of the Group's income is generated by the intentional mismatch 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%), ie it represents the sensitivity of instruments to interest rate risks.

The Group has set up 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 simulating impact on Net interest income under of historical scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Group's results. The Group uses the euro as the base currency for stress testing. All values are translated to CZK using the Czech National Bank's exchange rate as of the respective date.

	Basic stress test		MM stress test
	–200bp	+200bp	+250bp
*)			
Value at 31 December 2020	10 741	(5 590)	(2 683)
Average for the period	9 947	(4 241)	(1 853)
Maximum value	12 189	(1 044)	(385)
Minimum value	7 373	(6 057)	(2 743)
Value at 31 December 2019	7 498	(4 822)	(1 928)
Average for the year	8 429	(4 471)	(2 075)
Maximum value	12 141	(2 633)	(302)
Minimum value	4 593	(6 220)	(3 391)

On 7 December 2015, stress scenarios for negative market interest rates were introduced.

As a large portion of the market interest rate curve shows negative rates and a further decrease cannot be excluded, the Group applies a stress scenario to reflect a possible Net interest income effect of a further decrease in the market interest rates. This approach is applied to the entire portfolio of assets and liabilities, including products for which a decrease of the market interest rates (as an element of client rates) into negative values is restricted in contracts (as well as in the general business terms and conditions).

Using this approach, the Group also reflects the possible risk of profit/loss for products where the market interest rates cannot achieve negative values according to contracts.

Hedge Accounting

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

Fair value hedges are used for reducing the price interest rate risk of issued bonds, purchased securities, loans or deposits. Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise Net interest income; in other words to manage reinvestment risk.

Fair Value Hedging
Hedged instruments include financial assets and liabilities recognised at amortised cost and debt financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the hedge relationship, the Group performs a prospective 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 actual interest rate developments, a test of effectiveness is carried out monthly. The Group undertakes monthly effectiveness testing to be able to detect possible non-effectiveness of the hedge relationships.

For particular hedged items and hedging transactions (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedge relationship until the maturity of the hedged instrument. 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 sum 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%.

In the table below, the Group sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

31 Dec 2020	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see "A" below	29 796	–	1	–
Portfolio fair value hedges				
Interest rate risk – see "B" below	–	(81 711)	–	(1 636)

31 Dec 2019	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see "A" below	18 590	(6 706)	(112)	(28)
Portfolio fair value hedges				
Interest rate risk – see "B" below	–	(35 280)	–	(1 097)

The corresponding Consolidated Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:
"A" represents hedging of"

– Loans presented in the line *"Financial assets at amortised cost, of which: Loans and advances to customers"*,
– Purchased bonds presented in the line *"Financial assets at fair value through other comprehensive income"*,
– Money-markets trades presented in the line *"Financial liabilities at amortised cost, of which: Deposits from banks"* and
– Issued bonds presented in the line *"Financial liabilities at amortised cost, of which: Debt securities issued"*.

"B" represents hedging of currents accounts presented in the line *"Financial liabilities at amortised cost, of which: Deposits from customers"*.

The table below sets out the outcome of the Group's hedging strategy, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

31 Dec 2020	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(46)	46	–
Portfolio fair value hedges			
Interest rate risk	(527)	527	–

31 Dec 2019	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	282	(292)	(10)
Portfolio fair value hedges			
Interest rate risk	(489)	489	–

Cash Flow Hedging

The Group uses the cash flow hedging to eliminate interest rate risk on an portfolio basis. Hedged items are future forecasted transactions in the form of interest income and expenses which is sensitive to changes in market interest rates. Future forecasted transactions arise from concluded contracts and future forecasting transactions established on the basis of portfolio 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 UniCredit 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). Secondly, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (ie 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, subsequently 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.

The table below sets out the Group's financial assets and financial liabilities designated as hedged items in continuing cash flow hedge relationships and the outcome of the Group's hedging strategy:

	Cash flow hedge reserve		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness		
			in total	Effective portion	Hedge ineffectiveness
	Continuing hedges	Discontinued hedges		recognised in OCI	recognised in the income statement in net trading income
31 Dec 2020					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	592	121	767	767	–
31 Dec 2019					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(1 196)	212	(1 238)	(1 238)	–

The corresponding Consolidated Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:
"A" comprises hedging of:

- Loans presented in the line *"Financial assets at amortised cost, of which: Loans and advances to customers"* and line *"Financial assets at amortised cost, of which: Loans and advances to banks"*,
- Purchased float bonds presented in the line *"Financial assets at fair value through other comprehensive income"*,
- Deposits presented in the line *"Financial liabilities at amortised cost, of which: Deposits from customers"* and line *"Financial liabilities at amortised cost, of which: Deposits from banks"* and
- Issued bonds presented in the line *"Financial liabilities at amortised cost, of which: Debt securities issued"*.

The maturity profile of hedging instruments is included in section V. Other Notes, point 33. Contingent liabilities, contingent assets and financial derivatives.

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board, and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation ("BMR"), UniCredit Group launched in October 2018 UniCredit Group wide project in order to manage the IBORs discontinuation.

The implications of IBOR reform on Group's financial statements are deemed to be insignificant as most of the Group's contract with variable interest rates are based on interest rate benchmarks that already fulfil the conditions set by BMR, ie based on PRIBOR or EURIBOR.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liabilities and derivatives cannot be excluded.

On this regard, on 15 January 2020 the Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform ("the Amendment") have been endorsed by the European Commission for use in EU. The Amendment solves a potential source of uncertainty on the effects of IBOR reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for the Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, the Group has adopted the Amendment with reference to 2019 Financials for its existing hedge accounting relationships involving other IBORs. Adopting the Amendment allows the Group to continue hedge accounting during the period of uncertainty arising from IBOR reform as the Amendment includes a number of reliefs, that apply to all hedging relationships directly affected by IBOR reform. The Amendment permits continuation of hedge accounting even if:

- In the future the hedged benchmark interest rate may no longer be separately identifiable;

- Even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms;
- Even though there is uncertainty about the replacement of the floating interest rates included in its cross-currency interest rate swaps; or
- The retrospective assessment of hedge effectiveness fall outside the 80% - 125% range when the hedging relationship is subject to interest rate benchmark reforms.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The Group's hedge relationships with interest rate benchmark affected by IBOR reform are those with LIBOR whose notional values represents 1,6% of total notional value of all hedging instruments as of 31 December 2020 and thus insignificant.

Details of the Group's hedge accounting relationships are disclosed in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives and Note 35 Financial risk management, part (c) Market risk.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations. The Group participates at the UniCredit Group wide project and analyses the IBOR reform affected contracts.

None of the Group's current IBOR reform affected contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Group will consider implementing when appropriate.

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 the income statement.

The Group has established a system of currency risk limits based on its net currency exposure in individual currencies.

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

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2020						
Cash and cash balances	1 917	1 945	94	22	94	4 072
Financial assets at fair value through profit or loss, *of which:*	15 896	646	540	–	–	17 082
Held for trading	15 896	646	–	–	–	16 542
Mandatorily at fair value	–	–	540	–	–	540
Financial assets at fair value through other comprehensive income	11 434	9 084	–	–	–	20 518
Financial assets at amortised cost *of which:*	339 275	255 492	1 880	235	1 549	598 431
Loans and advances to banks	124 994	10 103	672	228	958	136 955
Loans and advances to customers	214 281	245 389	1 208	7	591	461 476
Positive fair value of hedging derivatives	10 391	(6)	–	–	–	10 385
Equity investments	359	–	–	–	–	359
Property, equipment and right of use assets	4 640	2 239	–	–	–	6 879
Investment property	360	–	–	–	–	360
Intangible assets	2 070	538	–	–	–	2 608
Tax receivables	794	752	–	–	–	1 546
Non-current assets held for sale	–	40	–	–	–	40
Other assets	687	1 362	13	–	10	2 072
Total assets	387 823	272 092	2 527	257	1 653	664 352
Financial liabilities at fair value through profit or loss, *of which:*						
Held for trading	16 808	4	–	–	–	16 812
Financial liabilities at amortised cost *of which:*	278 245	245 490	13 405	624	3 375	541 139
Deposits from banks	2 359	103 104	53	–	3	105 519
Deposits from customers	268 386	139 413	13 352	624	3 372	425 147
Debt securities issued	7 500	2 973	–	–	–	10 473
Negative fair value of hedging derivatives	7 455	–	–	–	–	7 455
Changes in fair value of the portfolio of hedged instruments	855	781	–	–	–	1 636
Tax liabilities	864	41	–	–	–	905
Other liabilities	5 363	3 315	562	1	71	9 312
Provisions for risks and charges	498	939	29	9	26	1 501
Equity	67 685	17 464	257	–	186	85 592
Total liabilities and equity	377 773	268 034	14 253	634	3 658	664 352
Gap	10 050	4 058	(11 726)	(377)	(2 005)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2019						
Cash and cash balances	2 168	2 233	115	22	96	4 634
Financial assets at fair value through profit or loss, *of which:*	11 070	628	487	–	–	12 185
Held for trading	11 070	628	–	–	–	11 698
Mandatorily at fair value	–	–	487	–	–	487
Financial assets at fair value through other comprehensive income	11 527	11 654	–	–	–	23 181
Financial assets at amortised cost *of which:*	390 966	232 348	2 026	21	1 374	626 735
Loans and advances to banks	184 316	1 329	200	13	117	185 975
Loans and advances to customers	206 650	231 019	1 826	8	1 257	440 760
Positive fair value of hedging derivatives	7 198	–	–	–	–	7 198
Equity investments	372	–	–	–	–	372
Property, equipment and right of use assets	4 235	2 171	–	–	–	6 406
Investment property	371	–	–	–	–	371
Intangible assets	1 914	431	–	–	–	2 345
Tax receivables	263	742	–	–	–	1 005
Non-current assets held for sale	–	31	–	–	–	31
Other assets	1 230	820	74	–	6	2 130
Total assets	431 314	251 058	2 702	43	1 476	686 593
Financial liabilities at fair value through profit or loss, *of which:*						
Held for trading	11 535	2	–	–	–	11 537
Financial liabilities at amortised cost *of which:*	287 236	269 704	15 828	637	3 222	576 627
Deposits from banks	7 093	131 629	2 367	–	3	141 092
Deposits from customers	270 426	127 210	13 461	637	3 219	414 953
Debt securities issued	9 717	10 865	–	–	–	20 582
Negative fair value of hedging derivatives	7 624	–	–	–	–	7 624
Changes in fair value of the portfolio of hedged instruments	672	424	–	–	–	1 096
Tax liabilities	1 272	209	–	–	–	1 481
Other liabilities	4 917	3 523	209	5	79	8 733
Provisions for risks and charges	386	403	62	9	22	882
Equity	62 264	16 266	170	1	(88)	78 613
Total liabilities and equity	375 906	290 531	16 269	652	3 235	686 593
Gap	55 408	(39 473)	(13 567)	(609)	(1 759)	–

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 equity risk also arises as a result of the Group's non-trading activities. The risks associated with equity instruments are managed using trading limits. The methods used to manage these risks are described above.

Liquidity Risk
Liquidity risk arises due to the way the Group's finances its activities and manages its positions. It includes the risk 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 diversified 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 a 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. As part of its liquidity risk management strategy, the Group holds 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 by analysing of differences between the residual maturity of assets and liabilities across time buckets. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Group daily monitors and in detail the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows with an outlook of several weeks. 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 for periods longer than one year. The Group sets limits and appropriate action is taken if they are breached (eg by acquiring long-term sources of refinancing).

The Group has a contingency plan in the event of a liquidity crisis. This plan defines the roles, responsibilities and process of crisis management. It also defines the possible measures which should be considered in the event of an emergency situation.

Stress tests of short-term liquidity are performed by the Group on a weekly basis. The stress tests verify the Group's ability to overcome extreme situations, such as systemic interruption of the inter-bank money market, a decrease in the Group's credit rating, IT system breakdowns, and reputation risk to the Group.
The stress scenarios' results are presented to the ALCO.

Covid-19 impacts on Liquidity Risk
The Group responded to the outbreak of the pandemic with strengthening of the liquidity buffer, to be able to balance potentially higher liquidity outflows through higher utilization of undrawn credit facilities, deposits outflow and reduced liquidity inflows caused by the various moratoria. At the same time the business continuity management plans were activated in order to ensure the regular execution of Treasury activities and the proper information flows to the senior management and the Supervisors. Utilization of the ECB facilities helped the Group to reduce the reliance on intragroup funding.

Even though the Group has not so far experienced any extraordinary outflow on deposits or undrawn credit facilities, the liquidity buffers are still kept pre-cautiously at higher levels compared to the pre-pandemic times, as the elevated liquidity risk brought about by the pandemic is still to be faced.

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

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2020							
Cash and cash balances	4 072	4 072	4 072	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	17 082	17 117	1 244	2 741	7 903	5 117	112
– held for trading debt and equity instruments	1 034	1 069	20	74	111	864	–
– held for trading derivatives	15 508	15 508	1 224	2 667	7 792	3 713	112
– mandatorily at fair value	540	540	–	–	–	540	–
Financial assets at fair value through other comprehensive income	20 518	21 583	590	2 925	10 582	7 486	–
Financial assets at amortised cost *of which:*	598 431	636 502	186 896	67 411	197 370	181 123	3 702
Loans and advances to banks	136 955	140 759	132 731	686	6 640	680	22
Loans and advances to customers	461 476	495 743	54 165	66 725	190 730	180 443	3 680
Positive fair value of hedging derivatives	10 385	10 385	81	156	3 989	6 159	–
Equity investments	359	359	–	–	–	–	359
Property, equipment and right of use assets	6 879	6 879	–	–	–	–	6 879
Investment property	360	360	–	–	–	–	360
Intangible assets	2 608	2 608	–	–	–	–	2 608
Tax receivables	1 546	1 546	756	–	785	–	5
Non-current assets held for sale	40	40	–	–	–	40	–
Other assets	2 072	2 072	1 496	568	8	–	–
Financial liabilities at fair value through profit or loss, *of which:*	16 812	16 812	3 714	2 285	6 649	4 053	111
– held for trading debt instruments	2 115	2 115	2 115	–	–	–	–
– held for trading derivatives	14 697	14 697	1 599	2 285	6 649	4 053	111
Financial liabilities at amortised cost *of which:*	541 139	542 447	466 431	17 445	55 225	3 211	135
Deposits from banks	105 519	105 751	47 688	11 065	45 045	1 819	134
Deposits from customers, *of which:*	425 147	424 920	418 086	4 034	1 662	1 137	1
Lease liabilities	2 646	2 694	99	287	1 142	1 167	–
Other than lease liabilities	422 501	422 226	417 987	3 747	520	(30)	1
Debt securities issued	10 473	11 776	657	2 346	8 518	255	–
Negative fair value of hedging derivatives	7 455	7 455	451	419	3 246	3 339	–
Changes in fair value of the portfolio of hedged instruments	1 636	1 636	1 636	–	–	–	–
Tax liabilities	905	905	–	905	–	–	–
Other liabilities	9 312	9 312	7 572	1 735	–	–	5
Provisions for risks and charges	1 501	1 501	291	220	386	498	106
Equity	85 592	85 592	(3)	5 210	1	77 349	3 035
Undrawn loan facilities	46 573	46 573	3 995	13 054	25 466	4 053	5
Bank guarantees	145 954	145 954	4 647	26 055	31 514	78 636	5 102

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2019							
Cash and cash balances	4 634	4 634	4 634	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	12 185	12 735	938	1 949	5 071	4 773	4
– held for trading debt and equity instruments	2 392	2 942	15	434	235	2 258	–
– held for trading derivatives	9 306	9 306	923	1 515	4 836	2 028	4
– mandatorily at fair value	487	487	–	–	–	487	–
Financial assets at fair value through other comprehensive income	23 181	25 471	139	2 290	19 870	3 172	–
Financial assets at amortised cost *of which:*	626 735	663 993	234 598	66 442	188 653	169 586	4 714
Loans and advances to banks	185 975	190 582	184 647	1 861	3 238	823	13
Loans and advances to customers	440 760	473 411	49 951	64 581	185 415	168 763	4 701
Positive fair value of hedging derivatives	7 198	7 198	93	457	2 296	4 352	0
Equity investments	372	372	–	–	–	–	372
Property, equipment and right of use assets	6 406	6 406	–	–	–	–	6 406
Investment property	371	371	–	–	–	–	371
Intangible assets	2 345	2 345	–	–	–	–	2 345
Tax receivables	1 005	1 005	(66)	–	1 071	–	–
Non-current assets held for sale	31	31	–	31	–	–	–
Other assets	2 130	2 130	1 395	735	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	11 537	11 537	4 153	1 525	3 604	2 252	3
– held for trading debt instruments	3 010	3 010	3 010	–	–	–	–
– held for trading derivatives	8 527	8 527	1 143	1 525	3 604	2 252	3
Financial liabilities at amortised cost *of which:*	576 627	578 512	516 936	33 432	20 745	7 235	164
Deposits from banks	141 092	141 113	119 915	6 427	12 877	1 733	161
Deposits from customers, *of which:*	414 953	415 255	393 174	17 261	3 827	990	3
Lease liabilities	2 047	2 150	100	319	1 229	502	–
Other than lease liabilities	412 906	413 105	393 074	16 942	2 598	488	3
Debt securities issued	20 582	22 247	82	10 361	6 321	5 483	–
Negative fair value of hedging derivatives	7 624	7 624	155	854	2 346	4 269	–
Changes in fair value of the portfolio of hedged instruments	1 096	1 096	1 096	–	–	–	–
Tax liabilities	1 481	1 481	570	911	–	–	–
Other liabilities	8 733	8 733	6 960	1 772	–	1	–
Provisions for risks and charges	882	882	–	–	–	–	882
Equity	78 613	78 613	–	–	–	–	78 613
Undrawn loan facilities	130 357	130 357	6 169	27 829	25 169	66 489	4 701
Bank guarantees	45 283	45 283	4 801	10 596	24 741	5 142	3

(d) Operational Risk

Operational risk is the risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes legal risk, however, it does not include strategic or reputation risk. Legal risk includes, inter alia, the risk of fines, sanctions or punitive damages resulting from supervision measures and private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties to prevent conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body 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 is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and assesses the control and management system's functionality.

The Group has continued developing and setting up its comprehensive system for the identification, monitoring and management of operational risk. In line with the 2020 Operational Risk Management Strategy, the Group defined its priorities with respect to mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Group and the Bank. The operational risk appetite is the operational risk level acceptable to the Bank and is measured using ELOR (Expected Loss on Revenue), which is the proportion of anticipated losses arising from operational risk (estimate based on historical data) to income (budgeted income on a quarterly basis). Setting the ELOR limit and its monitoring was performed in line with the Group's policies.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management. The data acquired through the system is taken into account when calculating the capital requirement and when managing operational risk. It serves as the basis for designing processes that reduce the number of particular events and mitigate the consequences (eg when preparing process mitigation measures or the Group's strategic insurance plan). 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 2020, the Group analysed the scenarios, and configured and analysed the risk indicators. Another important element of the operational risk management system is managing the continuity of operations (emergency planning, crisis management). The Bank has updated and tested the recovery plans (for crisis situations) in order to ensure their full usefulness and effectiveness under current conditions. In addition, the Operational Risk Department enhances overall awareness of operational risk within the Group and trains the Group's staff via training sessions and e-learning courses.

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

Covid-19 impacts on Operational Risk

In terms of risk management in 2020, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of the Covid-19. Analysis were carried out in order to identify risks arising from process changes adopted time by time to protect the health of employees and customers.

(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 Bank's regulatory capital consists of the following:

- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting; minus intangible assets and gaps in the coverage of anticipated losses through adjustments for credit risk using the internal rating based approach;
- Tier 1 (T1) capital creating CET1; and
- Tier 2 (T2) capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

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

Statement of capital for the Group's capital adequacy calculation on a consolidated basis as reported to the regulator in accordance with applicable rules as of 31 December 2020 and as of 31 December 2019 is stated in the Annual Report, part *"Consolidated financial highlights".*

36. Related party transactions

Entities are deemed to be related parties in the event that one entity is able to control the activities of another, or is able to exercise significant influence over the other entity's financial or operational policies. As part of its ordinary business, the Group enters into transactions with related parties. 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 Bank's parent company, Bank's fellow subsidiaries and other companies controlled by UniCredit Group or where UniCredit Group exercises significant influence the, the Bank's subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

UniCredit Group has prepared an equity programme for the employees of UniCredit Group under which the employees may purchase shares of UniCredit Group parent at a discounted price. The Discounted employee shares may not be sold during the vesting period. Vested shares are forfeited if the respective employee's employment by the UniCredit Group ends. The provided discount is allocated to individual UniCredit Group companies involved in the programme and these companies recognise and defer the discount over the vesting period.

(a) Transactions with the parent company

	31 Dec 2020	31 Dec 2019
Assets		
Loans and advances to banks	1 865	928
Financial assets held for trading	4 576	1 836
Financial assets at fair value through other comprehensive income	–	–
Positive fair value of hedging derivatives	2 450	925
Total	**8 891**	**3 689**
Liabilities		
Deposits from banks	48 926	118 092
Financial liabilities held for trading	4 390	1 656
Negative fair value of hedging derivatives	1 774	1 417
Total	**55 090**	**121 165**
Off-balance sheet items		
Issued guarantees	570	1 490
Irrevocable credit facilities	788	311
Total	**1 358**	**1 801**

	2020	2019
Interest income	277	296
Interest expenses	(19)	(193)
Fee and commission income	1	1
Fee and commission expenses	(4)	(1)
Net profit/loss from financial assets and liabilities held for trading	202	201
Net profit/loss from hedging of the risk of change in fair values	(260)	(3)
Administrative expenses	(65)	(13)
Total	**132**	**288**

(b) Transactions with key management members

	31 Dec 2020	31 Dec 2019
Assets		
Loans and advances to customers	147	114
of which:		
Board of Directors	20	17
Other management members	127	97
Total	**147**	**114**
Liabilities		
Payables to customers	133	169
of which:		
Board of Directors	47	85
Other management members	86	84
Total	**133**	**169**
Off-balance sheet items		
Irrevocable credit facilities	3	3
of which:		
Board of Directors	1	1
Other management members	2	2
Total	**3**	**3**

(c) Transactions with other related parties

	31 Dec 2020	31 Dec 2019
Assets		
Financial assets held for trading	2 888	1 654
of which:		
UniCredit Bank AG	2888	1 654
Loans and advances to banks	887	166
of which:		
UniCredit Bank AG	20	1
UniCredit Bank Austria AG	697	79
Yapi ve Kredi Bankasi AS	–	54
UniCredit Bank Hungary Zrt.	85	16
AO UniCredit Bank	50	1
Loans and advances to customers	707	801
of which:		
UCTAM Czech Republic s.r.o.	288	398
UCTAM SVK, s.r.o	419	403
Positive fair value of hedging derivatives	5 706	4 139
of which:		
UniCredit Bank AG	5 706	4 139
Total	**10 188**	**6 760**

	31 Dec 2020	31 Dec 2019
Liabilities		
Deposits from banks	3 286	3 800
of which:		
UniCredit Bank Austria AG	2 183	2 973
UniCredit Bank AG	995	750
UniCredit Bank Hungary Zrt.	41	55
Deposits from customers	304	339
of which:		
UniCredit Services S.C.p.A.	91	110
Financial liabilities held for trading	3 792	2 563
of which:		
UniCredit Bank AG	3 792	2 563
Negative fair value of hedging derivatives	4 191	3 310
of which:		
UniCredit Bank AG	4 191	3 310
Total	**11 573**	**10 012**

	31 Dec 2020	31 Dec 2019
Off-balance sheet items		
Issued guarantees	1 537	2 348
of which:		
UniCredit Bank AG	1 336	1 853
UniCredit Bank Austria AG	113	325
UniCredit Bank Hungary Zrt.	5	12
AO UniCredit Bank	36	53
Irrevocable credit facilities	992	534
of which:		
UniCredit Bank AG	517	433
Total	**2 529**	**2 882**

	2020	2019
Interest income	33	109
of which:		
UniCredit Bank AG	4	2
UniCredit Bank Austria AG	12	90
Interest expenses	(279)	(452)
of which:		
UniCredit Bank AG	(188)	(175)
UniCredit Bank Austria AG	(83)	(268)
Fee and commission income	64	129
of which:		
UniCredit Bank AG	13	12
UniCredit Bank Hungary Zrt.	2	2
UniCredit Bank Austria AG	47	111
Fee and commission expenses	(10)	(8)
of which:		
UniCredit Bank Austria AG	(5)	(4)
Net profit/loss from financial assets and liabilities held for trading	46	(303)
of which:		
UniCredit Bank AG	46	(302)
Net profit/loss from hedging against risk of changes in fair value	421	50
of which:		
UniCredit Bank AG	421	50
Administrative expenses	(914)	(909)
of which:		
UniCredit Services S.C.p.A.	(888)	(900)
Total	**(639)**	**(1 384)**

37. Fair value of financial assets and financial liabilities

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

Financial assets at fair value through profit or loss

Held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Debt securities	518	516	–	1 034
Derivatives	32	15 259	217	15 508
Total	**550**	**15 775**	**217**	**16 542**
31 Dec 2019				
Debt securities	2 392	–	–	2 392
Derivatives	35	9 159	112	9 306
Total	**2 427**	**9 159**	**112**	**11 698**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Shares and Other debt securities	–	277	263	540
Total	**–**	**277**	**263**	**540**
31 Dec 2019				
Shares and Other debt securities	–	–	487	487
Total	**–**	**–**	**487**	**487**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Debt securities	18 006	2 441	64	20 511
Shares	–	–	7	7
Total	**18 006**	**2 441**	**71**	**20 518**
31 Dec 2019				
Debt securities	19 829	3 281	65	23 175
Shares	–	–	6	6
Total	**19 829**	**3 281**	**71**	**23 181**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Fair value hedging	–	2 425	–	2 425
Cash flow hedging	–	7 960	–	7 960
Total	**–**	**10 385**	**–**	**10 385**
31 Dec 2019				
Fair value hedging	–	1 370	–	1 370
Cash flow hedging	–	5 828	–	5 828
Total	**–**	**7 198**	**–**	**7 198**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Liabilities from short sales	2 115	–	–	2 115
Derivatives	–	14 473	224	14 697
Total	**2 115**	**14 473**	**224**	**16 812**
31 Dec 2019				
Liabilities from short sales	3 010	–	–	3 010
Derivatives	–	8 442	85	8 527
Total	**3 010**	**8 442**	**85**	**11 537**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Fair value hedging	–	745	–	745
Cash flow hedging	–	6 710	–	6 710
Total	**–**	**7 455**	**–**	**7 455**
31 Dec 2019				
Fair value hedging	–	360	–	360
Cash flow hedging	–	7 264	–	7 264
Total	**–**	**7 624**	**–**	**7 624**

The following table shows the carrying amounts and fair values of financial assets and liabilities that are not reported at fair values in the Group's balance sheet (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual customers are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2020					
Financial assets					
Loans and advances to banks	136 955	137 030	–	117 693	19 337
Loans and advances to customers	461 476	456 970	–	96 067	360 903
Financial liabilities					
Deposits from banks	105 519	105 311	–	50 717	54 594
Deposits from customers	425 147	424 922	–	590	424 332
Debt securities issued	10 473	10 777	–	10 362	415

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2019					
Financial assets					
Loans and advances to banks	185 975	185 972	–	168 194	17 778
Loans and advances to customers	440 760	437 534	–	139 136	298 398
Financial liabilities					
Deposits from banks	141 092	141 569	–	125 423	16 146
Deposits from customers	414 953	414 960	–	1 758	413 202
Debt securities issued	20 582	20 798	–	20 374	424

For the year ended 31 December 2020 and 31 December 2019, no financial assets reported at fair value were transferred between Levels 1 and 2.

For the years ended 31 December 2020 and 31 December 2019, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

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

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2019	**2 331**	**346**	**70**	**–**	**646**	**3 393**
Revaluation gains and losses						
In the income statement	–	139	–	–	(24)	115
In other comprehensive income	–	–	–	–	–	–
Purchases	43	–	–	–	–	43
Sales/maturity	(2 178)	–	–	–	(251)	(2 429)
Transfers from/to other levels	(122)	–	–	–	–	(122)
Other	38	2	1	–	849	890
Closing balance at 31 Dec 2019	**112**	**487**	**71**	–	**1 220**	**1 890**
Total revaluation gains and losses included in the income statement for the period:						115
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						115

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2020	**112**	**487**	**71**	**–**	**1 220**	**1 890**
Revaluation gains and losses						
In the income statement	–	53	–	–	(12)	41
In other comprehensive income	–	–	–	–	(12)	(12)
Purchases	81	–	–	–	43	124
Sales/maturity	–	–	–	–	–	–
Transfers from/to other levels	63	(277)	–	–	–	(214)
Depreciation	n/a	n/a	n/a	n/a	(31)	(31)
Other	(39)	–	–	–	12	(27)
Closing balance at 31 Dec 2020	**217**	**263**	**71**	**–**	**1 220**	**1 771**
Total revaluation gains and losses included in the income statement for the period:						41
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						41

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

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2019	**1 304**	**–**	**1 304**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	30	–	30
Sales/maturity	(1 173)	–	(1 173)
Transfers from/to other levels	(75)	–	(75)
Other	(1)	–	(1)
Closing balance at 31 Dec 2019	**85**	**–**	**85**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2020	**85**	**–**	**85**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	87	–	87
Sales/maturity	–	–	–
Transfers from/to other levels	75	–	75
Other	(23)	–	(23)
Closing balance at 31 Dec 2020	**224**	**–**	**224**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

38. Offseting of financial assets and financial liabilities

The Group does not offset financial assets and financial liabilities.

The below table shows assets which are subject to netting agreements according to Credit risk management arrangements included in the Derivative Framework agreements such as ISDA or similar. The assets are subject to netting on settlement (performance netting) and on position closeout.

	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Potential amounts available for offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2020						
Derivatives	19 640	–	19 640	17 172	–	2 468
31 Dec 2019						
Derivatives	14 361	–	14 361	12 079	–	2 282

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

	Gross reported financial liabilities	Gross offset financial assets	Net reported financial liabilities	Potential amounts available for offset		Net amount
				Financial instruments	Provided cash collateral	
31 Dec 2020						
Derivatives	21 250	–	21 250	17 172	–	4 078
31 Dec 2019						
Derivatives	13 348	–	13 348	12 079	–	1 269

39. Subsequent Events

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

The Group is carefully monitoring current Covid-19 development and taking all necessary precautions in line with current development and government measures.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 16 March 2021.

Jakub Dusílek
Chairman of the Board
of Directors

Massimo Francese
Member of the Board
of Directors

Individual in charge
of the accounting records

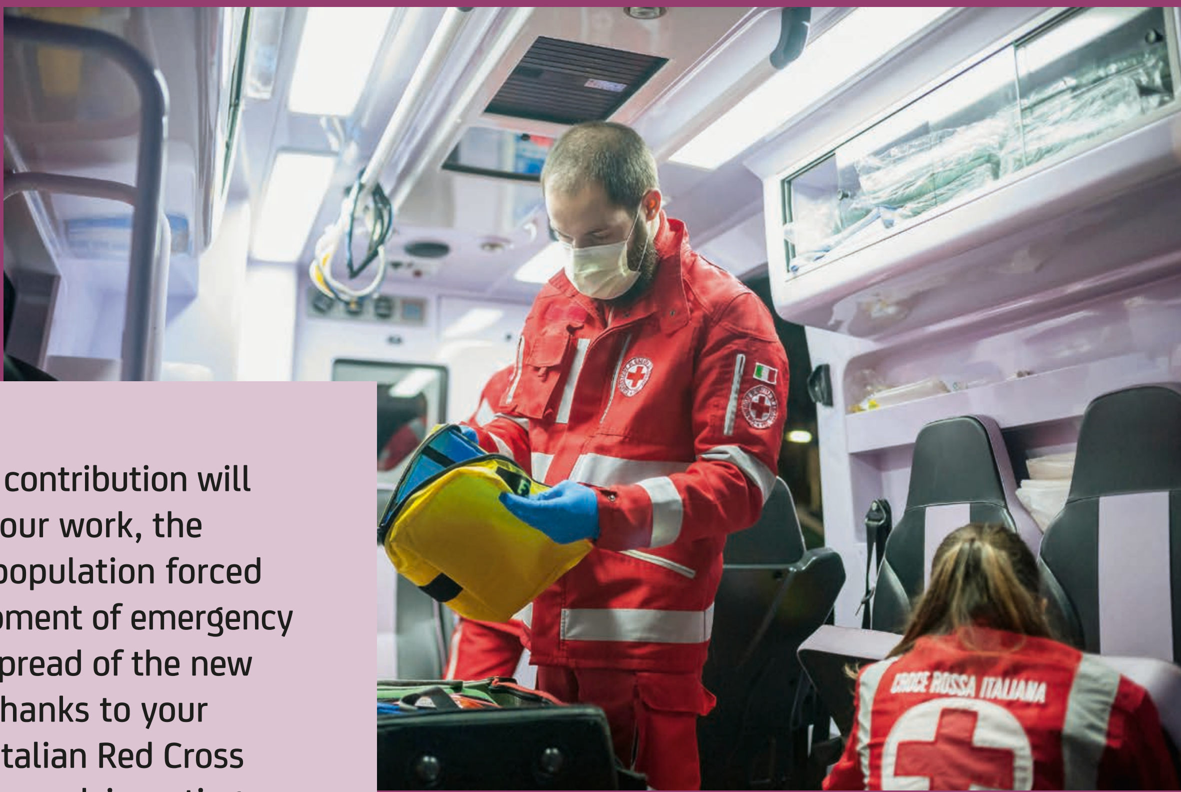
Lea Branecká

Individual in charge
of the financial statements

Michaela Mrštíková

Do the right thing!
for our Communities

UniCredit Group is proud to support communities in all of our countries: we launched formal and informal initiatives, with a wide range of volunteering activities and donations, employees and customers raising and donating millions of euros.



"Your generous contribution will help, through our work, the entire Italian population forced to face this moment of emergency linked to the spread of the new Coronavirus. Thanks to your donation, the Italian Red Cross continues to expand, investing in services, resources and training for volunteers and operators to be alongside those who need it most."

Francesco Rocca
President of the Italian Red Cross

Separate financial statements

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020 MCZK	2019 MCZK
Interest income, *of which:*		13 007	17 138
– interest income calculated using the effective interest method		12 217	16 813
Interest expenses		(2 302)	(3 885)
Net interest income	**(1)**	**10 705**	**13 253**
Fee and commission income		4 350	4 877
Fee and commission expenses		(1 209)	(1 277)
Net fee and commission income	**(2)**	**3 141**	**3 600**
Dividend income	(3)	335	455
Net income/(loss) from trading	(4)	1 860	1 888
Net income/(loss) from hedging against risk of changes in fair value	(5)	–	(12)
Net income/(loss) from the sale or repurchase of:	(6)	497	471
Financial assets at amortised cost		86	136
Financial assets at fair value through other comprehensive income		412	335
Financial liabilities		(1)	–
Net income/(loss) from financial assets/liabilities at fair value through profit or loss, *of which:*	(7)	82	139
Mandatorily at fair value		82	139
Operating income		**16 620**	**19 794**
Impairment losses on:	(8)	(2 157)	(1 128)
Financial assets at amortised cost		(2 159)	(1 129)
Financial assets at fair value through other comprehensive income		2	1
Modification gain/(loss)		(57)	–
Administrative expenses	(9)	(6 592)	(6 433)
Net provisions for risks and charges:	(27)	(654)	308
Loan commitments and financial guarantees given		(572)	371
Other net provisions		(82)	(63)
Depreciation and impairment of property, equipment and right of use assets	(18)	(446)	(473)
Amortisation and impairment of intangible assets	(19)	(494)	(491)
Other operating income and expenses	(10)	167	18
Operating expenses		**(8 019)**	**(7 071)**
Net income/(loss) on property measured at fair value	(18)	(1)	(1)
Profit/(loss) from the sale of non-financial assets		–	1
Profit before income tax		**6 386**	**11 595**
Income tax	(28)	(1 224)	(2 162)
Profit after tax		**5 162**	**9 433**
Items that cannot be subsequently reclassified to profit or loss			
Reserve from revaluation of property measured at fair value, *of which:*		(11)	261
Change in fair value		(3)	329
Transfers to other net equity items		(11)	n/a
Deferred tax		3	(68)
Items that can be subsequently reclassified to profit or loss			
Reserve from revaluation of hedging instruments in cash flow hedges, *of which:*		1 371	(1 000)
Change in fair value		1 697	(1 238)
Revaluation reclassified to profit or loss		–	–
Deferred tax		(326)	238
Reserve from revaluation of financial assets at fair value through other comprehensive income, *of which:*		(211)	(264)
Change in fair value		64	(53)
Revaluation reclassified to profit or loss		(326)	(224)
Deferred tax		51	13
Foreign exchange rate gains from the consolidation of a foreign branch		424	(171)
Other comprehensive income, net of tax		**1 573**	**(1 174)**
Total comprehensive income, net of tax		**6 735**	**8 259**

The notes on pages 125–201 form a part of these financial statements.

Statement of financial position as of 31 December 2020

	Note	2020 MCZK	2019 MCZK
Assets			
Cash and cash balances	(11)	4 072	4 633
Financial assets at fair value through profit or loss, *of which:*	(12)	17 082	12 185
Held for trading		16 542	11 698
Mandatorily at fair value		540	487
Financial assets at fair value through other comprehensive income	(13)	20 518	23 181
Financial assets at amortised cost, *of which:*		583 094	613 747
Loans and advances to banks	(14)	136 930	185 944
Loans and advances to customers	(15)	446 164	427 803
Positive fair value of hedging derivatives	(16)	10 398	7 199
Equity investments	(17)	3 979	3 979
Property, equipment and right of use assets	(18)	3 591	2 955
Intangible assets	(19)	2 352	2 097
Tax receivables, *of which:*	(28)	1 332	853
Current income tax		761	–
Deferred tax		571	853
Non-current assets held for sale		40	31
Other assets	(20)	2 132	1 692
Total assets		**648 590**	**672 552**
Liabilities			
Financial liabilities at fair value through profit or loss, *of which:*		16 812	11 537
Held for trading	(21)	16 812	11 537
Financial liabilities at amortised cost, *of which:*		529 930	567 206
Deposits from banks	(22)	94 950	132 031
Deposits from customers	(23)	424 922	415 017
Debt securities issued	(24)	10 058	20 158
Negative fair value of hedging derivatives	(25)	7 465	7 624
Changes in fair value of the portfolio of hedged instruments		1 636	1 096
Tax liabilities, *of which:*	(28)	–	570
Current income tax		–	570
Deferred tax		–	–
Other liabilities	(26)	8 738	7 884
Provisions for risks and charges	(27)	1 470	869
Total liabilities		**566 051**	**596 786**
Equity			
Issued capital	(29)	8 755	8 755
Share premium	(29)	3 495	3 495
Reserve funds from revaluation		1 312	(261)
Retained earnings and reserve funds	(31)	63 815	54 344
Profit for the period		5 162	9 433
Total shareholder's equity		**82 539**	**75 766**
Total liabilities and shareholder's equity		**648 590**	**672 552**

The notes on pages 125–201 form a part of these financial statements.

Statement of cash flows for the year ended 31 December 2020

	2020 MCZK	2019 MCZK
Profit after tax	**9 433**	**8 923**
Adjustments for non-monetary items:		
Impairment losses of:	2 214	1 128
Financial assets at amortised costs	2 216	1 129
Financial assets at fair value through other comprehensive income	(2)	(1)
Revaluation of financial instruments	252	637
Net provisions for risks and charges:	654	(303)
Loan commitments and financial guarantees given	572	(371)
Other net provisions	82	68
Depreciation and impairment of property, equipment and right of use assets	446	473
Amortisation and impairment of intangible assets	494	491
Net income/(loss) from the sale or repurchase of:	113	113
Financial assets at amortised cost	–	–
Financial assets at fair value through other comprehensive income	113	113
Financial liabilities	–	–
Profit/(loss) from the sale of non-financial assets	–	(1)
Taxes	1 224	2 162
Unrealised foreign currency gains/(losses)	424	(171)
Other non-monetary adjustments	(3 178)	(3 448)
Operating profit before change in operating assets and liabilities	**7 805**	**10 514**
Financial assets at fair value through profit or loss, *of which:*	(6 108)	(2 848)
Held for trading	(6 133)	(2 846)
Mandatorily at fair value	25	(2)
Financial assets at amortised cost, *of which:*	30 304	(12 002)
Loans and advances to banks	48 940	14 092
Loans and advances to customers	(18 636)	(26 094)
Other assets	(115)	125
Financial liabilities at fair value through profit or loss, *of which:*	6 188	2 733
Held for Trading	6 188	2 733
Financial liabilities at amortised cost, *of which:*	(27 047)	7 918
Deposits from banks	(36 960)	(32 109)
Deposits from customers	9 913	40 027
Other liabilities	756	(55)
Income tax paid	(2 306)	(1 953)
Net cash flows from operating activities	**9 477**	**4 432**
(Acquisition)/sale and maturity of financial assets at fair value through other comprehensive income and other financial instruments	1 023	5 268
Gains from the sale of property and equipment and intangible assets	4	1
(Acquisition) of property and equipment and intangible assets	(649)	(865)
Dividends received	5	5
Net cash flows from investment activities	**383**	**4 409**
Dividends paid	–	(6 070)
Financial liabilities at amortised cost – debt securities issued and repaid	(10 035)	(2 612)
(Payment) of Lease liabilities	(386)	(367)
Net cash flows from financial activities	**(10 421)**	**(9 049)**
Cash and cash balances at the beginning of the period	**4 633**	**4 841**
Cash and cash balances at the end of the period	**4 072**	**4 633**
Interest received	14 010	17 233
Interest paid	(3 426)	(3 660)

The notes on pages 125–201 form a part of these financial statements.

Statement of changes in equity for the year ended 31 December 2020

MCZK	Issued capital	Share premium	Reserve from revaluation of: hedging instruments	Reserve from revaluation of: financial assets at fair value through other compr. income	Reserve from revaluation of: property measured at fair value	Reserve from revaluation of: exchange rate gains/ (losses) of a foreign branch	Retained earnings and reserve funds: Reserve fund and other capital funds	Retained earnings and reserve funds: Special purpose reserve fund	Retained earnings and reserve funds: Retained earnings	Profit for the period	Equity
Balance as of 1 January 2019	**8 755**	**3 495**	**204**	**828**	**n/a**	**(119)**	**3 372**	**12 423**	**35 701**	**8 923**	**73 582**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit								817	8 106	(8 923)	–
Dividend payment									(6 070)		(6 070)
Other									(5)		(5)
Total comprehensive income for the current period											
Net profit for the current period										9 433	9 433
Other comprehensive			(1 000)	(264)	261	(171)					(1 174)
Balance as of 31 December 2019	**8 755**	**3 495**	**(796)**	**564**	**261**	**(290)**	**3 372**	**13 240**	**37 732**	**9 433**	**75 766**
Balance as of 1 January 2020	**8 755**	**3 495**	**(796)**	**564**	**261**	**(290)**	**3 372**	**13 240**	**37 732**	**9 433**	**75 766**
Transactions with owners, contributions from and distributions to owners											
Allocation of the prior year profit								1 231	8 202	(9 433)	–
Dividend payment											
Other									38		38
Total comprehensive income for the current period											
Net profit for the current period										5 162	5 162
Other comprehensive			1 371	(211)	(11)	424					1 573
Balance as of 31 December 2020	**8 755**	**3 495**	**575**	**353**	**250**	**134**	**3 372**	**14 471**	**45 972**	**5 162**	**82 539**

The notes on pages 125–201 form a part of these financial statements.

Notes to the financial statements (separate)

Year ended 31 December 2020

I. Introduction

General Information

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Bank") was established through the cross-border merger of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a.s. with UniCredit Bank Czech Republic, a.s. being the successor company. The effective merger date was 1 July 2013. UniCredit Bank Czech Republic, a.s. was established through the merger by amalgamation of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. as of 1 October 2006. All rights and obligations of the dissolved company, Živnostenská banka, a.s., were transferred to the successor, HVB Bank Czech Republic a.s. In 2008, the Bank assumed the net assets of HVB Reality CZ, s.r.o. In 2009, the Bank prepared a project of its merger with UniCredit Factoring, s.r.o. UniCredit Factoring, s.r.o. was the dissolved company and the Bank was the successor company. In 2012, the Bank prepared a project of its merger by amalgamation with UniCredit CAIB Czech Republic a.s. This company was the dissolved company and the Bank became the successor company.

Changes in the business name and other facts related to the cross-border merger were recorded in the Commercial Register in Prague, Section B, Insert 3608 on 1 December 2013.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A which is the ultimate parent company of the entire UniCredit group holding 100% of the Bank's shares.

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

Following the completion of the cross-border merger, the Bank has been continuing to perform activities previously undertaken by UniCredit Bank Slovakia a.s. on the territory of the Slovak Republic through its organisational branch UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky (branch of a foreign bank).

The cross-border merger was made with the objective of creating a stronger entity capable of managing business activities both in the Czech and Slovak markets that will bring significant advantages to 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, 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.

Scope of Activities

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

The Bank's principal activities include:

- Receiving deposits from the public;
- Providing loans;
- Investing in securities on its own behalf;
- Operating a system of payments and clearing;
- Issuing and administration of payment products;
- Providing guarantees;
- Opening letters of credit;
- Administering cash collection;
- Trading on its own behalf or on behalf of clients:
  - In foreign-exchange currency products;
  - In forward and contract options, including foreign currency and interest rate contracts; and
  - 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.

II. Basis for the preparation of the separate financial statements

1. Statement of compliance

The Separate financial statements of the Bank (hereinafter also “Financial Statements”) for 2020 and comparatives for 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) in Commission Regulation (EC) no. 1126/2008 as amended including valid interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), further “IFRS”.

Purpose of preparation

The purpose of preparing these financial statements in the Czech Republic is to comply with Act on Accounting No. 563/1991 Coll. The Bank prepares its financial statements and annual report under special regulation 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Basis of preparation

These financial statements were authorised for issue by the board of directors and are subject to approval at the General Meeting of Shareholders.

After assessing all potential effects of the Covid-19 on business activities, the Bank assessed that there is no effect that would significantly affect the Bank’s ability to continue its operations in the foreseeable future. The Bank achieved a positive economic result for 2020. The Bank will continue to monitor the potential impact of Covid-19 and will take all necessary steps to mitigate the negative impacts on the Bank, its employees and clients.

These financial statements were prepared based on the going concern assumption that the Bank will continue to operate in the foreseeable future.

The annual separate and consolidated financial statements for 2019, the Annual Report for 2019, the profit distribution, retained earnings and the determination of royalties to the Supervisory Board members for 2019 were approved by the Parent Company’s General Meeting held on 1 April 2020. Due to prevailing CNB expectations and guidelines the Parent Company’s General Meeting held on 20 November 2020 approved a proposal on redistribution of 2019 profit and recapitalization of the dividend in the total amount of 5 061 MCZK (allocation to Retained earnings and Special purpose Reserve fund in EUR).

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

All presented amounts are in millions of Czech crowns (millions of CZK) unless stated otherwise.

The financial statements were prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative contracts, other financial assets and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, and properties used in business (reclassified from the cost model to the revaluation model as of 31 December 2019), all of which have been measured at fair value. The methods for determining fair value are presented in section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. Recognised assets and liabilities that are hedged against the risk of changes in fair value and would not otherwise be measured at fair value are remeasured at fair value to the extent of the hedged risk.

Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rates and foreign exchange position of the Bank.

2. Foreign Currency and Foreign Currency Translation

The Czech crown is the functional currency of the Bank. Euro is the functional currency of the Slovak branch. The presentation currency of these financial statements is the Czech crown. Assets and liabilities of the branch are translated into the presentation currency using the foreign exchange rate applicable as of the financial statements date. The profit or loss of the branch is translated using the average exchange rate. The resulting difference arising from the use of various foreign exchange rates is recognised in equity as “Foreign exchange rate gains or losses from the branch”. Figures in brackets represent negative amounts.

Transactions in foreign currencies (ie other than the functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the central bank 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 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 at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was measured. Foreign exchange differences arising on translation are recognised in the income statement as "Net income/ loss from financial assets and liabilities held for trading".

III. Significant accounting policies

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

1. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Bank classifies financial instruments in the following categories:
- Financial assets measured at amortised cost ("AC"),
- Financial assets measured at fair value through other comprehensive income ("FVTOCI"),
- Financial assets mandatorily measured at fair value through profit or loss ("FVTPL"),
- Financial assets held for trading ("FVTPL"),
- Financial liabilities measured at amortised cost ("AC") and
- Financial liabilities measured at fair value through profit or loss ("FVTPL").

The Bank has applied IFRS 9 approach to the classification and measurement of financial assets that takes into account:
- The business model for managing financial assets and
- Characteristics of contractual cash flows from a specific financial asset.

A financial asset is valued at *amortised cost* if both the following conditions are met:
- The asset is held as part of a business model whose aim is to hold financial assets in order to obtain contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur.

A financial asset is measured at *fair value through other comprehensive income* if both the following conditions are met:
- The asset is held as part of a business model whose aim is achieved by collection of contractual cash flows as well as by sale of financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income can also include investments in equity instrument if they are not held for trading and are designated so on initial recognition.

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

All financial liabilities of the Bank, except for financial liabilities held for trading, financial liabilities designated at FVTPL on initial recognition and hedging derivatives, are measured at amortised cost.

a) Business Model Assessment

Business model ("BM") refers to the way the Bank manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The following is considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) is evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the Bank are compensated (eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity; and
- Whether sales activity and the collection of contractual cash flows are integral or incidental to the business model

The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument but is determined at a higher level of aggregation.

The business model assessment resulted in the following business models of the Bank:

Business model "Held to collect" comprises the banking book and was assigned mainly to the lending portfolio and the portfolio of debt securities that are held with the intention to collect contractual cash flows.

Although the objective of the business model is to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus this business model can be to hold loans and bonds to collect contractual cash flows even where limited sales of financial assets occur or are expected to occur in the future.

Sales are consistent with the held-to-collect business model in the following situations:
- The sales are due to an increase in the credit risk of a financial asset;
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent).

The *business model "Held to collect and sell"* comprises the banking book and was assigned mainly to:
- The portfolio of debt securities whose objective is achieved by both collecting contractual cash flows and selling financial assets; these are used primarily for liquidity, interest and duration management, and
- Equity instruments irrevocably designated at FVTOCI on initial recognition.

The *"Other" business model* was assigned to financial instruments (debt securities, derivatives and equity instruments) that are not allocated to any of the above business models and the main strategy is:
- Trading:
  - To realise cash flows through sale of the assets or
  - To manage the instruments actively on fair value basis in order to realise fair value changes arising from market factor changes like yield curves, credit spreads etc.
- Managing Risk Weighted Assets, or
- Liquidity and interest rate management up to one year.

b) Analysis of Contractual Cash Flow Characteristics

For the classification of financial assets based on the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows – assessment whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest ("SPPI Test"). This analysis is only performed at initial recognition of the instrument.

For this purpose, interest is defined as a consideration for the time value of money, the credit risk associated with the principal during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

This analysis is performed for loan products either at "contract template" level for standardised products, or at contract by contract level for tailored corporate loan contracts. For securities, the analysis is performed at ISIN level using mainly an external data provider.

Modified Time Value of Money

The time value of money is the element of interest that provides consideration for the passage of time. It does not take into account other risks (credit, liquidity, etc) or costs (administrative, etc) associated with holding a financial asset.

In some cases, the time value of the money element may be modified (imperfect). This is the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case, the Bank must assess the modification to determine whether the contractual cash flows still represent solely payments of principal and interest, ie the modification term does not significantly alter the cash flows from a perfect benchmark instrument. For this assessment, the Bank uses a Benchmark tool developed on UniCredit Group level.

c) Recognition and Measurement of Financial Assets

Financial assets at amortised cost

"Financial assets at amortised cost" are recognised in the Bank's accounting books from the moment of settlement. Foreign exchange gains and losses and impairment losses are recognised in the Bank's profit or loss from the trade date.

Financial assets at amortised cost are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts during the expected life of the financial asset or liability to the gross carrying amount of the financial asset or amortised cost of the liability. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using an effective interest rate over the expected life of the financial asset at amortised cost. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate.

Financial assets at amortised cost represent loans and advances to banks, loans and advances to customers and debt securities.

"Purchased or originated credit-impaired financial assets" (POCI) are financial assets that are credit-impaired on initial recognition. The Bank recognises POCI when additional financing is granted

to a credit-impaired borrower or if a restructuring results in the "renewed ability to draw existing unused credit lines/commitments". The Bank identified no POCI assets during 2020, or in 2019.

POCI is measured at amortised cost using credit-adjusted EIR. On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the credit-adjusted EIR. The credit-adjusted EIR is calculated using the expected cash flows inclusive of future lifetime expected credit losses – ie the estimated contractual cash flows are reduced by lifetime expected credit losses. For subsequent measurement, the expected credit losses for POCI assets are measured as lifetime expected credit losses. However, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance, and not the total amount of expected credit losses. Interest income on POCI, is calculated using the credit adjusted EIR applied to the amortised cost of financial asset.

Gains and losses arising from financial assets carried at amortised cost are recognised in the income statement when the financial asset is derecognised (in the item *"Net income/(loss) from the sale or repurchase of: Financial assets at amortised cost")* or impaired (in the item *"Impairment losses on: Financial assets at amortised cost")*, and through the amortisation process in the item *"Interest income"* using the effective interest rate method.

Financial assets at fair value through other comprehensive income

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

Financial assets at FVTOCI are measured initially at fair value, including transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value.

Gains and losses arising from a change in the fair value of debt instrument assets at fair value through other comprehensive income are recognised in other comprehensive income and become the equity item *"Reserve funds from revaluation"*, with the exception of expected credit losses that are reported in the income statement as *"Impairment losses on: Financial assets at fair value through other comprehensive income"*. When 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/(loss) from the sale or repurchase of: Financial assets at fair value through other comprehensive income"*. Interest income from fair value through OCI debt securities is recognised in the income statement as "*Interest income*" using the effective interest rate method.

Financial assets at FVTOCI include debt instruments and equity instruments (designated at FVTOCI on initial recognition).

"Equity instruments designated at FVTOCI on initial recognition" – on initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This decision is made on an investment–by–investment basis for each investment and covers strategic interests. Subsequent changes in fair value from revaluation are recognised during the life of the equity instrument in the item *"Reserve funds from revaluation"* and, on its derecognition, the subsequent changes are not recognised in the income statement. After derecognition of the investment, the final cumulative changes in fair value are transferred to retained earnings.

Dividend income from equity instruments is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

Financial assets at fair value through profit and loss

"Financial assets at fair value through profit or loss" are recognised in the Bank's accounting books from the moment of settlement. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss since the trade date.

Initial and subsequent measurement of the financial assets at fair value through profit or loss is at fair value.

Financial assets at FVTPL include financial assets:

- *Held for trading* (debt instruments or derivatives)
- *Mandatorily at fair value*
- *Designated at FVTPL* on initial recognition.

"Financial assets at fair value through profit or loss: Held for trading" include instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include investments in debt and equity instruments, certain purchased receivables and derivative contracts that are not designated as hedging instruments.

A gain or loss arising from sale or redemption, or a change in the fair value of a held for trading financial asset, is recognised in the income statement in the item *"Net income/(loss) from trading"*, including gains or losses related to derivative contracts that are linked to assets and/or liabilities designated at fair value. Interest income from financial assets held for trading is recognised in the income statement in the item *"Interest income"*. If the fair value of a financial instrument falls below zero, which may happen in the case of derivative contracts, it is recognised in the item *"Financial liabilities at fair value through profit or loss: Held for trading"*.

All purchases and sales that require delivery within the time frame established by regulation or market convention *("regular way")* are recognised as *spot transactions*. Regular way transactions / spot transactions are recognised at the settlement date, which is the date when a financial instrument is delivered. Transactions that do not meet the regular way settlement criteria are treated as derivatives.

A *derivative* is a financial instrument or other contract that has all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the "underlying"), provided for a non-financial variable that the variable is not specific to a party to the contract;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- It is settled at a future date (except for regular way transactions).

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

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

Derivatives are recognised in the Bank's accounting books from the trade date. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of the assets are recognised in the Bank's profit or loss in the item *"Net income/(loss) from trading"* since the trade date.

Derivatives are classified as trading derivatives unless they qualify as hedging instruments in effective hedging. For hedging derivatives policy see section III. Significant Accounting Policies, point 4. Hedging Derivatives.

Financial assets are classified as *"Financial assets at fair value through profit or loss: Mandatorily at fair value"* if they do not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income. The following assets are classified in this portfolio:

- Debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- Debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- Units in investment funds;
- Equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses from *"Financial assets at fair value through profit or loss: Mandatorily at fair value"*, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*". Interest income from financial assets mandatorily at fair value is recognised in the income statement as *"Interest income"*.

"Financial assets at fair value through profit or loss: Designated at FVTPL"- the Bank has the option at initial recognition to irrevocably designate a non-derivative financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency, ie an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them on a different basis. In 2020 and in 2019 the Bank held no such assets.

These assets are accounted as for *"Financial assets held for trading"* however gains and losses, whether realised or unrealised, are recognised in the item *"Net income/(loss) from financial assets/ liabilities at fair value through profit or loss*".

Interest income from financial assets designated at FVTPL is recognised in the income statement as *"Interest income"*.

d) Modification and Derecognition of Financial Asset

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

Assets measured at fair value through other comprehensive income and assets at fair value through profit or loss that are sold are generally derecognised and the corresponding receivables from the buyer are recognised at the settlement date.

The Bank also derecognises a financial asset (derecognition accounting) if its contractual conditions have been modified to such an extent that the related cash flows have been materially changed. The new financial asset is classified in stage 1 for the purposes of ECL calculation unless it is credit impaired, in which case it is classified as POCI.

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

If the change of contractual conditions does not materially affect the related cash flows, the financial asset is not derecognised. In such case, the Bank recognises gains or losses from modification (modification accounting), representing the difference between:
- The present value of modified expected cash flows (disregarding the credit losses) discounted using the original EIR and
- The current gross carrying amount.

This difference is recognised in profit or loss in the item "*Modification gains/ (losses)*".

Changes in contractual cash flows due to the forbearance measure (aside from a change of debtor, change of loan currency or change causing a failure to meet the SPPI test as if performed at the modification date) are considered to be changes that do not significantly affect the related cash flows.

e) Write-offs

The Bank writes off a financial asset or a part thereof when it has no reasonable expectations of recovering the respective cash flows (from the receivable itself or the collateral received). When performing a write-off, the gross carrying amount of the asset is reduced together with the related loss provision. Direct write-offs and recoveries on written-off loans are reported in the line *"Impairment losses on: Financial assets at amortised cost"*.

The receivable is written-off when:
- The expected costs of recovery of the receivable are higher than its expected recovery;
- All collaterals have been realized and no further performance can be expected;
- Defaulted unsecured receivable for which no performance has been accepted in the last 36 months and no legal action has been initiated during this period;
- Termination of bankruptcy against the debtor due to lack of assets or after meeting the schedule resolution;
- Dissolution of a legal entity without a legal successor (eg liquidation) or death of a natural person, when partial satisfaction has already occurred or cannot be satisfied at all.

Financial assets written off which are subject to further enforcement are recorded in the off-balance sheet. If the Bank, after writing off a financial asset, collects additional amounts from the client, the additional recovery is recognised in the income statement under the item *"Impairment losses on: Financial assets at amortised cost"*.

f) Recognition, Measurement and Derecognition of Financial Liabilities

"Financial liabilities at amortised cost" comprise financial instruments (other than liabilities held for trading or those designated at fair value) representing the various forms of third-party funding. Financial liabilities at amortised cost include deposits from banks, deposits from customers and debt securities issued.

These financial liabilities are recognised at the settlement date initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method. Such interest is recognised in the item *"Interest expenses"*.

"Debt securities issued" are recognised net of repurchased amounts; the difference between the carrying value of a liability and the amount paid to buy it is recognised in the income statement in the line *"Net income/(loss) from the sale or repurchase of: Financial liabilities"*. Subsequent disposal by the Issuer is considered as a new issue which does not produce gains or losses.

The item *"Financial liabilities at fair value through profit or loss"* includes financial liabilities held for trading and financial liabilities designated at FVTPL on initial recognition. Related interest is recognised in the item *"Interest expenses"*.

"Financial liabilities at fair value through profit or loss: Held for trading" include financial instruments held by the Bank principally for the purpose of short-term profit taking. These instruments include short sales (obligations to deliver financial assets borrowed by a short seller (ie an entity that sells financial assets it does not yet own)) and derivatives that are not designated as hedging instruments.

"Financial liabilities at fair value through profit or loss: Held for trading", including derivatives contracts, are measured at fair value on initial recognition, as well as on each reporting date subsequent to the initial recognition of the transaction.
A gain or loss arising from sale or redemption or a change in the fair value of a held for trading financial liability is recognised in the income statement in the item *"Net income/(loss) from trading"*.

"Financial liabilities at fair value through profit or loss: Designated at FVTPL" – financial liabilities, like financial assets, may also be designated, according to IFRS 9, on initial recognition as measured at fair value, provided that:

- This decision provides more relevant information as:
  - It excludes or significantly reduces the measurement or accounting mismatch that could otherwise arise during the measurement of assets or liabilities or recognition of the respective profits or losses on a different basis; or
  - The group of financial liabilities or financial assets and financial liabilities is controlled and its performance assessed based on fair value and in line with a documented risk management strategy or investment strategy and information on this group is internally transferred to key managers of the Bank on this basis; or
- The contract contains one or more embedded derivatives and the host contract is not an asset subject to IFRS 9, the Bank can include the entire hybrid contract in this category, with the exception of cases where:
  - The embedded derivative does not significantly change the cash flows that would otherwise be required by the contract; or
  - It is clear from the first assessment of a similar hybrid instrument that the exclusion of the embedded derivative is not permitted;
- The financial liability that arises when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

Financial liabilities presented in this category are measured at fair value at initial recognition as well as during the life of the transaction. The changes in fair value are recognised in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss",* except for those changes in fair value related to changes in credit risk of these financial liabilities (so-called own credit risk). In this scenario, the changes in fair value are recognised in the item *"Reserve funds from revaluation"* related to other comprehensive income. If such accounting treatment results in an inconsistency that arises from the application of different methods of measuring assets and liabilities, and related gains or losses, then the changes in fair value deriving from changes in credit risk are also recorded in the income statement in the item *"Net income/(loss) from financial assets/liabilities at fair value through profit or loss*".

In 2020 and in 2019 the Bank held no such liabilities.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

g) Reclassification of Financial Instruments

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

Reclassifications are expected to be very infrequent. Such changes must be determined by the Bank's key management personnel as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties.

The following external or internal changes may result in a business model change:

- Changes in laws and regulations concerning certain assets that obliges the entity to review its business model;
- Changes in strategy concerning certain asset's class, asset's geography, product type;
- Business combinations that induce the entity to review its business model concerning certain financial assets;
- The Bank begins or ceases to perform an activity that is significant to its operations.

The following are not considered to be changes to a business model:

- A change in intention related to specific financial assets (even in circumstances of significant changes in market conditions);
- A temporary disappearance of a particular market for financial assets; or
- A transfer of financial assets between parts of the entity with different business models.

Any reclassification is applied by the Bank prospectively, so the Bank does not adjust any previously recognised gains, losses (including impairment gains or losses) or interest.

Investments in equity instruments that are designated as at FVTOCI at initial recognition and financial assets at fair value through profit or loss that are designated as at FVTPL may not be reclassified, as a decision to designation is irrevocable.

h) Day 1 Profit/Loss

If the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in the income statement, except for Level 3 fair value measurement. The Bank typically does not conduct this type of transactions with Day 1 Profit/Loss.

2. Impairment of Financial Instruments

The Bank recognises impairment losses on its debt financial instruments, other than those measured at FVTPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supporting information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

- Stage 1 includes financial assets with a credit risk which has not increased significantly since initial recognition, as well as assets with low credit risk at the balance sheet date. The 12-month expected credit losses (or shorter depending on the maturity of the instrument) are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 2 includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the gross carrying amount of assets.
- Stage 3 includes impaired credit exposures. Full lifetime expected credit losses are recognised for these assets. Interest income is calculated on the basis of the net carrying amount of assets. This category includes non-performing receivables.

Impairment models are adapted to comply with the accounting requirements stated in IFRS 9, and also follow the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

Subject to expected losses calculation are financial assets at amortised cost and the applicable off balance sheet exposures (such as loan commitments and financial guarantee contracts), all credit exposures assets classified at Fair Value through Other Comprehensive Income and Lease receivables.

Furthermore, specific adjustments are developed to the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters used for regulatory reporting purposes (Basel) to compound the Expected Credit Loss (ECL), and a model is developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is the time horizon which the ECL is expected to be calculated on.

On LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are to:

- Remove the conservatism only required for regulatory purposes;
- Introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- Include forward-looking information; and
- Extend the credit risk parameters in a multiyear perspective.

As for PDs, dedicated lifetime PD curves are developed for each main client segment based on cumulated default rates, and are calibrated to reflect a point in time and forward-looking expectation regarding portfolio default rates.

The Expected Credit Loss derived from such adjusted parameters is also compounded taking into consideration macroeconomic forecasts.

A key aspect deriving from the model when compounding the final Expected Credit Loss is the stage allocation model, which allocates credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets). Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant increase in credit risk since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

Stage 2 allocation assessment includes a combination of relative and absolute triggers. The main triggers include:

- The relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set to include all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (eg age, maturity, level of PD at origination). This procedure assesses whether there has been a material deterioration in credit quality since initial recognition;
- Absolute triggers such as backstops required by the regulation (ie 30 days past due); and
- Other internal relevant triggers (eg new classifications to Forborne).

The Bank uses the "client default" definition in line with Regulation No. 575/2013 of the European Parliament and of the Council; specifically, a debtor's default involves situations where:

a. The debtor is in default with at least one repayment of the principal or related interest on any of its payables to the bank for a period greater than 90 days; and/or
b. It is likely that the debtor will be unable to settle its payables on a timely basis and in full without the bank resorting to realising collateral.

Standard cases where the debtor will be unable to settle its payables:

- Changes in contractual cash flows due to granting relief to the debtor (the "forbearance measure");
- The loan has been restructured or deferred for a long period;

- The debtor has committed credit fraud or has violated the financial commitments of the loan;
- The debtor is dead or insolvent;
- It is probable that the debtor will enter into bankruptcy or legal restructuring of its debts, etc.

From 1 January 2021, the new definition of default / client failure is valid. For further details see section IV. Critical Accounting Judgements, Estimates and Assumptions.

In this evaluation, expected disposal scenarios are also considered as far as UniCredit Bank Non-Performing Assets Strategy foresees the recovery of defaulted assets via their transfer.

When defining the perimeter of impaired assets, the Definition of Default currently applied by UniCredit Group has been adopted, which incorporates some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default by considering the overall exposure to a given debtor (so called "debtor approach").

Financial assets at amortised cost
Financial assets at amortised cost predominantly include loans and advances to banks, loans and advances to customers and trade receivables and are reported net, ie reflecting impairment losses.

Individual impairment losses adjust the carrying amount of individually assessed financial assets at amortised cost to their recoverable amount. The recoverable amount of financial assets at amortised cost is set as the present value of expected future cash flows discounted with the original effective interest rate of the financial instrument.

Expected cash flows from the individual asset portfolios with the same characteristics (based on the segment/rating model) are set based on historical losses while taking into account the anticipated macroeconomic development. Based on this information, the expected loss is calculated as of the balance sheet date.

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

Trade receivables
Trade receivables impairment is calculated using a simplified approach based on days past due.

For additional information on Credit Risk Management please refer to section V. Other Notes, point 35 b).

Loan commitments and financial guarantees
Under IFRS 9, the impairment requirements also apply to loan commitments and financial guarantees off the statement of financial position. The Bank assesses on a forward-looking basis the expected credit losses associated with exposures from loan commitments and financial guarantee contracts.

When estimating life-time Expected Credit Loss for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The Expected Credit Loss is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of scenarios.

For financial guarantees, the Bank estimates Expected Credit Losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of scenarios.

The Expected Credit Losses related to loan commitments and financial guarantee contracts are recognised under the item *"Provisions for risks and charges"* in the statement of financial position and under the item *"Net provisions for risks and charges: Loan commitments and financial guarantees given"* in the income statement.

For Covid-19 impacts on credit risk and impairment see section V. Other Notes, point 35 b).

3. Fair Value Measurement Principles

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and financial liabilities is based on their quoted market price on an active market at the balance sheet date without 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 that maximises market observable inputs and minimizing those unobservable.

Where discounted cash flow techniques are used, estimated future cash flows are based on Bank 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 and of the Bank.

Bonds in the Bank's portfolio are valued on a daily basis using available market rates quoted by market participants using 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 no market price is 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 section III. Significant Accounting Policies, point 2. Impairment, namely impairment of financial assets at fair value through other comprehensive income).

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

Financial assets and financial liabilities are classified into fair value levels 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.

The Bank evaluates the levels at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Fair Value Adjustments

Fair value adjustment is defined as the amount to be added to the market observed mid-price or to the theoretical price generated by a valuation model to obtain a fair value of the position. Therefore FVA are aimed at ensuring that the fair value reflects the exit price of a certain position.

Adjustments used are as follows:

- Credit/debit valuation adjustment (CVA/DVA);
- Model Risk;
- Close-out Costs;
- Other Adjustments.

Credit/Debit valuation adjustment (CVA/DVA)

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

Bank CVA/DVA methodology is based on the following inputs/assumptions – simulation approach:

- New products that can be valuated are automatically included for CVA,
- Two sided bilateral CVA is used,
- EAD derived by simulation techniques – the whole portfolio of trades as well as risk mitigation techniques such as netting and margining with this counterpart is taken into account,
- PD – precise computation of counterparty exposure
  - Implied by current market default rates, obtained from Credit Default Swaps,
  - Use single name CDS where available, use sector curve approximations (based on internal rating and sector).

Funding Cost and Benefit Adjustment (FCA/FBA)

Funding Valuation Adjustment (FundVA) is the sum of a Funding Cost Adjustment (FCA) and of a Funding Benefit Adjustment (FBA) that accounts for the expected future funding costs/benefits for derivatives that are not fully collateralised. Most material contributors are in-the-money trades with uncollateralised counterparties.

UniCredit FVA methodology is based on the following inputs:
- Positive and Negative exposure profiles derived from leveraging on a risk-neutral spin-off of the Counterparty Credit Risk internal model;
- PD term structure implied by current market default rates obtained from credit default swaps;
- A funding spread curve that is representative of the average funding spread of peer financial groups.

Model Risk
Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available.
In general, model risk is represented by the possibility that a financial instrument's evaluation is sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing.
The model risk adjustment refers to the risk that the actual fair value of the instrument differs from the value produced by the model.

Close-out Costs
This measures the implicit costs of closing an (aggregated) trading position. The short position could be closed by a long position and vice versa, or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. Close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid, but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. In addition a close-out adjustment of the NAV is applied when there are penalties relating to a position write-off in an investment fund.

Other Adjustments
Other fair value adjustments not included in the previous categories may be taken into consideration to align the evaluation to the current exit price, according to the level of liquidity of the market and valuation parameters, eg adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

For Fair Value disclosures see section V. Other Notes, point 37. Fair Value of Financial Assets and Financial Liabilities.

4. Hedging Derivatives

Hedging derivatives are carried at fair value. Positive fair value is presented in the item *"Positive fair value of hedging derivatives"*, negative fair value is presented in the item *"Negative fair value of hedging derivatives"*. 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
- For hedging future forecast transactions, it is highly probable that the transaction will occur.

As regards hedge accounting, the Bank additionally used the option under IFRS 9 to continue applying the existing requirements for hedge accounting pursuant to IAS 39.

If a derivative hedges an exposure to changes in the fair value of recorded assets and liabilities or of legally-enforceable firm 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 the income statement 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"* or *"Interest expenses"*.

If a 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 in equity item *"Reserve funds from revaluation"*. The ineffective part of the hedge is recognised in the income statement.

If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative previously 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 above 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 the income statement.

"Macro hedging" – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them). Accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates.

The Bank applies macro hedging to some financial liabilities. Net changes, gains or losses, in the fair value of the macro-hedged liabilities attributable to the hedged risk are recognised in the liability item *"Changes in fair value of the portfolio of hedged instruments"* and offset the income statement item *"Net income/(loss) from hedging against the risks of changes in fair value"*.

5. Repo transactions and reverse repo transactions

Securities sold under an agreement to repurchase them at a specified future date are also known as *"repo transactions"* or *"sale and repurchase agreements"*. Securities sold in such transactions are not derecognised from the statement of financial position, as the Bank retains substantially all the risks and rewards of ownership, as the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another counterparty under a repo transaction are measured in accordance with the appropriate accounting policy for such financial asset.

Securities sold under a repo transaction are recorded as assets in the line *"Financial assets at fair value through other comprehensive income"* or in the line *"Financial assets at fair value through profit or loss: Held for trading"*, and received loan, including accrued interest, is included in the line *"Financial liabilities at amortised cost: Deposits from banks"* or in the line *"Financial liabilities at amortised cost: Deposits from customers"*.

Debt securities purchased under agreements to purchase and resell at a specified future date, also known as "*reverse repos*" are not recorded in the Bank´s statement of financial position but are presented in the off-balance sheet. The consideration paid (provided loan), including accrued interest, is recorded in the line *"Financial assets at amortised cost: Loans and advances to banks"* or in the line *"Financial assets at amortised cost: Loans and advances to customers"*.

The difference between the sale and repurchase considerations for both repo and reverse repo transactions are recognised on an accrual basis over the period of the transaction using the EIR and are recognised in the income statement in *"Interest income"* or *"Interest expenses"*.

For sale of a security acquired from a reverse repo, the Bank derecognises the securities acquired from off-balance sheet and records a payable from a *"short sale"*, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading",* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

"Sell-buy" and "Buy-Sell" transactions are accounted for in the same way as *"repo transactions" and* "*reverse repos*".

6. Borrowing and Lending of Securities

Financial assets lent under securities lending arrangements continue to be recognised in the statement of financial position if the risks and rewards of ownership are retained by the Bank and are measured in accordance with the appropriate accounting policy for such financial assets.

Financial assets borrowed under securities borrowing agreements are not recognised in the Bank's statement of financial position but are presented in off-balance sheet.

For sale of a security acquired on the basis of securities borrowing arrangements, the Bank derecognises the securities acquired from off-balance sheet and records a payable from a short-term sale, which is revalued to fair value, in the statement of financial position. This payable is reported under *"Financial liabilities at fair value through profit or loss: Held for trading",* with any gains and losses recorded in the item *"Net income/(loss) from trading"*.

Income and expenses arising from the borrowing and lending of securities are recognised on an accrual basis over the period of the transactions in the item *"Fee and commission income"* or *"Fee and commission expenses"*.

7. Offsetting

Financial assets and liabilities may be offset against each other, 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 settled on a net basis. In the current and comparative period the Bank does not offset any financial assets and financial liabilities.

8. Cash and cash balances

Cash comprises cash in hand and cash in transit. Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. *"Cash and cash balances"* are not carried at fair value on the statement of financial position, but are carried at amounts that approximate to fair value, due to their short-term nature and generally negligible credit risk.

Cash, cash balances at central banks and other demand deposits consist of cash balances and advances with the Czech National Bank and National Bank of Slovakia.

The item *"Cash and cash balances"* does not include the compulsory minimum reserve which is presented in the item *"Financial assets at amortised cost: Loans and advances to banks"*.

The compulsory minimum reserve held at the Czech National Bank and at the National Bank of Slovakia is a required deposit with restricted drawing which must be held by all commercial banks licensed in the Czech Republic and in Slovakia respectively.

9. Equity Investments

Equity investments are equity instruments and consequently defined as financial instruments under IAS32. These are presented in the item *"Equity investments"* and are measured at cost.

If there is evidence that an equity investment may have become impaired, its carrying value is compared with its recoverable value. If the recoverable value is less than the carrying value, the difference is recognised through profit or loss in the item *"Profit/(Loss) from equity investments"*. If the reasons for impairment are removed following a subsequent event occurring after the recognition of impairment, write-backs are made through same profit or loss item.

Equity investments considered strategic investments not covered by the above definitions and not recognised in the item *"Non-current assets held for sale"* are classified as assets at fair value through other comprehensive income or financial assets mandatorily at fair value and accordingly treated.

10. Property and Equipment

Accounting policy applied in 2019

Property and equipment are assets which may be used for a period longer than one year. The Bank has property and equipment to conduct its activities.

Property and equipment are initially recognised at cost including all costs directly attributable to bringing an asset into use.

After being recognised as an asset:

- Buildings and lands used in the business are measured according to cost model;
- Tangible assets used in the business, other than lands and buildings, are measured according to cost model.

In the cost model, 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 the respective estimated useful lives) for individual categories of property and equipment 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 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
• Low value tangible assets	2–3 years

Tangible assets (including right of use 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 the item "*Other operating income and expenses*". The insignificant costs of repair, maintenance and technical improvement are expensed as they are incurred. Vice versa, major repairs and technical improvements 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. Profit or loss from the sale is presented in the item *"Profit/(loss) from the sale of non-financial assets"*.

Change in accounting policy since 31 December 2019

For the purposes of preparing the financial statements at 31 December 2019, the Bank has decided to change subsequent measurement of the following assets:

- Buildings and lands used in business (ruled by IAS 16 "Property, plant and equipment") being reclassified from the cost model to the revaluation model for the measurement subsequent to initial recognition.

This decision was driven by the decision of the ultimate parent company UniCredit S.p.A. made by its Board of Directors during a meeting held on 2 December 2019.

The Bank believes that measuring real estate assets at fair values (instead of at cost) provides more reliable and relevant information about Bank's financial position and economic result in line with the provisions of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

The Bank believes that the change in the measurement of properties will provide a more accurate representation of the financial position, as fair values will reflect the increase in the value of the properties, which the Bank expects to occur as a result of the enhancement of the properties with a view to potential disposal of the properties. In 2019, UniCredit Group adopted a new strategy of managing its real estate portfolio which it will actively seek to optimise in the light of changing market circumstances and changes to its operational models. The Bank expects to realise value from a portion of the portfolio over the medium term through targeted disposals.

The fair value model allows the Bank to represent the changes in value of the properties at the moment they arise, in compliance with the objectives of the newly-adopted active management of the real estate portfolio. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in the sale price) and cost which, as stated, may no longer be meaningful if the acquisition of real estate assets did not take place recently.

In addition, the adoption of a fair value model allows a more accurate representation of the financial position of the Bank, as it represents the value of the real estate properties at a single reference date – the date of preparation of the financial statements. This avoids heterogeneity in valuation inherent in the cost model which reflects market conditions at different times, ie the purchase dates.

Voluntary changes in accounting principles (accounting policies) are regulated by IAS 8 which establishes, as a general rule, that these changes must be made retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. Paragraph 17 of IAS 8 states that for the purposes of the valuation of the property, plant and machinery, regulated by IAS 16, the transition from the cost model to the revaluation model must be made prospectively. As a result, the revaluation model has been applied prospectively and not retrospectively as required by the general principle in IAS 8. Therefore no adjustment of the opening balances of the comparative year and of the comparative data have been made

Consequently, for the properties used in business, under IAS 16, the transition from a cost valuation to a valuation at fair value, required the determination of the related fair value at 31 December 2019.

The differences between this value and the previous value determined by applying the "cost" criterion are recognised:
- If negative, in the income statement in the item "*Net income/(loss) on property and investment property measured at fair value*",
- If positive, in the other comprehensive income statement, and accumulated in equity under the item "*Reserve funds from revaluation*".

The "*Reserve funds from revaluation*" will be linearly transferred to the item "*Retained earnings and reserve funds*" over the residual life of the particular property used in business. In the event of the sale of the asset, the reserve not yet reversed will be reclassified to the item "*Retained earnings and reserve funds*".

The pay out of the revaluation surplus to shareholders is restricted and is eligible only in the event of the disposal of property.

As the change in the measurement method took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made in line with cost model.

From 2020 on, properties used in business, measured according to the IAS 16 revaluation model, will continue to be depreciated using the straight-line method over their useful life from the higher revalued amount.

The Bank has chosen to apply the "restatement approach" when accounting for revaluation. This approach adjusts the gross carrying amount so that it matches the revaluation of the carrying amount of the property used in business and a concurrent adjustment of the cumulated depreciation (ie the restatement approach requires adjustment of the gross carrying amount and the cumulated depreciation by the ratio given by Fair Value/Net Carrying Amount before revaluation).

Fair value was determined through the use of external independent expert valuations on semi-annually basis (as of 30 June and 31 December).

Impacts deriving from the change in the valuation criterion for tangible assets
In the financial statements as at 31 December 2019, the change in the measurement model of the real estate properties resulted in an overall positive balance sheet effect of MCZK 329 as detailed below:
- For properties used in business, the recognition of a revaluation of MCZK 329 gross of the tax effect. This value, net of deferred tax, in the amount of MCZK 261 was attributed to the item "*Reserve funds from revaluation*" in equity. In addition to this higher value, net losses of MCZK (1) were recognised in the income statement gross of the tax effect in the item "*Net income/(loss) on property and investment property measured at fair value*".

11. Intangible Assets
Intangible assets are assets which may be used for a period longer than one year. 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 period (over respective estimated useful lives) for intangible assets is as follows:

- Software and intangible assets 2–7 years or in accordance with the contract

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.

12. Leases

As of 1 January 2019, the Bank has implemented the new standard IFRS 16 "Leases", which revises the current set of international accounting principles and interpretations on leasing accounting.

IFRS 16, effective from 1 January 2019 and endorsed by EU by Regulation EU 2017/1986 of 31 October 2017 (published on 9 November 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a new definition for leases (ie received leases) and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor (ie provided leases). Therefore, IFRS 16 does not have an impact for leases where the Bank is the lessor.

a) Provided Finance Lease

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

Receivables from finance leases are reported as equal to the net investment in the lease upon receipt of the leased asset by the customer. The sum of future minimum lease instalments and initial fees for the provision of the lease equal to the gross investment in the lease (as finance lease contracts include a clause on 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 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.

Bank receivables from finance leases 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.

Significant contractual conditions for finance leases are as follows:

- The subject of the lease is specified in the text of the lease contract or in the acceptance certificate (part of the lease contract);
- The duration of the lease begins on the day of the acceptance of the subject of the lease by the lessee and ends upon the expiration of the agreed lease term;
- The lessee is authorised to purchase the subject of the lease from the lessor;
- The subject of the lease remains in the exclusive ownership of the lessor throughout the duration of the lease. The ownership is transferred to the lessee/buyer on the day the purchase price as per the purchase agreement is credited to the lessor's account;
- The purchase price and all amounts in the lease contract are net of VAT. The VAT rate is set by law and is indicated separately in invoices;
- The consideration for the lease includes an extraordinary lease payment, contractual flat fee (eg the processing and administration of the lease contract) and the number of lease payments indicated by the contract and calculated from the acquisition cost (in CZK or a foreign currency);
- The subject of the lease must be insured throughout the lease term; and
- The lessor may prematurely terminate the lease contract at any time without a notice period by withdrawal or by a notice with immediate effect if the lessee significantly breaches or fails to meet the obligations and commitments arising from the lease contract. In such a case, the lessee is obliged to make all the remaining lease payments to the lessor in line with the payment calendar. Payments are due upon the premature termination of the lease contract.

The finance lease receivables are presented in the item "*Financial assets at amortised cost: Loans and advances to customers*".

b) Provided Operating Leases

Other leases are classified as operating leases. The leased asset continues to be owned by the lease company after the termination of the lease contract.

Income from operating leases is reported in "*Other operating income and expenses*".

c) Received Operating Leases

IFRS 16 requires that a lessee recognises an asset, representing the right of use of the underlying asset, and at the same time, a liability reflecting future payments of the lease contract for all of the leasing types.

At initial recognition, such an asset is measured on the basis of the lease contract cash flows which include, in addition to the present value of lease payments, any initial direct cost attributable to the lease, lease payments paid before the commencement date and any other costs required to dismantle/remove the underlying asset at the end of the contract and is decreased by incentives received. Right of use assets are reported in the item "*Property, equipment and right of use assets"*.

After initial recognition, the right-of-use is measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any accumulated impairment losses. The depreciation period is equal to the determined lease term. Accumulated depreciation and any accumulated impairment losses are reported in the item "*Depreciation and impairment of property, equipment and right of use assets*".

The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

In line with the standard, the Bank decided not to apply IFRS 16 for leases of intangible assets, short-term leases shorter than 12 months and leases with low-value underlying assets. Related expenses are presented on an accrual basis in the item "*Administrative expenses*".

To calculate the lease liability and related assets based on the right of use, the Bank discounts future lease payments using an appropriate discount rate. Lease payments are set for discounting in this respect based on contractual arrangements and net of VAT, as the obligation to pay this tax originates at the moment an invoice issued by the lessor and not as of the date of commencement of the lease contract.

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

Details related to determining of lease term see part Determining lease term in the section IV. Critical Accounting Judgements, Estimates and Assumptions.

Lease liabilities are reported in the item "*Financial liabilities at amortised cost: Deposits from customers"* based on the counterparty. After initial recognition, lease liabilities are increased by the interest expenses calculated using the same interest rate used for the discounting of the relevant lease payments and decreased by the lease payments. The interest expenses are reported in the item "*Interest expenses*".

The vast majority of right of use assets / lease liabilities is related to the Banks's headquarter and its branches.

A summary of amounts in relation to operating leases received under IFRS 16 as of 31 December 2020 and 31 December 2019 is presented in the following tables:

Statement of Comprehensive Income	Point in the section V. Other Notes	**2020**	**2019**
Depreciation of Right of use assets	18. Property, equipment and right of use assets	(328)	(327)
Interest expenses	1. Net interest income	(17)	(21)

Statement of Financial Position	Point in the section V. Other Notes	**31 Dec 2020**	**31 Dec 2019**
Right of use assets	18. Property, equipment and right of use assets	2 361	1 851
Lease liabilities	23. Financial liabilities at amortised cost: Deposits from customers	2 436	1 911

13. Provisions for Risks and Charges

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

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

A restructuring provision is recognised when the following criteria are met:

- The Bank has prepared a detailed and formal restructuring plan;
- Those affected by the restructuring have a realistic expectation that the restructuring will take place as the implementation of the plan has commenced or its main features have been announced.

When creating provisions for off-balance sheet items, the Bank proceeds analogically as for the impairment losses on financial assets at amortised cost or financial assets at fair value through other comprehensive income, in line with IFRS 9 requirements.

The provisions for off-balance sheet items are recorded in the statement of financial position in the item *"Provisions for risks and charges"*.

14. Deferred Incentives

The Bank accounts for deferred incentives on an accrual basis. Related liability is recognised in the item *"Other liabilities"* against the income statement item *"Administrative expenses"*.

The Bank Incentive System and the Local Incentive System are applied to the identified positions. Payment of the bonus for the given period is spread out over a multiple-year period.

Based on the Bank Incentive System, the bonus payment is spread over 6 years (senior management) or 4 years (other identified staff). In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to a bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments or shares.

Based on the Local Incentive System, the bonus payment is spread over 4 years. In each year, the bonus payment is conditional upon completion of the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment. The incentives are paid partially in cash and partially in non-monetary instruments.

15. Contingent Assets and Liabilities

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The Bank does not recognise contingent assets/liabilities in the statement of financial position, but regularly reviews their development to specify whether an inflow/outflow of resources embodying economic benefits has become probable. Where the likelihood of an outflow of economic benefits is higher than 50% (more likely than not), the Bank recognises a provision. Where the likelihood of an inflow of economic benefits is almost 100% (virtually certain), the Bank recognises an asset and revenue.

16. Interest Income and Interest Expense

Interest income and interest expenses are recognised in the income statement in the period to which they relate, using the effective interest rate method. Interest income is recognised using the effective interest rate on financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting, financial assets measured at FVTOCI. Interest expenses are also calculated using the effective interest rate method for all financial liabilities at amortised cost.

Interest from loans and deposits is accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial assets at amortised cost or at FVTOCI classified in stage 1 and 2 (ie performing assets) is calculated from the gross carrying amount (ie before allowances). Interest income on financial assets at amortised cost or at FVTOCI classified in stage 3 (ie credit impaired assets) is calculated from the net carrying amount (ie after allowances) using *"unwinding"*.

Interest on financial assets and liabilities at FVTPL is calculated using the effective interest rate method.

In the environment of negative interest rates, negative interest income is presented in interest expenses and negative interest expenses are presented in interest income.

Net interest income comprises interest income and interest expenses calculated using the effective interest method and other methods. Interest income calculated using the effective interest method is disclosed separately in the income statement to provide symmetrical and comparable information.

17. Fee and Commission Income and Expenses

Fee and commission income and expenses 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/ expenses.

Fees and commissions from financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services.

Fees and commission income are accounted for in the income statement as the Bank satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules.

In particular:
- If the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognised in the income statement when the service is provided;
- If the performance obligation is satisfied over-time, the related revenue is recognised in the income statement in order to reflect the progress of satisfaction of such obligation.

Transaction fees coming from securities transactions and payment services are typically booked at the point in time when the service is provided and immediately withdrawn from customer account.

Fees related to management, administration, deposit and custody services, account administration and payment cards are normally recognised over time during the term of the contract. The revenue is measured on straight-line basis and is evenly distributed during the term of the contract as this method best depicts the Bank's commitment to stand ready for fulfilment of customer requests. These services are mostly invoiced on regular basis (typically monthly), selected services are invoiced in advance.

Fees related to loans provided, other than those related to the origination, which form a part of the effective interest income, are either booked at the point in time when the service is provided or recognised over time during the term of the contract based on the type of services provided.

The amount of revenues linked to fee and commission income is determined based on contractual conditions. Variability that would have impact on amount that the Bank expects to receive is not usually foreseen for services provided by the Bank.

If a contract regards different goods/services which are not priced and charged on the stand-alone price level, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client. The stand-alone selling prices for free-of-charge customer options are determined using the adjusted market assessment method. Contract liability given by the customer options is not material.

The Bank has decided, as practical expedient permitted under IFRS 15, not to disclose the amount of transaction price allocated to unsatisfied performance obligations related to fees and commissions from financial services. This is because the Bank does not typically contract respective services for period that would be enforceable longer than 12 months. The only significant contract with deferred revenue for longer period than 12 months (contract with non-refundable up-front fees not related to specific services transferred to customer and thus linearly amortised to the item "*Fee and Commission Income*" during live of the contract – 5 and 15 years respectively) is included in the item *"Other liabilities"* in amount of MCZK 586 as of 31 December 2020 (as of 31 December 2019 MCZK 661).

18. Dividend income

Dividend income is recognised in the income statement in "*Dividend income*" on the date the dividend is declared.

19. 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 (item *"Tax liabilities: Income tax")* or receivable (item *"Tax receivables: Income tax")* 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, based on tax rates that have been enacted or substantially enacted. A deferred tax asset (item *"Tax receivables: Deferred tax"*) is only recognised to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised. A deferred tax liability (item *"Tax liabilities: Deferred tax"*) is recognised for all taxable temporary differences.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

These exceptions are subsequently reclassified from OCI to the income statement, together with the respective deferred loss or gain.

The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only offsets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

20. 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 of the Bank.

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

Retail and private banking encompasses in particular providing loans, mortgages, bank account maintenance, payment services (including payment cards), term and saving deposits, investment advisory services.

Corporate and investment banking include especially the following products and services: providing banking services to companies and public institutions, including loans, leasing, factoring, 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 customers, investment advisory, and consulting on mergers and acquisitions.

Other reporting segment includes banking services that are not included within the aforementioned segments.

21. Standards and Interpretations Effective in the Current Period

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 *Presentation of Financial Statements*" and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** – Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 3 *Business Combinations*** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*** – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

22. Standards and Interpretations Published by the IASB, but not yet Effective or not yet Adopted by the European Union

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and are not yet effective:

- **Amendments to IFRS 16 *Leases*** – Covid-19-Related Rent Concessions – adopted by the EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.)

- **Amendments to IFRS 4 *Insurance Contracts*** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*** – Interest Rate Benchmark Reform – Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

New and amended IFRS standards issued by IASB but not yet adopted by the EU
At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the date of publication of these financial statements (the effective dates stated below are for IFRS as issued by IASB):

- **IFRS 17 *Insurance Contracts*** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 3 *Business Combinations*** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 1 *Presentation of Financial Statements*** – Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 *Property, Plant and Equipment*** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018-2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the Bank's financial statements in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at the balance sheet date.

IV. Critical accounting judgments, estimates and assumptions

These disclosures supplement the commentary on financial risk management (see section V. Other Notes, point 35. Financial Risk Management).

The presentation of the financial statements in conformity with IFRS requires Bank management to make judgments, 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 relate to the determination of fair values of financial instruments (where no public market exists), impairment of assets and provisions and other areas, are based on the information available at the balance sheet date.

Impact of Covid-19
In 2020, the Covid-19 affected the Czech Republic and Slovakia, and related measures introduced by governments to limit its spread affected economic activity and, as a result, the group's profitability. This requires a careful evaluation of certain items in the financial statements as at 31 December 2020, the recoverability of which depends on future cash flow projections, by reassessing cash flows to reflect assumptions about the impact of the Covid-19.

While these assessments were made on the basis of information considered adequate and substantiated as at 31 December 2020, the current scenario is affected by high uncertainty, the outcome of which is currently unpredictable and which may require an assessment of changes made to the pandemic. and economic recovery.

The slowdown in economic activity resulting from the Covid-19 and related measures also affected the assessment of the return on credit exposures and the calculation of related loan impairment losses. In this context, it should be noted that in accordance with IFRS9, their assessment depends on forecasts of future developments and on the development of the macroeconomic scenarios used to calculate these losses. With regard to Covid-19 and related measures, the group updated the macroeconomic scenario used in line with that approach.

Further details are provided in section V. Other Notes, point 35 b).

Business model assessment

The classification of financial assets is driven by the business model. Management applies judgment when determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment of whether cash flows are solely payments of principal and interest

Judgment is required to determine whether a financial asset's cash flows are solely payments of principal and interest and whether they are in line with the SPPI test. Judgment is required to assess whether risks and volatility of contractual cash flows are related to the basic lending arrangement. Features that require judgments include the modification of time value of money, assessment of whether prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments.

Impairment of financial assets

Financial assets accounted for at amortised cost and at fair value recognised through other comprehensive income (except for the FVTOCI option), lease receivables, trade receivables and loan commitments and financial guarantees (not accounted at FVTPL) are subject to impairment under ECL model. Impairment is determined in the amount of 12-month (or shorter depending on the instrument's maturity) expected credit loss for assets that have not experienced a significant increase in credit risk since initial recognition, and in the amount of lifetime expected losses for assets which have experienced a significant increase in credit risk since initial recognition or which are impaired. When assessing impairment, the return on financial assets is evaluated separately using the best possible estimate of the present value of future cash flows that are expected to be received. When estimating these cash flows, the Bank management makes judgments about the debtor's financial situation and the net realisable value of any underlying collateral.

The creation of impairment allowances for expected credit losses and identified financial guarantee contracts and loan commitments contingent liabilities involves many uncertainties concerning the outcomes of the risks stated above and requires Bank management to make many subjective assessments when estimating the amount of losses. Measurement of impairment allowances for expected credit losses for financial assets of amortised cost and at fair value through other comprehensive income requires the application of models and significant judgments regarding future economic conditions and credit behaviour. Given current economic conditions, the result of estimates may differ from the impairment provisions recognised as at 31 December 2019 that are reported in items "Impairment losses on: Financial assets at amortised cost", "Impairment losses on: Financial assets at fair value through other comprehensive income" and "Net provisions for risks and charges: Loan commitments and financial guarantees given".

The default definition represents a significant accounting estimate used when determining the impairment.

Change in definition of target being predicted by credit risk models triggered review of such models. IFRS9 related components were redeveloped using new definition of default / client failure (hereinafter "nDoD"), Basel models used as an input for ECL calculation were recalibrated to the long-term average riskiness calculated under NDoD.

As regulated by Final Report Guidelines on the application of the definition of default (EBA/GL/2016/07) the impact of definition of default was analyzed and based on the prudent approach the expected impact was reflected in 2020 financial figures (within loan loss provisions without reassigning specific clients to Stage 3) including the default detection and process changes effect including impact within bank's subsidiaries.

Main changes implemented within above mentioned regulation:

- New thresholds applied, absolute and relative,
- DPD counter start and end rules update,
- Probation rules update,
- Overdue aggregation and joint obligation rules update,
- Distressed restructuring rules update.

Determining Fair Values

Determining fair value of financial assets and liabilities for which there are no observable market prices requires the use of valuation techniques as described in accounting policy, section III. Significant Accounting Policies, point 3. Fair Value Measurement Principles. 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.

Determining lease term

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

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

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is under its control and affects its ability to exercise or not exercise the option to renew or to terminate.

Hedge Accounting
When 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.

When accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Provisions for liabilities
The amounts recognised as provisions are based on management's judgment and represent the best estimate of expenses needed to settle a liability of uncertain timing or uncertain amount.

V. Other notes

1. Net interest income

	2020	2019
Interest income		
Financial assets at amortised cost:		
Loans and advances to central banks	2 312	5 693
Loans and advances to banks	366	610
Loans and advances to customers	9 143	9 942
Financial assets at fair value through other comprehensive income	396	568
Financial assets at fair value through profit or loss:		
Held for trading	25	23
Mandatorily at fair value	7	–
Hedging derivatives	758	302
Interest income	**13 007**	**17 138**
Interest expenses		
Financial liabilities at amortised cost:		
Deposits from central banks	(9)	(1)
Deposits from banks	(131)	(365)
Deposits from customers	(1 275)	(2 011)
Debt securities issued	(197)	(279)
Financial liabilities at fair value through profit or loss:		
Held for trading	(19)	(36)
Lease liabilities	(17)	(21)
Hedging derivatives	(654)	(1 172)
Interest expenses	**(2 302)**	**(3 885)**
Net interest income	**10 705**	**13 253**

Negative interest expenses from liabilities are reported in interest income in the following lines:
- Loans and advances to central banks – as of 31 December 2020 MCZK 190 (as of 31 December 2019 MCZK 72)
- Loans and advances to banks – as of 31 December 2020 MCZK 276 (as of 31 December 2019 MCZK 462)
- Loans and advances to customers– as of 31 December 2020 MCZK 8 (as of 31 December 2019 MCZK 11)

Negative interest income from assets is reported in interest expenses in the following lines:
- Deposits from the central banks – as of 31 December 2020 MCZK (13) (as of 31 December 2019 MCZK (1))
- Deposits from banks – as of 31 December 2020 MCZK (22) (as of 31 December 2019 MCZK (7))
- Deposits from customers – as of 31 December 2020 MCZK (-) (as of 31 December 2019 MCZK (-))

2. Net fee and commission income

	2020	2019
Fee and commission income from		
Securities transactions	15	8
Management, administration, deposit and custody services	721	746
Loans	1 227	1 274
Payment services	687	945
Account administration	622	549
Payment cards	957	1 193
Other	121	162
Fee and commission income	**4 350**	**4 877**
Fee and commission expenses from		
Securities transactions	(13)	(11)
Management, administration, deposit and custody services	(104)	(99)
Loans	(223)	(207)
Payment services	(39)	(43)
Payment cards	(800)	(887)
Other	(30)	(30)
Fee and commission expenses	**(1 209)**	**(1 277)**
Net fee and commission income	**3 141**	**3 600**

3. Dividend income

	2020	2019
Dividend income		
Ownership interests	330	450
Financial assets at fair value through profit or loss not held for trading mandatorily at fair value	4	3
Financial assets at fair value through other comprehensive income	1	2
Total	**335**	**455**

4. Net income/(loss) from trading

	2020	2019
Net realised and unrealised gain/(loss) from debt instruments held for trading	77	(17)
Net realised and unrealised gain/(loss) from derivatives held for trading	17	682
Net realised and unrealised gain/(loss) from FX spot transactions and from revaluation of receivables and payables denominated in FX	1 766	1 223
Net income/loss from trading	**1 860**	**1 888**

5. Net income/(loss) from hedging against risk of changes in fair value

	2020	2019
Hedging instruments	561	198
Hedged instruments	(561)	(210)
Net income/loss from hedging against risk of changes in fair value	**–**	**(12)**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

6. Net income/(loss) from the sale or repurchase

	2020	2019
Financial assets at amortised cost: Loans and advances to customers	86	136
Financial assets at fair value through other comprehensive income	412	335
Financial liabilities: Debt securities issued	(1)	–
Net income/loss from the sale or repurchase	**497**	**471**

7. Net income/(loss) from financial assets/liabilities at fair value through profit or loss

	2020	2019
Shares	79	139
Debt securities	3	–
Net income/loss from financial assets and liabilities at fair value through profit or loss	**82**	**139**

8. Impairment losses

	2020	2019
Financial assets at amortised cost, of which:	**(2 159)**	**(1 129)**
Loans and advances to banks	**(4)**	**3**
Stage 1	(2)	3
Stage 2	(2)	–
Loans and advances to customers	**(2 155)**	**(1 132)**
Corporate Customers	**(2 078)**	**(744)**
Stage 1	(348)	37
Stage 2	(366)	30
Stage 3	(1 364)	(811)
Retail Customers	**(77)**	**(388)**
Stage 1	16	(75)
Stage 2	8	(197)
Stage 3	(101)	(116)
Financial assets at fair value through other comprehensive income	**2**	**1**
Stage 1	2	1
Total	**(2 157)**	**(1 128)**

9. Administrative expenses

	2020	2019
Personnel expenses		
Wages and salaries paid to employees	(2 220)	(2 318)
Social costs	(843)	(858)
Other	(265)	(175)
	(3 328)	**(3 351)**
Other administrative expenses		
Rent and building maintenance	(256)	(235)
Information technologies	(1 477)	(1 302)
Promotion and marketing	(150)	(204)
Consumables used	(72)	(44)
Audit, legal and advisory services	(119)	(132)
Administrative and logistic services	(163)	(136)
Deposits and transactions insurance	(539)	(540)
Other services	(206)	(239)
Other	(282)	(250)
	(3 264)	**(3 082)**
Total	**(6 592)**	**(6 433)**

A summary of remuneration to key managers is presented in the following table:

	2020	2019
Short-term employee benefits	176	167
Post-employment benefits	11	20
Other long-term employee benefits	13	32
Total	**200**	**219**

Key managers are persons with authority and direct or indirect responsibilities as regards planning, managing and supervising the Bank's activities, including all (executive and other) managers. Information on equity-based bonuses is included in section V. Other Notes, point 30. Equity-based bonuses.

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

	2020	2019
Employees	3 018	3 032
Members of the Board of Directors	7	7
Members of the Supervisory Board	3	3
Other executives directly reporting to the Board of Directors	34	33

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

10. Other operating income and expenses

	2020	2019
Income from rent	36	43
Other income	153	36
Total other operating income	**189**	**79**
Other taxes	(9)	(24)
Fines and penalties	(10)	(13)
Other	(3)	(24)
Total other operating expenses	**(22)**	**(61)**
Total	**167**	**18**

11. Cash and cash balances

	31 Dec 2020	31 Dec 2019
Cash in hand	3 891	4 400
Other balances with central banks	181	233
Total	**4 072**	**4 633**

For cash flow reporting purposes, cash is defined as cash and cash equivalents.

12. Financial assets at fair value through profit or loss

(a) Held for Trading

(i) Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Debt securities	1 034	2 392
Derivatives	15 508	9 306
Total	**16 542**	**11 698**

From debt securities, no securities are provided as collateral as of 31 December 2020 and 31 December 2019.

(ii) Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Debt securities		
Public administration	1 034	2 392
Total	**1 034**	**2 392**

(b) Mandatorily at fair value

	31 Dec 2020	31 Dec 2019
Shares and Other debt securities	540	487
Total	**540**	**487**

Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Shares and Other debt securities		
Other financial institutions	540	487
Total	**540**	**487**

13. Financial assets at fair value through other comprehensive income

(a) Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Debt securities	20 511	23 175
Shares	7	6
Total	**20 518**	**23 181**

From debt securities, MCZK 4 990 are provided as collateral (as of 31 December 2019: MCZK 2 360).

Debt securities are included in financial assets at fair value through other comprehensive income pursuant to paragraph 4.1.2.a) of IFRS 9 – classified based on the business model and meeting the SPPI test.
Shares are included in financial assets at fair value through other comprehensive income pursuant to paragraph 5.7.5. of IFRS 9 – FVTOCI option.

(b) Based on the Type of Issuer

	31 Dec 2020	31 Dec 2019
Debt securities		
Government institutions	15 078	16 099
Other	5 433	7 076
Shares		
Other	7	6
Total	**20 518**	**23 181**

All debt securities included in financial assets at fair value through other comprehensive income as of 31 December 2020 are classified by credit quality in stage 1 with the total allowance of MCZK 3 (as of 31 December 2019: MCZK 5).

(c) Participation Interests

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2020	Net book value 2019	Share of the Group at 31 Dec 2020	Share of the Group at 31 Dec 2019
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**		

14. Financial assets at amortised cost – loans and advances to banks

(a) Analysis of Receivables from Banks, by Type

	31 Dec 2020	31 Dec 2019
Current accounts	3	–
Term deposits	16 753	18 907
Loans	3 105	623
Reverse repurchase commitments (see section V, point 32)	116 186	165 823
Obligatory minimum reserves with central banks	883	591
Total	**136 930**	**185 944**

The vast majority of financial assets at amortised cost – loans and advances to banks as of 31 December 2020 are classified by credit quality at stage 1 with the total allowance of MCZK 4 (as of 31 December 2019: MCZK 2).

Only MCZK 64 of financial assets at amortised cost – loans and advances to banks as of 31 December 2020 are classified by credit quality at stage 2 with the total allowance of MCZK 2 (as of 31 December 2019 MCZK 5 of financial assets at amortised cost – loans and advances to banks are classified by credit quality at stage 2 with the total allowance of MCZK 0).

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

	31 Dec 2020	31 Dec 2019
Czech Republic	128 446	184 002
Slovakia	3 889	30
Other EU countries	3 429	1 665
Other	1 166	247
Total	**136 930**	**185 944**

15. Financial assets at amortised cost – loans and advances to customers

(a) Analysis of Receivables from Customers, by Type

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2020												
Current accounts (overdrafts)	24 815	(165)	24 650	6 603	(181)	6 422	3 104	(2 482)	622	34 522	(2 828)	31 694
Mortgage loans	102 785	(375)	102 410	10 983	(290)	10 693	4 354	(2 288)	2 066	118 122	(2 953)	115 169
Credit cards	4	–	4	3	–	3	2	(1)	1	9	(1)	8
Factoring	5 264	(21)	5 243	59	(4)	55	–	–	–	5 323	(25)	5 298
Other loans	144 902	(383)	144 519	7 514	(249)	7 265	3 032	(1 023)	2 009	155 448	(1 655)	153 793
Total	**277 770***	**(944)**	**276 826**	**25 162**	**(724)**	**24 438**	**10 492**	**(5 794)**	**4 698**	**313 424**	**(7 462)**	**305 962**

* The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Corporate Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	31 707	(134)	31 573	5 254	(106)	5 148	2 828	(2 528)	301	39 789	(2 768)	37 021
Mortgage loans	95 428	(199)	95 229	7 065	(115)	6 950	2 632	(2 128)	505	105 125	(2 442)	102 683
Credit cards	11	–	11	1	–	1	2	(1)	1	14	(1)	13
Factoring	2 832	(5)	2 827	1 050	(57)	993	–	–	–	3 882	(62)	3 820
Other loans	151 370	(258)	151 112	5 309	(80)	5 229	1 385	(1 029)	356	158 064	(1 367)	156 697
Total	**281 348**	**(596)**	**280 752**	**18 679**	**(358)**	**18 321**	**6 847**	**(5 686)**	**1 163**	**306 874**	**(6 640)**	**300 234**

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount incl. modif. impact	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2020												
Current accounts (overdrafts)	1 030	(7)	1 023	251	(13)	238	291	(251)	40	1 572	(271)	1 301
Mortgage loans	122 621*	(132)	122 489	3 561	(133)	3 428	799	(272)	527	126 981	(537)	126 444
Credit cards and consumer loans	7 459**	(84)	7 375	1 356	(177)	1 179	412	(294)	118	9 227	(555)	8 672
Other loans	3 646	(13)	3 633	150	(11)	139	65	(52)	13	3 861	(76)	3 785
Total	**134 756**	**(236)**	**134 520**	**5 318**	**(334)**	**4 984**	**1 567**	**(869)**	**698**	**141 641**	**(1 439)**	**140 202**

* The balance also includes modification loss of MCZK 36 recorded as of 31 December 2020.
** The balance also includes modification loss of MCZK 5 recorded as of 31 December 2020.

Retail Customers	Stage 1			Stage 2			Stage 3			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
31 Dec 2019												
Current accounts (overdrafts)	1 105	(8)	1 097	134	(10)	124	372	(305)	67	1 611	(323)	1 288
Mortgage loans	109 688	(130)	109 558	3 147	(148)	2 999	811	(279)	532	113 646	(557)	113 089
Credit cards and consumer loans	8 206	(106)	8 100	1 192	(171)	1 021	380	(253)	127	9 778	(530)	9 248
Other loans	3 747	(8)	3 739	207	(14)	193	62	(52)	10	4 016	(74)	3 942
Total	**122 746**	**(252)**	**122 494**	**4 680**	**(343)**	**4 337**	**1 625**	**(889)**	**736**	**129 051**	**(1 484)**	**127 567**

From financial assets at amortised cost – Loans and advances to customers MCZK 134 047 are provided as collateral (as of 31 December 2019: MCZK 77 041).

(b) Classification of Gross Receivables from Customers according to Internal Rating

	31 Dec 2020	31 Dec 2019
Performing receivables – stage 1 and 2		
Internal rating 1	14 989	13 422
Internal rating 2	28 716	31 917
Internal rating 3	59 261	47 959
Internal rating 4	155 958	151 823
Internal rating 5	97 244	103 078
Internal rating 6	67 817	60 352
Other internal rating	18 852	18 829
Receivables without internal rating	169	75
Total	**443 006**	**427 455**
Non-performing receivables – stage 3	12 059	8 472
Total	**455 065**	**435 927**

(c) Analysis of Net Receivables from Customers, by Sector

	31 Dec 2020	31 Dec 2019
Financial institutions	63 365	41 322
Non-financial institutions	229 698	253 539
Government sector	12 899	5 375
Individuals and others	140 202	127 567
Total	**446 164**	**427 803**

(d) Analysis of Net Receivables from Customers, by Type of Collateral Provided and Classification

	Maximum exposure to credit risk	Bank and similar guarantee	Mortgage	Corporate guarantee	Other security	Total collateral	Net exposure
31 Dec 2020							
Stage 1	**411 346**	3 272	108 091	6 361	5 221	122 945	**288 401**
Stage 2	**29 422**	184	7 866	571	651	9 272	**20 150**
Stage 3	**5 396**	38	2 340	26	1 527	3 931	**1 465**
Total	**446 164**	**3 494**	**118 297**	**6 958**	**7 399**	**136 148**	**310 016**
31 Dec 2019							
Stage 1	**403 246**	3 629	101 875	4 553	7 324	117 381	**285 865**
Stage 2	**22 658**	59	5 253	154	212	5 678	**16 980**
Stage 3	**1 899**	20	1 074	43	35	1 172	**727**
Total	**427 803**	**3 708**	**108 202**	**4 750**	**7 571**	**124 231**	**303 572**

The item “Net exposure” includes, inter alia, receivables from project funding that are secured by real estate collateral in the nominal value of MCZK 43 345 (as of 31 December 2019: MCZK 38 653). For the project funding of commercial real estate (IPRE), the collateral quality is taken into account when determining the transaction rating; in these cases, the collateral value is strongly correlated with the solvency of the debtor.

If the exposure is fully collateralised, no loss allowance is calculated.

(e) Analysis of Net Receivables from Customers, by Geographical Sector

	31 Dec 2020	31 Dec 2019
Czech Republic	290 720	275 852
Slovakia	134 761	130 187
Other EU countries	17 395	18 131
Other	3 288	3 633
Total	**446 164**	**427 803**

(f) Analysis of Net Receivables from Customers, by Industry Sector

	31 Dec 2020	31 Dec 2019
Real estate services	80 116	70 990
Financial services	61 421	53 145
Wholesale	20 482	21 129
Households (individuals)	136 082	124 025
Retail (entrepreneurs)	12 123	11 997
Leasing and rental	3 542	3 815
Automotive industry	12 131	11 186
Power industry	20 488	29 797
Other	99 779	101 719
Total receivables from customers	**446 164**	**427 803**

(g) Analysis of Forborne receivables

The Bank's approach to forbearance reporting is disclosed in section V. Other Notes, point 35. Financial Risk Management.

Analysis of forborne receivables by sectors:

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2020							
Non-financial institutions	15 293	2 591	17 884	(329)	(1 769)	(2 098)	15 786
Other financial corporations	19	–	19	–	–	–	19
Individuals and others	523	86	609	(57)	(37)	(94)	515
Total	**15 835**	**2 677**	**18 512**	**(386)**	**(1 806)**	**(2 192)**	**16 320**

All forborne performing receivables are classified as stage 2 receivables, while all forborne non-performing receivables are classified as stage 3 receivables.

	Gross performing receivables	Gross non-performing receivables	Total gross forborne receivables	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment of forborne receivables	Net balance of forborne receivables
31 December 2019							
Non-financial institutions	13 322	2 127	15 449	(155)	(1 762)	(1 917)	13 532
Other financial corporations	–	–	–	–	–	–	–
Individuals and others	62	52	114	–	(20)	(20)	94
Total	**13 384**	**2 179**	**15 563**	**(155)**	**(1 782)**	**(1 937)**	**13 626**

Net balance of forborne receivables represented 3.66% of the total net receivables from customers as of 31 December 2020 (2019: 3.19%).

The table below provides an analysis of forborne receivables balance based on past due days:

	Gross balance of forborne receivables	Impairment of forborne receivables	Net balance of forborne receivables
31 December 2020			
Performing receivables			
Before due	14 881	(360)	14 521
Past due	954	(26)	928
Total forborne performing receivables	**15 835**	**(386)**	**15 449**
Non-performing receivables			
Up to 90 days past due	1 958	(1 211)	747
91 to 180 days past due	130	(80)	50
181 days to 1 year past due	25	(20)	5
Over 1 year past due	564	(495)	69
Total forborne non-performing receivables	**2 677**	**(1 806)**	**871**
Total	**18 512**	**(2 192)**	**16 320**
31 December 2019			
Performing receivables			
Before due	12 575	(133)	12 442
Past due	809	(22)	787
Total forborne performing receivables	**13 384**	**(155)**	**13 229**
Non-performing receivables			
Up to 90 days past due	2 066	(1 745)	321
91 to 180 days past due	31	–	31
181 days to 1 year past due	17	(17)	–
Over 1 year past due	65	(20)	45
Total forborne non-performing receivables	**2 179**	**(1 782)**	**397**
Total	**15 563**	**(1 937)**	**13 626**

The table below shows movements in gross balance of forborne receivables:

Balance as of 1 January 2019	8 753
Transfer to forborne receivables balance	10 263
Additions	156
Settled	(1 124)
Transfer from forborne receivables balance	(2 483)
Other	(2)
Total gross balance of forborne receivables as of 31 December 2019	**15 563**
Balance as of 1 January 2020	15 563
Transfer to forborne receivables balance	8 101
Additions	305
Settled	(2 265)
Transfer from forborne receivables balance	(3 192)
Other	–
Total gross balance of forborne receivables as of 31 December 2020	**18 512**

The table below shows movements in the impairment of forborne receivables:

Balance as of 1 January 2019	(1 433)
Transfer to forborne receivables balance	(1 061)
Charge during the current year	(139)
Release during the current year	160
Receivables written off – use	–
Transfer from forborne receivables balance	536
Other decreases	–
Total impairment of forborne receivables as of 31 December 2019	**(1 937)**
Balance as of 1 January 2020	(1 937)
Transfer to forborne receivables balance	(1 504)
Charge during the current year	(169)
Release during the current year	202
Receivables written off – use	0
Transfer from forborne receivables balance	1 216
Other decreases	(1 937)
Total impairment of forborne receivables as of 31 December 2020	**(2 192)**

(h) Impairment of Receivables from Customers

Movement in Impairment of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2020	(595)	(357)	(5 685)	(6 637)
Charge during the current year	(727)	(663)	(2 860)	(4 250)
Release during the current year	379	297	1 496	2 172
Net effect on profit or loss	**(348)**	**(366)**	**(1 364)**	**(2 078)**
Receivables written off – use	–	–	1 253	1 253
FX differences	(1)	(1)	2	–
Total impairment of receivables from customers as of 31 December 2020	**(944)**	**(724)**	**(5 794)**	**(7 462)**
Balance as of 1 January 2019	(633)	(389)	(6 296)	(7 318)
Charge during the current year	(501)	(384)	(2 221)	(3 106)
Release during the current year	538	414	1 410	2 362
Net effect on profit or loss	**37**	**30**	**(811)**	**(744)**
Receivables written off – use	–	1	1 422	1 423
FX differences	1	1	–	2
Total impairment of receivables from customers as of 31 December 2019	**(595)**	**(357)**	**(5 685)**	**(6 637)**
Retail Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 1 January 2020	(253)	(344)	(890)	(1 487)
Charge during the current year	(314)	(281)	(279)	(874)
Release during the current year	330	289	178	797
Net effect on profit or loss	**16**	**8**	**(101)**	**(77)**
Receivables written off – use	–	1	121	122
FX differences	1	1	1	3
Total impairment of receivables from customers as of 31 December 2020	**(236)**	**(334)**	**(869)**	**(1 439)**
Balance as of 1 January 2019	(178)	(148)	(907)	(1 233)
Charge during the current year	(257)	(322)	(275)	(854)
Release during the current year	182	125	159	466
Net effect on profit or loss	**(75)**	**(197)**	**(116)**	**(388)**
Receivables written off – use	–	1	133	134
FX differences	–	–	–	–
Total impairment of receivables from customers as of 31 December 2019	**(253)**	**(344)**	**(890)**	**(1 487)**

Movement of Gross Amount of Receivables from Customers

Corporate Customers	Stage 1	Stage 2	Stage 3	Total
2020				
Transfer of the gross amount of receivables from Stage 1	(19 974)	15 147	4 827	–
Transfer of the gross amount of receivables from Stage 2	1 796	(3 539)	1 743	–
Transfer of the gross amount of receivables from Stage 3	27	74	(101)	–
2019				
Transfer of the gross amount of receivables from Stage 1	(15 676)	13 392	2 284	–
Transfer of the gross amount of receivables from Stage 2	3 637	(4 104)	467	–
Transfer of the gross amount of receivables from Stage 3	126	80	(206)	–
Retail Customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2020				
Transfer of the gross amount of receivables from Stage 1	(4 245)	3 938	307	–
Transfer of the gross amount of receivables from Stage 2	2 814	(3 073)	259	–
Transfer of the gross amount of receivables from Stage 3	135	85	(220)	–
2019				
Transfer of the gross amount of receivables from Stage 1	(4 150)	3 784	366	–
Transfer of the gross amount of receivables from Stage 2	1 558	(1 726)	168	–
Transfer of the gross amount of receivables from Stage 3	263	97	(360)	–

i) Receivables Written-Off and Being Subject to Enforcement

The amount of written-off receivables due from customers still subject to enforcement as of 31 December 2020 was MCZK 3 073 (as of 31 December 2019: MCZK 3 126).

k) Impact of Covid-19

The outbreak of the Covid-19 significantly affected the functioning of the Bank.

In order to mitigate the impact of the Covid-19, laws were passed in the Czech Republic and Slovakia that allowed for the postponement of loan repayments. The Bank provided deferred payments in connection with the Covid-19 in accordance with the following laws:

- No. 177/2020 Coll., Act on Certain Measures in the Area of Loan Repayment in Connection with the Covid-19, which was approved in the Czech Republic; and
- No. 67/2020 Coll., As amended by Act No. 75/2020 Coll., The Act on Certain Extraordinary Measures in the Financial Area in Relation to the Spread of Dangerous Infectious Human Disease Covid-19, which was approved in Slovakia.

in the following form:

Czech Republic

- Relevant law concerning the provision of deferred payments to legal and natural persons with effect from 17 April 2020.
- For all clients, upon their request, allows a maximum deferral of 9 monthly installments in the period ending October 31, 2020.
- Clients may request a deferral for a shorter period ending on 31 July 2020.
- Individuals can request a deferral of full installments (ie deferral of principal and interest payments), legal entities can only request a deferral of principal payments (interest payments continue to be paid during the deferral period).
- During the deferral period, the interest on the principal is not suspended, but the accrued interest is not capitalized to the value of the principal, ie there is no interest on accrued interest during the deferral period.

Slovakia

- Relevant law concerning the provision of deferred payments to legal and natural persons with effect from 9 April 2020.
- For all clients, based on their request, allows a maximum deferral of 9 months (6 months for leasing products).
- Clients may request a deferral during the pandemic period, which was officially declared on March 12, 2020.

- Individuals may request a deferral of full installments (ie deferral of principal and interest payments), legal entities may choose between deferral of full installments or only deferral of principal payments (interest payments continue to be paid during the grace period) or deferral of which the entire principal is repaid only at the final maturity (so-called bullet payment).
- During the deferral period, the interest on the principal is not suspended, but the accrued interest is not capitalized to the value of the principal, ie there is no interest on accrued interest during the deferral period.

Deferral of payments in connection with Covid-19 leads to a modification of contractual cash flows in accordance with IFRS 9. According to the Bank's internal rules, this modification is not considered a significant modification and therefore does not lead to the derecognition of the asset of the original asset. The Bank assessed the impact of the modifications due to the deferral of payments in connection with Covid-19 which is recognised in profit or loss in the item „*Modification gains/ (losses)*".

Overview of loans subject to moratoria in the Czech Republic and Slovakia

31 Dec 2020	Number	Gross amount – perform	Gross amount – non perform	Gross amount – total	Impair losses – perform	Impair losses – non perform	Impair losses – total	Net amount – perform	Net amount – non perform	Net amount – total
Retail Customers	12 038	11 682 **	204	11 886	(165)	(73)	(238)	11 517	131	11 648
Corporate Customers*	1 080	25 359 ***	3 139	28 498	(358)	(1 119)	(1 477)	25 001	2 020	27 021
Total	**13 118**	**37 041**	**3 343**	**40 384**	**(523)**	**(1 192)**	**(1 715)**	**36 518**	**2 151**	**38 669**

* Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
** The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
*** The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

16. Positive fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2020	31 Dec 2019
Fair value hedging	2 425	1 370
Cash flow hedging	7 973	5 829
Total	**10 398**	**7 199**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

17. Equity investments

Name	Registered office	Date of acquisition	Acquisition price	Net book value 2020	Net book value 2019	Share of the Bank at 31 Dec 2020	Share of the Bank at 31 Dec 2019
UniCredit Leasing CZ, a.s.	Prague	14 Feb 2014	3 211	3 781	3 781	100%	100%
UniCredit Factoring Czech Republic and Slovakia, a.s.	Prague	20 Jan 2015	198	198	198	100%	100%
Total			**3 409**	**3 979**	**3 979**		

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

18. Property, equipment and right of use assets

	31 Dec 2020	31 Dec 2019
Property and equipment for operations		
Buildings and land	860	849
Leasehold improvements of rent buildings	189	164
Fixtures and fittings	24	16
IT equipment	59	27
Other	98	48
Right of use assets		
Buildings and land	2 313	1 811
Other	48	40
Total	**3 591**	**2 955**

(a) Movements in Property and Equipment Held for Operations

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Cost at 1 January 2019	1 602	957	162	531	215	3 467
Accumulated depreciation and impairment at 1 January 2019	(1 044)	(797)	(141)	(470)	(187)	(2 639)
Net Book Value at 1 January 2019	**558**	**160**	**21**	**61**	**28**	**828**
Revaluation to Fair value – change of accounting policy	1 081	n/a	n/a	n/a	n/a	1 081
Accumulated depreciation adjustment (based on revalued amount) – change of accounting policy	(753)	n/a	n/a	n/a	n/a	(753)
Additions	18	41	2	24	25	110
Depreciation charges	(19)	(36)	(4)	(61)	(5)	(125)
Transfer to the item "Non-current assets held for sale"	(31)	0	0	0	0	(31)
Other and FX rate gains or losses	(5)	(1)	(3)	3	0	(6)
Net Book Value at 31 December 2019	**849**	**164**	**16**	**27**	**48**	**1 104**
Fair Value (Buildings and land) / Cost at 31 December 2019	2 587	991	154	529	236	4 497
Accumulated depreciation and impairment at 31 December 2019	(1 738)	(827)	(138)	(502)	(188)	(3 393)

	Buildings and land	Leasehold improvements of rent buildings	Fixtures and fittings	IT equipment	Other	Total
Fair Value (Buildings and land) / Cost at 1 January 2020						
Accumulated depreciation and impairment	2 587	991	154	529	236	4 497
at 1 January 2020	(1 738)	(827)	(138)	(502)	(188)	(3 393)
Net Book Value at 1 January 2020	**849**	**164**	**16**	**27**	**48**	**1 104**
Increases in fair value	39	n/a	n/a	n/a	n/a	39
Reductions in fair value	(52)	n/a	n/a	n/a	n/a	(52)
Additions	43	74	12	32	57	218
Depreciation charges	(31)	(41)	(3)	(10)	(6)	(91)
Transfer to the item "Non-current assets held for sale"	(7)	–	–	–	–	(7)
Other and FX rate gains or losses	19	(8)	(1)	10	(1)	19
Net Book Value at 31 December 2020	**860**	**189**	**24**	**59**	**98**	**1 230**
Fair Value (Buildings and land) / Cost at 31 December 2020	2 682	1 019	155	549	288	4 693
Accumulated depreciation and impairment at 31 December 2020	(1 822)	(830)	(131)	(490)	(190)	(3 463)

(b) Movements in Right of Use Assets

	Buildings and land	Other	Total
Net Book Value at 1 January 2019	**2 045**	**43**	**2 088**
Additions	105	18	123
Disposals	(11)	–	(11)
Depreciation	(327)	(21)	(348)
Other and FX rate gains or losses	(1)	–	(1)
Net Book Value at 31 December 2019	**1 811**	**40**	**1 851**
Cost at 31 December 2019	2 138	61	2 199
Accumulated depreciation and impairment at 31 December 2019	(327)	(21)	(348)
Net Book Value at 1 January 2020	**1 811**	**40**	**1 851**
Additions	854	35	889
Disposals	(24)	(1)	(25)
Depreciation	(328)	(27)	(355)
Other and FX rate gains or losses	–	–	–
Net Book Value at 31 December 2020	**2 313**	**48**	**2 361**
Cost at 31 December 2020	2 963	88	3 051
Accumulated depreciation and impairment at 31 December 2020	(650)	(40)	(690)

19. Intangible assets

Movements in Intangible Assets

	Software	Total
Cost at 1 January 2019	3 071	3 071
Accumulated amortisation and impairment at 1 January 2019	(1 121)	(1 121)
Net Book Value at 1 January 2019	1 950	1 950
Additions	561	561
Amortisation charges	(491)	(491)
Other	77	77
Net Book Value at 31 December 2019	**2 097**	**2 097**
Cost at 31 December 2019	3 698	3 698
Accumulated amortisation and impairment at 31 December 2019	(1 601)	(1 601)
Cost at 1 January 2020	3 698	3 698
Accumulated amortisation and impairment at 1 January 2020	(1 601)	(1 601)
Net Book Value at 1 January 2020	2 097	2 097
Additions	646	646
Amortisation charges	(494)	(494)
Other	103	103
Net Book Value at 31 December 2020	**2 352**	**2 352**
Cost at 31 December 2020	4 266	4 266
Accumulated amortisation and impairment at 31 December 2020	(1 914)	(1 914)

20. Other assets

	31 Dec 2020	31 Dec 2019
Deferred expenses and accrued income	237	284
Trade receivables	291	180
Receivables from securities	12	6
Clearing and settlement accounts	1 268	788
Dividend prepayment	330	450
Other	11	2
Total	**2 149**	**1 710**
Impairment losses on other assets	(17)	(18)
Net other assets	**2 132**	**1 692**

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

21. Financial liabilities held for trading

Based on the Type of Financial Instrument

	31 Dec 2020	31 Dec 2019
Liabilities from short sales	2 115	3 010
Derivatives	14 697	8 527
Total	**16 812**	**11 537**

22. Financial liabilities at amortised cost – deposits from banks

Analysis of Deposits from Banks by Type

	31 Dec 2020	31 Dec 2019
Deposits from central banks	39 378	6 631
Current accounts	6 180	5 527
Loans	1 596	1 778
Term deposits	31 569	106 657
Sale and repurchase agreements (see section V, point 32)	16 062	11 433
Other	165	5
Total	**94 950**	**132 031**

Item “Deposits from central banks” includes as of 31 December 2020 MCZK 39 551 of funding from Targeted Longer-Term Refinancing Operations (hereinafter “TLTRO”), namely TLTRO III which was drawn by the Bank in June 2020 (2019: TLTRO II of MCZK 6 706). Outstanding TLTRO II borrowings has been repaid in June 2020 (original maturity in March 2021).

The TLTRO liabilities are banking book funding instruments to be subsequently measured at amortised cost according to IFRS 9, 4.2.1. Financial conditions incorporated into TLTROs are reflecting ECB monetary policy initiatives to prospectively reduce market cost of funding for banking institutions by using non-conventional tools and reflected in money market operations. In addition to the more favourable conditions already introduced in March 2020 (to be applied in the period from 24 June 2020 to 23 June 2021), the Governing Council of ECB on 10 December 2020 decided to extend similar favourable conditions for the period from 24 June 2021 to 23 June 2022.

For banks that reach the lending performance threshold during the predefined reference periods the borrowing rates can be as low as 50 basis points below the average interest rate on the Deposit Facility Rate (hereinafter “DFR”) during the periods from 24 June 2020 to 23 June 2021 and from 24 June 2021 to 23 June 2022, and as low as DFR during the rest of the life of the respective TLTRO III transaction.

Referencing EIR rules for markets-driven remunerations, changes in market index (e.g. base rate and spread) will be reflected by adjusting instruments’ carrying amount calculated by referencing the evolution of the “TLTRO index” and limited to the accrued (to-date) portion. As a result, TLTRO III EIR for a 3year funding range between -0.33% and -0.83%, coherently with (i) benchmark achievements for Cumulative Net Lending (hereinafter “CNL”) as at March 2021 and December 2021 and (ii) current Main Refinancing Operation and DFR levels.

In 2020 Bank recognized, a Net Interest Income contribution equal to MCZK 190 (hereof, interest from TLTRO II of MCZK 14 and interest from TLTRO III applying -0.83% of MCZK 176), based on expected CNL threshold achievements as supported by actual eligible business volumes as well as expected business developments incorporated into the 2021 budget and existing deal pipeline.

23. Financial liabilities at amortised cost – deposits from customers

Analysis of Deposits from Customers by Type

	31 Dec 2020	31 Dec 2019
Current accounts	404 238	354 091
Term deposits	15 873	55 643
Lease Liabilities	2 436	1 911
Other	2 375	3 372
Total	**424 922**	**415 017**

Lease liability	**2020**	**2019**
As at 1 January	**1 911**	**2 155**
Additions	864	112
Accretion of interest	17	21
Lease payments	(386)	(367)
Other and FX rate gains or losses	30	(10)
Total at 31 December	**2 436**	**1 911**

The Bank had total cash outflows for leases of MCZK 416 in 2020 incl. those leases that are not in-scope of IFRS 16 (in 2019: MCZK 405).

24. Financial liabilities at amortised cost – issued debt securities

Analysis of Issued Debt Securities

	31 Dec 2020	31 Dec 2019
Mortgage bonds	7 772	16 812
Structured bonds	2 271	3 329
Other issued debt securities	15	17
Total	**10 058**	**20 158**

Structured bonds (included in the line "Structured bonds" and partly in the line "Mortgage bonds") include embedded options – currency, equity, commodity and interest rate options – in the total nominal value of MCZK 2 420 (at 31 December 2019: MCZK 4 068). The positive fair value of these derivatives of MCZK 5 is reported under "Financial assets held for trading" (at 31 December 2019: MCZK 4); the negative fair value of these derivatives of MCZK 97 is recognised under "Financial liabilities held for trading" (at 31 December 2019: MCZK 182).

25. Negative fair value of hedging derivatives

Based on the Hedging Purpose

	31 Dec 2020	31 Dec 2019
Fair value hedging	745	360
Cash flow hedging	6 720	7 264
Total	**7 465**	**7 624**

More details on hedging are included in section V. Other Notes, point 35. Financial Risk management.

26. Other liabilities

	31 Dec 2020	31 Dec 2019
Deferred income and accrued expenses	1 476	1 228
Trade payables	613	640
Payables to employees	274	609
Unsettled security transactions	172	20
Clearing and settlement accounts	6 006	5 221
Other	197	166
Total	**8 738**	**7 884**

27. Provisions for risks and charges

Provisions for risks and charges include the following items:

	31 Dec 2020	31 Dec 2019
Provisions for off-balance sheet credit exposures	**1 295**	**719**
a. Stage 1	183	113
b. Stage 2	344	98
c. Stage 3	768	508
Legal disputes	66	30
Provision for restructuring	66	60
Other	43	60
Total	**1 470**	**869**

(a) Provisions for Off-Balance Sheet Credit Exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	113	98	508	719
Charge during the year	173	267	646	1 086
Release during the year	(105)	(22)	(387)	(514)
Other – FX rate gains or losses	2	1	1	4
Total provisions for off-balance sheet credit items at 31 December 2020	**183**	**344**	**768**	**1 295**
Balance at 1 January 2019	141	42	912	1 095
Charge during the year	90	125	244	459
Release during the year	(117)	(68)	(645)	(830)
Other – FX rate gains or losses	(1)	(1)	(3)	(5)
Total provisions for off-balance sheet credit items at 31 December 2019	**113**	**98**	**508**	**719**

(b) Other Provisions

	Legal disputes	Restructuring provision	Other	Total
Balance at 1 January 2020	30	60	60	150
Charge during the year	38	45	5	88
Usage during the year	(4)	(30)	(23)	(57)
Release of redundant provisions and other	2	(9)	1	(6)
Total other provisions at 31 December 2020	**66**	**66**	**43**	**175**
Balance at 1 January 2019	55	8	119	182
Charge during the year	22	57	–	79
Usage during the year	(32)	(4)	(59)	(95)
Release of redundant provisions and other	(15)	(1)	–	(16)
Total other provisions at 31 December 2019	**30**	**60**	**60**	**150**

28. Income tax

(a) Tax in the Income Statement

	31 Dec 2020	31 Dec 2019
Current tax payable	(1 218)	(2 178)
Prior year tax	25	24
Deferred tax	(31)	(8)
Total income tax	**(1 224)**	**(2 162)**

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:

	31 Dec 2020	31 Dec 2019
Profit/loss for the year before tax	6 386	11 595
Tax calculated using the tax rate of 19%	(1 213)	(2 203)
Impact of prior years on the current tax payable	24	24
Non-taxable income	78	128
Tax non-deductible expenses	(42)	(72)
Impact of prior years on the deferred tax	(20)	(9)
Impact of a higher Slovak tax rate on the current tax payable and deferred tax	(44)	(29)
Unrecognised temporary differences in deferred tax	(11)	–
Other	4	(1)
Total income tax	**(1 224)**	**(2 162)**

The effective tax rate of the Bank is 19.2% (2019: 18.6%*)*.

(b) Tax in the Statement of Financial Position

The Bank made income tax prepayments in the amount of MCZK 1 978 (2019: MCZK 1 609), made an additional payment of MCZK 552 (at 31 December 2019: the Bank made an additional payment of MCZK 377) and reports an income tax receivable of MCZK 691 to the tax authority in the Czech Republic (at 31 December 2019: a liability of MCZK 418) and a receivable of MCZK 57 from the tax authority in the Slovak Republic (at 31 December 2019: a liability of MCZK 152).

(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.

When 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.

Bank Management believes that the Bank will be able to fully recover deferred tax assets reported as of 31 December 2020 based on the current and anticipated future level of taxable profits.

(i) Net Deferred Tax Asset

	31 Dec 2020		31 Dec 2019	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible provisions	125		137	–
Impairment of loans and off-balance sheet items	716		689	–
Differences arising from the net book values of tangible assets	60	–	59	–
Differences arising from the net book values of intangible assets	–	(146)	–	(93)
Reserve from revaluation of hedging instruments	–	(138)	188	–
Reserve from revaluation of financial assets at fair value through other comprehensive income	–	(83)	–	(134)
Reserve from revaluation of property measured at fair value	–	(65)	–	(68)
Other	102	–	75	–
Deferred tax liability/asset	**1 003**	**(432)**	**1 148**	**(295)**
Net deferred tax asset	**571**		**853**	

The Bank additionally carries the following deferred tax assets which are not recognised on the grounds of prudence: arising from non-tax deductible provisions of MCZK 11.

29. Issued capital and share premium

The recorded, issued and fully paid capital of the Bank amounted to MCZK 8,755 as of 31 December 2019 and 2020.

(a) Shareholder Structure

Entity	Registered office	Nominal value of shares in MCZK	Share premium in MCZK	Ownership percentage
At 31 Dec 2020				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**
At 31 Dec 2019				
UniCredit S.p.A	Italy	8 755	3 495	100.00
Total		**8 755**	**3 495**	**100.00**

(b) Capital Breakdown

	31 Dec 2020 Number of shares	31 Dec 2020 MCZK	31 Dec 2019 Number of shares	31 Dec 2019 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 2020 and 31 December 2019, the Bank held no treasury shares.

30. 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.

31. Retained earnings and reserve funds

The following table shows the breakdown of the reserve funds:

	31 Dec 2020	31 Dec 2019
Reserve funds	3 372	3 372
Special-purpose reserve fund	14 471	13 240
Retained earnings	45 972	37 732
Total	**63 815**	**54 344**

As part of the cross-border merger, the share capital of UniCredit Bank Slovakia a.s. of MCZK 6,058, the reserve fund of UniCredit Bank Slovakia a.s. of MCZK 1,166 and retained earnings of UniCredit Bank Slovakia a.s. of MCZK 4,387 were transferred into a special-purpose reserve fund denominated in EUR. This special-purposes reserve fund can only be used to settle the loss of the Bank. In 2020, this fund was increased by MEUR 47 (profit of the Slovak branch for 2019).

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

(a) Reverse Repurchase Transactions

	31 Dec 2020	31 Dec 2019
Loans and advances to banks	116 185	165 823
Fair value of securities received	116 185	162 878

No securities received as collateral as part of reverse repurchase transactions are further provided as collateral under repurchase transactions as of 31 December 2020 and as of 31 December 2019.

(b) Repurchase Transactions

	31 Dec 2020	31 Dec 2019
Deposits from banks	16 062	11 433
Fair value of securities provided	16 086	11 193

33. Contingent liabilities, contingent assets and financial derivatives

In the ordinary course of business, the Bank conducts various financial transactions that are not reported in the Bank's statement of financial position and that are designated as off-balance sheet financial instruments.

Unless stated otherwise, the information below represents the nominal values of off-balance sheet transactions.

(a) Contingent Liabilities

Legal Disputes

As of 31 December 2019, the Bank assessed the legal disputes in which it acted as a defendant. The Bank recorded provisions for these legal disputes (see section V, point 27). 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

Czech and Slovak tax legislation has significantly changed in recent years. Many complicated legislation areas remained unresolved, and it may not be possible to determine the interpretation of taxation authorities in specific cases in advance. It is not possible to quantify the consequences of this uncertainty; they may be resolved solely under the condition that the relevant legal regulations are adopted in practice or in the event that official interpretations are available.

Loan Commitments, financial guarantees and other commitments given

Loan commitments issued by the Bank include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include undrawn loans 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.

Financial guarantees include irrevocable commitments made by the Bank to repay debts in lieu of the debtor owed to the guarantee beneficiary in case the debtor defaults on their obligation to pay subject to terms and conditions of the individual contracts. As such, commitments bear similar risk to loans, the Bank creates the relevant provisions using a similar algorithm as for provisions (see section V. Other Notes, point 35. Financial Risk Management).

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 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 section V. Other Notes, point 35. Financial Risk Management).

The Bank recorded provisions for off-balance sheet items to cover expected credit losses and arising from the impairment losses on the off-balance sheet items due to credit risk. As of 31 December 2019, the aggregate provisions amounted to MCZK 1 295 (as of 31 December 2019: MCZK 719), see section V. Other Notes, point 27. Provisions (a).

	Gross amount	Impairment losses	Net amount
31 Dec 2020			
Letters of credit and financial guarantees	46 575	(700)	45 875
– Stage 1	43 059	(95)	42 964
– Stage 2	2 981	(164)	2 817
– Stage 3	535	(441)	94
Other contingent liabilities (undrawn credit facilities)	140 852	(595)	140 257
– Stage 1	131 659	(88)	131 571
– Stage 2	8 726	(180)	8 546
– Stage 3	467	(327)	140
Total	**187 427**	**(1 295)**	**186 132**
31 Dec 2019			
Letters of credit and financial guarantees	45 297	(464)	44 833
– Stage 1	42 130	(64)	42 066
– Stage 2	2 686	(26)	2 660
– Stage 3	481	(374)	107
Other contingent liabilities (undrawn credit facilities)	125 656	(255)	125 401
– Stage 1	117 997	(49)	117 948
– Stage 2	7 316	(72)	7 244
– Stage 3	343	(134)	209
Total	**170 953**	**(719)**	**170 234**

(b) Contingent Assets

The Bank has an option to draw a credit line provided by the European Bank for Reconstruction and Development (EBRD) amounting to MCZK 393.7 (MEUR 15) with maturity on 23 February 2023. The Bank additionally has an option to draw a credit line from The Export-Import Bank of The Republic of China of MCZK 213.9 (MUSD 10) with the maximum maturity of five years from the time of drawing.

(c) Financial Derivatives

(i) Nominal and Fair Values of Financial Derivatives

	Nominal value	Positive fair value	Negative fair value
31 Dec 2020			
Trading instruments – interbank market (OTC)			
Options	84 938	886	909
Interest rate swap contracts	682 521	8 560	8 270
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	169 210	3 472	2 752
Foreign exchange forwards and swaps	35 394	268	507
Other instruments	8 402	2 290	2 259
Total	**980 465**	**15 476**	**14 697**
Trading instruments – stock exchange			
Futures	1 496	32	–
Total trading instruments	**981 961**	**15 508**	**14 697**
Hedging instruments			
Interest rate swap contracts	613 990	9 353	6 518
Cross currency swap contracts	136 572	1 045	947
Total hedging instruments	**750 562**	**10 398**	**7 465**

	Nominal value	Positive fair value	Negative fair value
31 Dec 2019			
Trading instruments – interbank market (OTC)			
Options	76 298	705	701
Interest rate swap contracts	538 519	4 883	4 304
Forward rate agreements (FRA)	–	–	–
Cross currency swap contracts	143 887	2 289	1 777
Foreign exchange forwards and swaps	40 320	145	500
Other instruments	2 310	1 249	1 245
Total	**801 334**	**9 271**	**8 527**
Trading instruments – stock exchange			
Futures	1 880	35	–
Total trading instruments	**803 214**	**9 306**	**8 527**
Hedging instruments			
Interest rate swap contracts	631 855	6 720	6 761
Cross currency swap contracts	112 354	479	863
Total hedging instruments	**744 209**	**7 199**	**7 624**

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

	Up to 1 year	1 – 5 years	Over 5 years	Total
31 Dec 2020				
Trading instruments				
Interest rate instruments	63 160	390 849	254 039	708 048
Equity instruments	2 713	2 341	0	5 054
Currency instruments	177 865	81 096	0	258 961
Other	6 824	1 578	0	8 402
Total	**250 562**	**475 864**	**254 039**	**980 465**
Hedging instruments				
Interest rate instruments	91 139	318 808	204 043	613 990
Currency instruments	49 566	56 549	30 457	136 572
Total	**140 705**	**375 357**	**234 500**	**750 562**
31 Dec 2019				
Trading instruments				
Interest rate instruments	66 883	308 187	189 506	564 576
Equity instruments	3 560	4 871	–	8 431
Currency instruments	162 796	63 221	–	226 017
Other	2 226	84	–	2 310
Total	**235 465**	**376 363**	**189 506**	**801 334**
Hedging instruments				
Interest rate instruments	100 547	269 524	261 784	631 855
Currency instruments	77 425	11 864	23 065	112 354
Total	**177 972**	**281 388**	**284 849**	**744 209**

34. Segment reporting

The Bank presents the segment information based on performance criteria as disclosed in section III. Significant Accounting Policies, point 20. Segment reporting.

(a) Segment Information by Client Category

	Retail and private banking	Corporate and investment banking	Other	Total
31 Dec 2020				
Net interest and dividend income	3 061	6 714	1 265	**11 040**
Other net income	1 352	3 933	461	**5 746**
Depreciation/impairment of property and equipment and intangible assets	(450)	(206)	(284)	**(940)**
Impairment loss	(127)	(2 117)	30	**(2 214)**
Segment expenses	(3 755)	(3 951)	460	**(7 246)**
Profit before tax	81	4 373	1 932	**6 386**
Income tax			(1 224)	(1 224)
Result of segment	**81**	**4 373**	**708**	**5 162**
Segment assets	147 617	485 869	15 104	**648 590**
Segment liabilities	189 482	364 076	12 493	**566 051**
31 Dec 2019				
Net interest and dividend income	3 660	7 790	2 258	**13 708**
Other net income	1 725	3 724	654	**6 103**
Depreciation/impairment of property and equipment and intangible assets	(451)	(268)	(245)	**(964)**
Impairment loss	(883)	(321)	76	**(1 128)**
Segment expenses	(3 196)	(3 344)	416	**(6 124)**
Profit before tax	855	7 581	3 159	**11 595**
Income tax			(2 162)	(2 162)
Result of segment	**855**	**7 581**	**997**	**9 433**
Segment assets	139 097	519 185	14 270	**672 552**
Segment liabilities	183 921	398 111	14 754	**596 786**

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

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

(b) Information on Geographical Areas

	Czech Republic	Slovakia	Total
31 Dec 2020			
Net interest and dividend income	8 482	2 558	**11 040**
Other net income	3 814	1 932	**5 746**
Depreciation/impairment of property and equipment and intangible assets	(727)	(213)	**(940)**
Impairment loss	(2 062)	(152)	**(2 214)**
Segment expenses	(5 185)	(2 061)	**(7 246)**
Profit before tax	4 322	2 064	**6 386**
Income tax	(866)	(358)	(1 224)
Result of segment	**3 456**	**1 706**	**5 162**
Segment assets	512 940	135 650	**648 590**
Segment liabilities	428 410	137 641	**566 051**

	Czech Republic	Slovakia	Total
31 Dec 2019			
Net interest and dividend income	11 249	2 459	**13 708**
Other net income	4 835	1 268	**6 103**
Depreciation/impairment of property and equipment and intangible assets	(756)	(208)	**(964)**
Impairment loss	(400)	(728)	**(1 128)**
Segment expenses	(4 468)	(1 656)	**(6 124)**
Profit before tax	10 460	1 135	**11 595**
Income tax	(1 811)	(351)	(2 162)
Result of segment	**8 649**	**784**	**9 433**
Segment assets	543 839	128 713	**672 552**
Segment liabilities	501 713	95 073	**596 786**

35. 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 risk as a result of its trading, lending, hedging investment and brokerage activities.

Credit risk is managed at the level of individual customers (transactions) and at the portfolio level.

The Credit Underwriting, Credit Operations and Strategic Credit Risk Management departments are directly responsible for credit risk management. These departments are organisationally independent of the business divisions and report directly to a member of the Board of Directors in charge of the Risk management division (Chief Risk Officer).

Under its credit risk management policy, the Bank defines the general principles, methods and tools applied when identifying, measuring and managing credit risk. The Bank's credit risk management policy is set by the Strategic Credit Risk Management department. This policy is reviewed on a regular basis at least once a year.

In its internal guidelines, the Bank defines the underwriting approval competencies, including the definition of responsibilities and competencies of the Credit Committee.

The table below presents the maximum credit risk exposure related to balance sheet assets. Maximum credit risk exposure excludes impact of received collateral:

	2020	2019
Cash and cash balances	4 072	4 633
Financial assets at fair value through profit or loss, *of which:*	17 082	12 185
Held for trading	165 42	11 698
Mandatorily at fair value	540	487
Financial assets at fair value through other comprehensive income	20 518	23 181
Financial assets at amortised cost, *of which:*	583 094	613 747
Loans and advances to banks	136 930	185 944
Loans and advances to customers	446 164	427 803
Positive fair value of hedging derivatives	10 398	7 199
Other assets	2 132	1 692
Total	**637 296**	**662 637**

The table below presents the maximum credit risk exposure related to off-balance sheet items. Maximum credit risk exposure excludes impact received collateral:

	2020	2019
Letters of credit and financial guarantees	45 875	44 833
Other contingent liabilities (undrawn credit facilities)	140 257	125 401
Total	**186 132**	**170 234**

(i) Credit Risk Management at the Level of Individual Customers

Corporate customers

Credit risk at the level of individual customers is managed by analysing customers' financial health and determining maximum credit risk exposure (credit limit). Analysis is focused on the customers' competitive position in the relevant market, a rating of their financial statements, prediction of future liquidity, etc. The result of this analysis is, inter alia, a rating that reflects the probability of client default and takes into account quantitative, qualitative and behavioural factors. Analysing the financial position and setting the limits for credit exposure and rating is undertaken prior to the granting of a loan. Subsequently the rating is reviewed and creditworthiness is reassessed at least annually.

The internal rating system comprises 26 rating levels (1 to 10 adding "+" and "–" to certain rating classes, such as: 1+; 1; 1–; 2+; etc). When classifying customers, the Bank assesses (in addition to the number of days past due with regard to overdue receivables, if any) financial indicators related to the client (such as the structure of and proportion between the statement of financial position, the income statement, and the cash flow statement), management quality, ownership structure, individual customers' market position, reporting quality, production equipment, account-use history, etc. Customers in default are assigned internal ratings of 8–, 9 or 10.

Retail customers

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

Credit registries

The Bank uses information provided by credit registries as an additional source of information for assessing a client's financial standing for both Corporate and Retail Client

Collateral

In accordance with its credit risk management strategy, prior to granting the loans, the Bank may require that the customers post collateral for the loans. The amount and type of collateral depends on the client's financial health and the type of the loan. The Bank considers the following to be acceptable types of collateral: cash, investment grade securities, guarantees issued by other reputable entities (including bank guarantees), and pledges in form of mortgage over real estate property. When determining the realisable value of collateral, the Bank principally takes into consideration the financial health of the party providing the collateral for personal collateral (eg guarantees) and the nominal value of the collateral for non-personal collaterals such as pledge of property. The collateral is valued based on expert appraisals made by a special department of the Bank or external valuations. The realisable value of collateral is determined based on this appraised value by applying an adjusting co-efficient that reflects the Bank's ability to realise the given collateral, as and when needed.

(ii) Credit Risk Management at the Portfolio Level

The Bank regularly analyses and monitors 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 expected losses from its credit exposure on regular basis. The expected loss is determined based on internal estimates of risk parameters, ie the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The Bank regularly monitors its credit exposure to individual industries, countries, or economically-connected groups of debtors.

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

(iii) Classification of Receivables, Impairment Losses and Provisions

The Bank categorises its receivables arising from financial activities on a regular basis, in accordance with IFRS 9 Financial instruments; in particular, it divides its receivables into non-performing receivables = receivables in default (stage 3) and performing receivables = receivables without default (stages 1 and 2).

Stage 2 receivables are receivables which have experienced significant increase in credit risk between two subsequent balance sheet dates. All receivables are regularly monitored for default and significant increase in credit risk.

Impairment Losses on Non-Performing Receivables

Impairment losses related to individual non-performing receivables (ie stage 3 under IFRS 9 Financial Instruments) are recognised if carrying amount of individual receivables is less than recoverable amount and the Bank does not write off such receivables (fully or partially). The Bank assesses recoverable of the amount of all receivables in respect of which the debtors are in default: (i) individually if the amount of the receivable exceeds an equivalent of MEUR 1, (ii) collectively using recovery rate derived from the relevant model which reflects historic recovery experience. The Bank writes off receivables if no income is anticipated on it or on the collateral received with regard to the given receivable.

The impairment loss is (i) for individually assessed receivables equal to the difference between the receivable's gross carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate ; (ii) for collectively assessed receivables equal to the lifetime expected credit loss determined on portfolio basis.

Impairment Losses on Performing Receivables

For performing receivables that have experienced no significant increase in credit risk since origination (ie stage 1), the Bank determines the impairment loss as the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (1-year expected loss). For Performing receivables that have experienced a significant increase in credit risk since origination, but are still performing receivables (ie stage 2), the Bank determines the impairment loss as the expected loss until the final maturity of the receivable (lifetime expected credit loss).

Provisions for Off-Balance Sheet Items

The Bank recognises such provisions using the same methods as are used in determining impairment losses on receivable portfolios while taking into account conversion factors related to the specific type of the off-balance exposure.

(iv) Forbearance

The Bank classifies loan receivables as forborne if the originally agreed payment conditions were changed since the loan provision due to customers' financial difficulties (changes predominantly include payment deferral, temporary payment reduction, postponement of the ultimate due date, etc). These items are recognised in the statement of financial position either as non-performing loan receivables or performing loan receivables.

Loan receivables with a change in the originally-agreed payment conditions are generally classified as non-performing loan receivables. Following a robust assessment, the Bank may categorise individual receivables as performing receivables, despite a change in the conditions. This approach is applied if the reasons for the change of the payment conditions are not serious and the Bank does not anticipate incurring a loss from the future collection of such loan receivables.

Performing receivables also include receivables originally classified as non-performing receivables upon the change of payment conditions and which were subsequently transferred into the category of Performing loan receivables because the debtor complied with newly-agreed conditions in line with the Bank's internal rules. This group accounts for the majority of loan receivables reported as forborne – performing receivables.

Loan receivables with changed payment conditions are managed by Credit Restructuring & Workout Department and are subject to standard restructuring and workout procedures and monitoring. The exception is receivables that are not assessed as non-performing receivables upon a change of the payment conditions. These loans are only managed by Credit Restructuring & Workout Department after a thorough assessment of the need to use the know-how of this specialised unit. When releasing receivables from the management of this unit, the statues of individual cases and the need to use the know-how of the Credit Restructuring & Workout staff is also carefully reviewed.

The period for which the client is designated as forborne is referred to as the probation period and lasts a minimum of two years from the client default /forbearance if the forbearance was without client default. In addition, this period can only be terminated if the client fulfils the agreed conditions duly and timely, is not in delay in excess of 30 days. For amortizing loans, the debt must be reduced by at least 10% during probation period.

Due to the size of the forborne portfolio and the above procedures and practices, we have not identified any serious threats for the Bank resulting from this portfolio. This is supported by the fact that a portion of receivables with changed payment conditions in order to overcome the debtor's deteriorated financial position is reclassified once more as non-performing (recognised in the Bank's statement of financial position as non-performing forborne receivable – see above).

(v) Recovery of Receivables

The Bank has established the Credit Workout & Restructuring Department which manages the receivables whose recoverability is at risk (both Non-performing and Performing). 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 loan (comparison of future expenses versus income).

(vi) Covid-19 impacts on Credit Risk

The bank faced during 2020 significant macroeconomic change resulting in increase of risk in several risk categories including credit risk. The spread of the virus passed across European countries during first quarter 2020 followed by partial economy lockdowns resulting in significant economic recession.

The most affected sectors were retail trade, transport, tourism and in general services.

Local governments introduced several local government-guaranteed programs supporting bank lending continuation and to support local companies to overcome potential liquidity crisis.

Gradually there were introduced also government programs covering partial direct costs of companies hit by lockdown to prevent high unemployment rate growth and to stabilize the labor market short term. Across countries in Europe as well as in Czech Republic and Slovakia there were local public moratoriums presented and issued by law enabling postponement of repayments to the debtors, in particular in Czech Republic and Slovakia both in so called "opt-in" option.

Concessions on the bank's side are defined to support the drawback deriving from a temporary slow-down of the economy and support client's liquidity fully in line with law and regulator's regulation rules. The impact on the portfolio asset quality of the bank is mitigated by:

– Regular and also additional portfolio's analysis
– Ex-ante, ongoing and ex-post evaluation of client's risk profiles including standard and non-standard reviews and additional checks of unlikeliness to pay (hereinafter "UTP") as regulated by The European Banking Authority (hereinafter "EBA")
– Update of corporate underwriting principles and rules connected especially to risky industries clusters, clients' liquidity situation, unutilized frames management and prudent new clients onboarding
– Update of retail underwriting principles and rules with strong concentration on support of current clients and several short-term new restrictions to avoid credit risk increase
– Acquisitions of public guarantee schemes
– Update of monitoring principles and monitoring reporting especially (but not only) related to "under moratoria" portfolio development
– Classification principles aligned with EBA/GL/2020/02 issued as of April 2nd, 2020 incl. follow-up updates during 2020 as well as local prudent specifics, e.g. stage 2 classification for moratoria receivables fulfilling the interest rate local moratoria law limit (cap)

Moratoria overview in the Bank as of 31 December 2020

	Number of clients	Gross Carrying Amount	Impairment	Net carrying amount
Retail Customers	12 038	11 886**	(238)	11 648
Corporate Customers*	1 080	28 498***	(1 477)	27 021
Total	**13 118**	40 384	**(1 715)**	**38 669**

* Item Corporate Customers may include non-financial entities, financial institutions and government and other public sector entities.
** The balance also includes modification loss of MCZK 41 recorded as of 31 December 2020.
*** The balance also includes modification loss of MCZK 16 recorded as of 31 December 2020.

Overview of in the Bank newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis as of 31 December 2020

	Number of clients	Gross Carrying Amount
Total	**602**	**5 203**

Regulators measures
As response to Covid-19 spread EBA issued several statements during 2020, from credit risk point of view one of the most important and affecting bank's portfolio development Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of Covid-19 with application date as of 2 April 2020 followed by several amendments regarding clarification, prolongation and reactivation of moratoria period. In parallel with local law initiatives the statements provided clarity and reasonable uniformity in the classification and moratoria approach of the banks across the markets.

As reaction to Covid-19 Czech National Bank (hereinafter "CNB") updated the recommendation regarding new mortgages financing. The limits were released to support the economy recovery.

The release was applied to Loan to Value ("LTV"), Debt Service to Income ("DSTI") and Debt to Income ("DTI") limits. Detailed description is available on CNB website, recommendations are valid as of 1.4.2020 and as of 8.7.2020.

CNB and National Bank of Slovakia (hereinafter "NBS") were updated by the bank representatives several times during the year on calls dedicated special to Covid-19 and related development and bank measures.

UniCredit Bank Czech Republic and Slovakia credit risk and underwriting measures
The reaction of the bank was immediate starting from February 2020 implementing measures in corporate underwriting process (analyzing and covering Covid-19 connected risks to defend asset quality position of the bank).

Parallel to appropriate additional loan loss provisions created at specific and portfolio level (see part FLI and Multiscenario Overlay Factor below) the bank implemented new criteria in retail financing segment and updated during the year based on economic development. In corporate segment, the bank implemented risk mitigation rules in underwriting process based e.g. on industry clusters.

The bank also implemented moratoria underwriting process covering all by law driven new legal requests and successfully managed to the process in line with client's requests and the related reporting activities, internally and externally.

On the top the bank update monitoring system covering the moratoria but also after moratoria period (exit from moratoria) was implemented, mainly:
– risk clusters of clients under Moratoria for better aim of other activities towards that clients,
– deep payment traffic analyses specifically designed for clients under moratoria to be able to detect and have information about impact of Covid-19 to client business and afterwards if recovery activities in client business activities are in line with expectations,
– new flags and warning signals connected to moratoria for better identification and filtering such clients
– monitoring of backlog in post moratoria review and their notification,
– detailed Post moratoria delinquency monitoring.

Regular reporting for management, other local purposes, relevant reporting to UniCredit Group and regulators was ensured. Based on partial economic lockdown and expected economic slowdown including follow-up negative effects on consumers the set of retail risk rules was updated already within first half of 2020.

Acceptable limits for LTV, Debt Ratio ("DR"), DTI, DSTI were updated with stricter approach to keep appropriate prudential approach and defend asset quality. The same applied for customer income recognition/acceptance rules following the evaluation of industry risk clustering. Follow-up rules updates were done during the year to ensure fast bank reaction incl. release of some of mentioned rules during the year, but still keeping prudent approach with not fully utilization of all limits used according to regulators recommendations.

Loan loss provisions
Due to updates of the macro-scenarios for individual European countries which took into account the negative expectations caused by Covid-19, there were also updates of the forward looking information (hereinafter "FLI") component of expected credit loss calculation, according to IFRS 9, which was implemented on the bank in the 2nd and 4th quarter 2020.

Asset quality impact: worsening in Corporate, neutral in Retail
As shown in the migration tables bellow, the year 2020 is worse mainly in the higher migration from stage 2 to defaulted stage 3. In the corporate segment that reacts obviously faster on the macro economic slowdown is the amount of new defaults migrating from stage 2 more than tripling the volume from 2019, i.e. from 0,5 BCZK to 1,7 BCZK. Direct migration from stage 1 to stage 3 increased as well in the corporate segment by 109% (from 2,3 BCZK to 4,8 BCZK).

The 2020 development of migration between stages is rather neutral in the retail segment. Increased migration to stage 3 (mainly from stage 2) can be seen but there are also positive movements like increased migration from stage 2 to stage 1 or higher reductions (repayments) of exposures within stage 2. Due to frequent law moratoria utilization in 2020, despite the measures described above, there may be delayed identification of defaults during the year 2021.

Migrations between stages

	Corporate Customers			Retail Customers		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer of the gross amount of receivables from Stage 1	(19 974)	15 147	4 827	(4 245)	3 938	307
Transfer of the gross amount of receivables from Stage 2	1 796	(3 539)	1 743	2 814	(3 073)	259
Transfer of the gross amount of receivables from Stage 3	27	74	(101)	135	85	(220)

	Corporate Customers			Retail Customers		
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer of the gross amount of receivables from Stage 1	(15 676)	13 392	2 284	(4 150)	3 784	366
Transfer of the gross amount of receivables from Stage 2	3 637	(4 104)	467	1 558	(1 726)	168
Transfer of the gross amount of receivables from Stage 3	126	80	(206)	263	97	(360)

FLI and Multiscenario Overlay Factor
The IFRS 9 impairment requirements set out that expected credit loss must be assessed based on past, current and forward-looking information. In this regard, the Bank usually updates macroeconomic scenarios on a half year basis and account for the related effects in half year and year-end financial reports. Considering Covid-19 and associated lock-down measures, the Bank has updated macro-economic scenarios as at 31 March 2020 and confirmed the outcomes for 30 June 2020 having observed no significant updates in macroeconomic data used. Further update of internally developed macro-economic scenarios for 2021 – 2023 was confirmed to be used for the risk management purposes in November 2020.

To mitigate the impact uncertainty of macro-economic forecasts, multiscenario overlay factor was implemented in Q4. Through this component sensitivity of Expected Credit Loss ("ECL") evolution to different scenarios was incorporated into the calculation. The process defined to include multiple macroeconomic scenarios is fully consistent with forecast processes used by the Bank for additional risk management purposes (for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and Internal Capital Adequacy Assessment Process ("ICAAP") Framework) and also takes advantage of independent UniCredit Research function. Specifically, the Bank has selected three macroeconomic scenarios to determine the forward-looking component: a baseline scenario, one positive scenario and one adverse scenario. The baseline scenario is the reference central scenario and therefore is the most probable realization. Positive and adverse scenarios represent possible alternative realizations, respectively a better and a worst one compared to the baseline in terms of evolution of the economy.

So called 'baseline' scenario expects, that in the near term, a high number of Covid-19 cases and restrictions to mobility and business activity will see output fall around the turn of the year 2020. However, strong support from fiscal policy will mitigate the impact on jobs and incomes, while the CNB and European Central Bank (hereinafter "ECB") will keep "controlling" yield curves, hence preserving favorable financial conditions. Economic growth is seen bouncing back in the spring of 2021 as milder weather allows governments to loosen some of the restrictions, while the distribution of effective vaccines and new treatments to suppress virus transmission will support confidence and activity more clearly starting at around mid-2021. As the public health situation improves and confidence returns, we expect households to run down some of the savings accumulated during the crisis, thus boosting consumer spending. Overall, both Czech and Slovak economies would be on track for solid growth in 2021. This would be followed by a normalization of growth rates in 2022 and 2023 with growth returning to potential.

In the negative scenario, we assume that Europe will face a further wave of the pandemic at the beginning of 2021. Economies start reopening in spring 2021 as milder weather conditions allow governments to relax some of the containment measures. However, the roll-out of vaccines is slower than assumed in the baseline scenario, initially due to bottlenecks in the process and, later, because a relatively large share of the population is reluctant to get their shot. Therefore, herd immunity is only reached towards the end of the three-year forecasting horizon. Given these assumptions, the Covid-19 dampens private demand by more than assumed in the baseline scenario, and scarring effects are larger. Governments will continue to push ahead with expansionary policies to mitigate the effects of the pandemic and to preserve social stability. Generally favorable financial conditions are expected despite the further build-up of debt in the public and private sectors.

The growth shock is around 5pp for both countries in 2021. We assume that unemployment increases in both countries in 2021 compared to the baseline and declines only slightly in 2H22, leaving the 2022 average above that from the baseline scenario. Thereafter, a more pronounced decline could narrow the difference to the baseline in 2023. Demand weakness leads to a widening of the output gap which, together with lower oil prices, puts downward pressure on inflation.

The positive scenario assumes that the expected roll-out of vaccines (along with new medical treatments) boosts confidence and Gross Domestic Product ("GDP") by more than we project in the baseline scenario. While the picture for 2021 remains in line with the baseline projections or even slightly below it like in case of Slovak GDP, the pace of recovery in 2022 turns out to be materially stronger as households continue to reduce precautionary savings while firms resume investment plans that have been put on hold. Driven by pent-up demand, GDP is back to its pre-pandemic trend level by the end of 2022. Governments progressively scale back their support measures. As new debt issuance slows, there is less need for monetary policy to remain very expansionary.

We set the probabilities at 55% for the baseline scenario, 40% for the negative (pandemic "mild") scenario, and 5% for the positive scenario.

The speed of the roll-out of vaccines and their effectiveness will play a crucial role in shaping the growth trajectory in 2021-23.

The above probabilities reflect the assumption that the distribution of vaccines will not hit any major supply-side bottlenecks, that a sufficiently large share of the population will be willing to get their shots, and that immunity will not prove short lived. But we are in uncharted waters, and there is a meaningful risk that things might not go as smoothly as expected regarding one or more of these assumptions. This explains the 40% probability assigned to the negative scenario. The positive scenario envisages that all the negative effects of the Covid-19 evaporate by the end of 2022, when GDP would be back to its pre-pandemic trend level.
The probability of the positive scenario is seen as 5%.

In case of Stage 1, Stage 2 and Stage 3 – collective final expected credit loss is calculated using weighted average of ECLs under above mentioned scenarios.

See below overview of mentioned scenarios and its cumulative impact.

			Baseline (55%)	
Country	Macroeconomic scenario	2021	2022	2023
Czech Rep.	Real GDP, yoy % change	4,7	3,6	2,9
Czech Rep.	Monthly Wage, nominal EUR	1 397,5	1 499,5	1 585,9
Czech Rep.	Unemployment rate, %	4,7	4,0	3,4
Czech Rep.	Short term rate,average	0,4	0,8	1,3
Czech Rep.	House Price Index, yoy % change	–2,0	2,0	1,0
Slovakia	Real GDP, yoy % change	5,7	3,9	3,4
Slovakia	Monthly Wage, nominal EUR	1 160,4	1 205,9	1 264,9
Slovakia	Unemployment rate, %	8,1	7,5	6,6
Slovakia	House Price Index, yoy % change	2,0	4,0	2,0
Slovakia	Euribor 3m (avg)	–0,5	–0,5	–0,4
			Negative (40%)	
Country	Macroeconomic scenario	2021	2022	2023
Czech Rep.	Real GDP, yoy % change	0,0	3,7	2,7
Czech Rep.	Monthly Wage, nominal EUR	1 349,0	1 459,6	1 583,4
Czech Rep.	Unemployment rate, %	4,9	4,5	3,9
Czech Rep.	Short term rate,average	0,5	0,6	0,9
Czech Rep.	House Price Index, yoy % change	–2,1	2,0	1,0
Slovakia	Real GDP, yoy % change	0,6	3,9	3,8
Slovakia	Monthly Wage, nominal EUR	1 127,7	1 174,8	1 241,3
Slovakia	Unemployment rate, %	8,5	7,6	6,6
Slovakia	House Price Index, yoy % change	–4,1	3,0	3,2
Slovakia	Euribor 3m (avg)	–0,5	–0,5	–0,5
			Positive (5%)	
Country	Macroeconomic scenario	2021	2022	2023
Czech Rep.	Real GDP, yoy % change	4,7	5,9	3,4
Czech Rep.	Monthly Wage, nominal EUR	1 438,8	1 609,9	1 730,1
Czech Rep.	Unemployment rate, %	4,1	3,4	3,1
Czech Rep.	Short term rate,average	0,5	1,0	1,7
Czech Rep.	House Price Index, yoy % change	2,2	3,6	4,9
Slovakia	Real GDP, yoy % change	4,6	5,9	4,7
Slovakia	Monthly Wage, nominal EUR	1 188,5	1 287,6	1 379,4
Slovakia	Unemployment rate, %	6,4	5,8	6,3
Slovakia	House Price Index, yoy % change	–0,4	4,5	3,6
Slovakia	Euribor 3m (avg)	–0,5	–0,5	–0,5

Country	Cumulative GDP change between 2020 and 2023	Baseline	Negative	Positive
Czech Rep.	Real GDP, 3y % change	11,6	6,4	14,6
Slovakia	Real GDP, 3y % change	13,6	8,4	15,9

Sensitivity analysis
Since GDP forecast stated in the above-mentioned scenarios is assumed not to be linearly correlated to the ECL, it was agreed to provide two sensitivities based on opposite GDP assumptions:
- ECL sensitivity considering an upside scenario (i.e. the positive IFRS9 scenario), and
- ECL sensitivity considering based on a downside scenario (i.e. the negative IFRS9 scenario).

In both cases the sensitivity is calculated as ratio between:
- the difference of ECL between the baseline and alternative scenario
- the difference of GDP in basis point between the baseline and alternative scenario.

The 3 years cumulated GDP growth (country specific) is used in all calculations further.

The ECL under each of the three scenarios (baseline, negative and positive) were calculated considering the latest portfolio available.

(c) Market Risk

(i) Trading
The Bank holds trading positions in various financial instruments, including financial derivatives. The majority of the Bank's business activities are driven by the requirements of the Bank's customers. Depending on the predicted demand of its customers, the Bank holds a 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 short term profit taking on the expected future development of financial markets and the instruments are classified in line with IFRS 9 Financial instruments as held for trading. The Bank's business strategy is thus affected by short term profit taking and market-making and its goal is to maximise net income from trading.

The Bank manages risks associated with its trading activities at the level of individual types of risk and types of financial instruments. The basic tools used for market 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 description quantitative methods applied in risk management are included in the following section "Market risk management".

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

(ii) Market Risk Management
Below are described selected types of risk to which the Bank is exposed through its trading activities as well as managing the positions resulting from these activities and managing these risks. There is also market risk exposure in the Bank's banking book which corresponds to portfolios of financial instruments not held for trading. Market Risk is measured for the Trading and Banking book separately and also collectively. 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 risk 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 to interest rate risk resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risk by measuring the sensitivity of particular assets and liabilities which mature/reprice in specific time interval. This sensitivity is expressed by the change in the 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 mismatch 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 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 Bank's Value at Risk model calculations have the following limitations:
- The one-day holding period assumes that all 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 basis for determining possible future developments 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 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).

The VaR calculation divides the calculated risk into interest rate and credit portions. The credit portion of VaR is calculated based on the volatility of the credit spread between securities and the risk free interest rate. For this purpose, the yield curves of particular Issuers, industries, or groups of Issuers with identical rating are downloaded into the system for market risk management. Specific securities are mapped to these yield curves and the volatility of the credit spread is calculated. The Bank regularly reassesses the mapping of debt securities with the relevant yield curves and, if necessary, the debt securities are re-mapped to curves that reliably reflect the credit risk of the specific debt securities

The outputs of the VAR calculation model are back-tested and compared with the results of the changes to 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:

	At 31 Dec 2020*	Average for 2020*	At 31 Dec 2019	Average for 2019
	Czech Republic		Czech Republic + Slovakia	
Aggregate VaR	297.5	279.1	238.7	188.9
VaR of currency instruments	0.1	1.2	2.3	5.4
VaR of equity instruments	–	–	–	–
	Slovakia			
Aggregate VaR	36.3	56.2	n/a	n/a
VaR of currency instruments	–	0.3	n/a	n/a
VaR of equity instruments	–	–	n/a	n/a

** The calculation methodology has been changed since 1 January 2020*

Covid-19 impacts on Market Risk
As far as Market Risk is concerned, the abrupt market movements and the increased market volatility triggered at beginning of the year by the outbreak of Covid-19 resulted in a general increase in both managerial and regulatory risk measurement metrics. Loss Warning Limit was hit in the first Covid-19 wave. The evolution of the crisis and the related risk metrics development is under strict monitoring by both risk and business functions. Positions in the Trading Book were significantly reduced.

During the period market parameters were more volatile and interest rates dropped back to its minimum levels.

Value at Risk ("VaR")
Starting from March 2020, the VaR sharply increased, due to the massive increase of volatility in the markets in different asset classes in the course of uncertainty around the Coronavirus crisis. Later when positions were reduced VaR limit utilization dropped and stayed at low levels for the rest of the year.

Interest Rate Risk
The Bank is exposed to interest rate risk because of mismatch in interest-bearing assets and liabilities maturities, re-pricing periods and notionals in defined time buckets (gap or mismatch risk). In the event of a change in interest rates, the Bank is also exposed to interest rate 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 (basis risk and yield curve risk). Interest risk management is focused on optimising the Bank's net interest income in accordance with the strategies approved by the Board of Directors.

The Bank's overall interest rate position as of 31 December 2020 is characterised by sensitivity to a decrease in rates – this is reflected in the negative aggregate basis point value (BPV) – if the interest rates in 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 internal Liquidity Management Policy and the internal Funds Transfer Pricing Policy and by the Strategy of Interest Rate Risk Management in the Banking Book approved by the Board of Directors. Part of the Bank's income is generated by the intentional mismatch 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%), ie it represents the sensitivity of instruments to interest rate risks.

The Bank has set up 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 simulating impact on Net interest income under of historical scenarios of significant movements in financial markets, internally defined low probability scenarios and UniCredit Group macro scenarios.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basis points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve by 250 basis points for major currencies (CZK, EUR, USD), with a maturity of up to two years.

The following table shows the impact of the parallel shift of the yield curve on the Bank's results. The Bank uses the euro as the base currency for stress testing. All values are translated to CZK using the Czech National Bank's exchange rate as of the respective date.

	Basic stress test		MM stress test
	–200bp	**+200bp**	**+250bp**
*)			
Value at 31 Dec 2020	10 459	(5 477)	(2 621)
Average for the period	9 551	(4 036)	(1 713)
Maximum value	12 738	181	691
Minimum value	3 700	(7 032)	(3 394)
Value at 31 Dec 2019	7 030	(4 704)	(1 976)
Average for the year	8 003	(4 237)	(1 948)
Maximum value	11 843	(2 417)	(174)
Minimum value	4 265	(5 999)	(3 763)

On 7 December 2015, stress scenarios for negative market interest rates were introduced.

As a large portion of the market interest rate curve shows negative rates and a further decrease cannot be excluded, the Bank applies a stress scenario to reflect a possible Net interest income effect of a further decrease in the market interest rates. This approach is applied to the entire portfolio of assets and liabilities, including products for which a decrease of the market interest rates (as an element of client rates) into negative values is restricted in contracts (as well as in the general business terms and conditions). Using this approach, the Bank also reflects the possible risk of profit/loss for products where the market interest rates cannot achieve negative values according to contracts.

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

Fair value hedges are used for reducing the price interest rate risk of issued bonds, purchased securities, loans or deposits. Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise Net interest income; in other words to manage reinvestment risk.

Fair Value Hedging
Hedged instruments include financial assets and liabilities recognised at amortised cost and debt financial assets at fair value through other comprehensive income. Hedging instruments are derivatives (most commonly interest rate swaps and cross currency swaps).

At the inception of the hedge relationship, the Bank performs a prospective 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 actual interest rate developments, a test of effectiveness is carried out monthly. The Bank undertakes the monthly effectiveness testing to be able to detect possible non-effectiveness of the hedge relationships.

For particular hedged items and hedging transactions (loans, deposits, securities, interest rate swaps, etc), specific dates and amounts of cash flows are determined from the inception of a hedge relationship until the maturity of the hedged instrument. 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 sum 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%.

In the table below, the Bank sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

31 Dec 2020	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	29 796	–	1	–
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(81 711)	–	(1 636)

31 Dec 2019	Carrying amount of hedged items (excluding the accumulated fair value hedge adjustment)		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
Fair Value Hedge				
Micro fair value hedges				
Interest rate risk – see “A” below	18 590	(6 706)	(112)	(28)
Portfolio fair value hedges				
Interest rate risk – see “B” below	–	(35 280)	–	(1 097)

The corresponding Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include:

“A” represents hedging of”

– Loans presented in the line *“Financial assets at amortised cost, of which: Loans and advances to customers”*,
– Purchased bonds presented in the line *“Financial assets at fair value through other comprehensive income”*,
– Money-markets trades presented in the line *“Financial liabilities at amortised cost, of which: Deposits from banks”* and
– Issued bonds presented in the line *“Financial liabilities at amortised cost, of which: Debt securities issued”*.

“B” represents hedging of currents accounts presented in the line *“Financial liabilities at amortised cost, of which: Deposits from customers”*.

The table below sets out the outcome of the Bank's hedging strategy, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

31 Dec 2020	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	(46)	46	–
Portfolio fair value hedges			
Interest rate risk	(527)	527	–

31 Dec 2019	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
	Hedged items	Hedging instruments	
Fair Value Hedge			
Micro fair value hedges			
Interest rate risk	282	(292)	(10)
Portfolio fair value hedges			
Interest rate risk	(489)	489	–

Cash Flow Hedging

The Bank uses the cash flow hedging to eliminate interest rate risk on an portfolio basis. Hedged items are future forecasted transactions in the form of interest income and expenses which is sensitive to changes in market interest rates. Future forecasted transactions arise from concluded contracts and future forecasting transactions established on the basis of portfolio 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 UniCredit 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). Secondly, for these same currencies the nominal interest cash flows of variable hedging instrument parts are identified and are monitored on a net basis (ie 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, subsequently 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.

The table below sets out the Bank's financial assets and financial liabilities designated as hedged items in continuing cash flow hedge relationships and the outcome of the Bank's hedging strategy:

	Cash flow hedge reserve		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness		
			in total	Effective portion	Hedge ineffectiveness
	Continuing hedges	Discontinued hedges		recognised in OCI	recognised in the income statement in net trading income
31 Dec 2020					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	592	121	767	767	–
31 Dec 2019					
Cash Flow Hedge					
Portfolio cash flow hedges					
Interest rate risk – see "A" below	(1 196)	212	(1 238)	(1 238)	–

The corresponding Statement of Financial Position line items, where the hedged item and the cumulative fair value changes are recorded, include: "A" comprises hedging of:

– Loans presented in the line *"Financial assets at amortised cost, of which: Loans and advances to customers"* and line *"Financial assets at amortised cost, of which: Loans and advances to banks"*,
– Purchased float bonds presented in the line *"Financial assets at fair value through other comprehensive income"*,
– Deposits presented in the line *"Financial liabilities at amortised cost, of which: Deposits from customers"* and line *"Financial liabilities at amortised cost, of which: Deposits from banks"* and
– Issued bonds presented in the line *"Financial liabilities at amortised cost, of which: Debt securities issued"*.

The maturity profile of hedging instruments is included in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives.

Interest Rate Benchmark Reform

A comprehensive reference rates reform ("IBOR reform") is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board, and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation ("BMR"), UniCredit Group launched in October 2018 UniCredit Group wide project in order to manage the IBORs discontinuation.

The implications of IBOR reform on Bank's financial statements are deemed to be insignificant as most of the Bank's contract with variable interest rates are based on interest rate benchmarks that already fulfil the conditions set by BMR, ie based on PRIBOR or EURIBOR.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liabilities and derivatives cannot be excluded.

On this regard, on 15 January 2020 the Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform ("the Amendment") have been endorsed by the European Commission for use in EU. The Amendment solves a potential source of uncertainty on the effects of IBOR reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for the Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, the Bank has adopted the Amendment with reference to 2019 Financials for its existing hedge accounting relationships involving other IBORs. Adopting the Amendment allows the Bank to continue hedge accounting during the period of uncertainty arising from IBOR reform as the Amendment includes a number of reliefs, that apply to all hedging relationships directly affected by IBOR reform. The Amendment permits continuation of hedge accounting even if:

- In the future the hedged benchmark interest rate may no longer be separately identifiable;
- Even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms;
- Even though there is uncertainty about the replacement of the floating interest rates included in its cross-currency interest rate swaps; or
- The retrospective assessment of hedge effectiveness fall outside the 80% - 125% range when the hedging relationship is subject to interest rate benchmark reforms.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The Bank's hedge relationships with interest rate benchmark affected by IBOR reform are those with LIBOR whose notional values represents 1,6% of total notional value of all hedging instruments as of 31 December 2020 and thus insignificant.

Details of the Bank's hedge accounting relationships are disclosed in section V. Other Notes, Note 33. Contingent liabilities, contingent assets and financial derivatives and Note 35 Financial risk management, part (c) Market risk.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations. The Bank participates at the UniCredit Group wide project and analyses the IBOR reform affected contracts.

None of the Bank's current IBOR reform affected contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Bank will consider to implement when appropriate.

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 the income statement.

The Bank has established a system of currency risk limits based on its net currency exposure in individual currencies.

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

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2020						
Cash and cash balances	1 917	1 945	94	22	94	4 072
Financial assets at fair value through profit or loss, *of which:*	15 896	646	540	–	–	17 082
Held for trading	15 896	646	–	–	–	16 542
Mandatorily at fair value	–	–	540	–	–	540
Financial assets at fair value through other comprehensive income	11 434	9 084	–	–	–	20 518
Financial assets at amortised cost *of which:*	335 771	243 659	1 880	235	1 549	583 094
Loans and advances to banks	124 972	10 100	672	228	958	136 930
Loans and advances to customers	210 799	233 559	1 208	7	591	446 164
Positive fair value of hedging derivatives	10 398	–	–	–	–	10 398
Equity investments	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 587	1 004	–	–	–	3 591
Intangible assets	1 899	453	–	–	–	2 352
Tax receivables	737	595	–	–	–	1 332
Non-current assets held for sale	–	40	–	–	–	40
Other assets	857	1 252	13	–	10	2 132
Total assets	385 475	258 678	2 527	257	1 653	648 590
Financial liabilities at fair value through profit or loss, *of which:*	16 812	–	–	–	–	16 812
Held for trading	16 812	–	–	–	–	16 812
Financial liabilities at amortised cost *of which:*	278 441	234 085	13 405	624	3 375	529 930
Deposits from banks	3 411	91 483	53	–	3	94 950
Deposits from customers	267 945	139 629	13 352	624	3 372	424 922
Debt securities issued	7 085	2 973	–	–	–	10 058
Negative fair value of hedging derivatives	7 465	–	–	–	–	7 465
Changes in fair value of the portfolio of hedged instruments	855	781	–	–	–	1 636
Tax liabilities	–	–	–	–	–	–
Other liabilities	4 926	3 178	562	1	71	8 738
Provisions for risks and charges	489	917	29	9	26	1 470
Equity	65 028	17 068	257	–	186	82 539
Total liabilities and equity	374 016	256 029	14 253	634	3 658	648 590
Gap	11 459	2 649	(11 726)	(377)	(2 005)	–

	CZK	EUR	USD	CHF	Other	Total
At 31 Dec 2019						
Cash and cash balances	2 167	2 233	115	22	96	4 633
Financial assets at fair value through profit or loss, *of which:*	11 070	628	487	–	–	12 185
Held for trading	11 070	628	–	–	–	11 698
Mandatorily at fair value	–	–	487	–	–	487
Financial assets at fair value through other comprehensive income	11 527	11 654	–	–	–	23 181
Financial assets at amortised cost *of which:*	390 197	220 129	2 026	21	1 374	613 747
Loans and advances to banks	184 288	1 326	200	13	117	185 944
Loans and advances to customers	205 909	218 803	1 826	8	1 257	427 803
Positive fair value of hedging derivatives	7 199	–	–	–	–	7 199
Equity investments	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 024	931	–	–	–	2 955
Intangible assets	1 753	344	–	–	–	2 097
Tax receivables	238	615	–	–	–	853
Non-current assets held for sale	0	31	–	–	–	31
Other assets	917	695	74	–	6	1 692
Total assets	431 071	237 260	2 702	43	1 476	672 552
Financial liabilities at fair value through profit or loss, *of which:*	11 537	–	–	–	–	11 537
Held for trading	11 537	–	–	–	–	11 537
Financial liabilities at amortised cost *of which:*	283 317	264 202	15 828	637	3 222	567 206
Deposits from banks	3 830	125 831	2 367	0	3	132 031
Deposits from customers	270 194	127 506	13 461	637	3 219	415 017
Debt securities issued	9 293	10 865	–	–	–	20 158
Negative fair value of hedging derivatives	7 624	–	–	–	–	7 624
Changes in fair value of the portfolio of hedged instruments	672	424	–	–	–	1 096
Tax liabilities	418	152	–	–	–	570
Other liabilities	4 208	3 383	209	5	79	7 884
Provisions for risks and charges	379	397	62	9	22	869
Equity	60 001	15 682	170	1	(88)	75 766
Total liabilities and equity	368 156	284 240	16 269	652	3 235	672 552
Gap	62 915	(46 980)	(13 567)	(609)	(1 759)	–

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 equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed using trading limits. The methods used to manage these risks are described above.

Liquidity Risk
Liquidity risk arises due to the way the Bank's finances its activities and manages its positions. It includes the risk 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 diversified 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 a 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. As part of its liquidity risk management strategy, the Bank holds a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Bank by analysing of differences between the residual maturity of assets and liabilities across time buckets. Two approaches are used: short-term and long-term (structural). In the short-term approach, the Bank daily monitors and in detail the difference between liquidity inflows and outflows. Limits are set for cumulative inflows and outflows with an outlook of several weeks. 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 for periods longer than one year. The Bank sets limits and appropriate action is taken if they are breached (eg by acquiring long-term sources of refinancing).

The Bank has a contingency plan in 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.

Covid-19 impacts on Liquidity Risk
The bank responded to the outbreak of the pandemic with strengthening of the liquidity buffer, to be able to balance potentially higher liquidity outflows through higher utilization of undrawn credit facilities, deposits outflow and reduced liquidity inflows caused by the various moratoria. At the same time the business continuity management plans were activated in order to ensure the regular execution of Treasury activities and the proper information flows to the senior management and the Supervisors. Utilization of the ECB facilities helped the bank to reduce the reliance on intragroup funding.

Even though the bank has not so far experienced any extraordinary outflow on deposits or undrawn credit facilities, the liquidity buffers are still kept pre-cautiously at higher levels compared to the pre-pandemic times, as the elevated liquidity risk brought about by the pandemic is still to be faced.

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

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2020							
Cash and cash balances	4 072	4 072	4 072	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	17 082	17 117	1 244	2 741	7 903	5 117	112
– held for trading debt and equity instruments	1 034	1 069	20	74	111	864	–
– held for trading derivatives	15 508	15 508	1 224	2 667	7 792	3 713	112
– mandatorily at fair value	540	540	–	–	–	540	–
Financial assets at fair value through other comprehensive income	20 518	21 583	590	2 925	10 582	7 486	–
Financial assets at amortised cost *of which:*	583 094	619 440	181 979	63 695	188 941	181 123	3 702
Loans and advances to banks	136 930	140 731	132 703	686	6 640	680	22
Loans and advances to customers	446 164	478 709	49 276	63 009	182 301	180 443	3 680
Positive fair value of hedging derivatives	10 398	10 398	94	156	3 989	6 159	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	3 591	3 591	–	–	–	–	3 591
Intangible assets	2 352	2 352	–	–	–	–	2 352
Tax receivables	1 332	1 332	756	–	571	–	5
Non-current assets held for sale	40	40	–	–	–	40	–
Other assets	2 132	2 132	1 556	568	8	–	–
Financial liabilities at fair value through profit or loss, *of which:*	16 812	16 812	3 714	2 285	6 649	4 053	111
– held for trading debt instruments	2 115	2 115	2 115	–	–	–	–
– held for trading derivatives	14 697	14 697	1 599	2 285	6 649	4 053	111
Financial liabilities at amortised cost *of which:*	529 930	531 094	462 915	15 793	49 493	2 758	135
Deposits from banks	94 950	95 025	44 287	9 420	39 795	1 389	134
Deposits from customers, *of which:*	424 922	424 708	417 971	4 027	1 595	1 114	1
Lease liabilities	2 436	2 480	91	264	1 051	1 074	–
Other than lease liabilities	422 486	422 228	417 880	3 763	544	40	1
Debt securities issued	10 058	11 361	657	2 346	8 103	255	–
Negative fair value of hedging derivatives	7 465	7 465	461	419	3 246	3 339	0
Changes in fair value of the portfolio of hedged instruments	1 636	1 636	1 636	–	–	–	–
Tax liabilities	–	–	–	–	–	–	–
Other liabilities	8 738	8 738	6 998	1 735	–	–	5
Provisions for risks and charges	1 470	1 470	291	220	386	498	75
Equity	82 539	82 539	(3)	5 210	1	77 349	(18)
Undrawn loan facilities	46 575	46 575	3 995	13 054	25 468	4 053	5
Bank guarantees	140 852	140 852	4 647	26 055	31 514	78 636	–

	Carrying amount	Net cash flow	Up to 3 months	3 months – 1 year	1-5 year	Over 5 years	Unspecified.
At 31 Dec 2019							
Cash and cash balances	4 633	4 633	4 633	–	–	–	–
Financial assets at fair value through profit or loss, *of which:*	12 185	12 735	938	1 949	5 071	4 773	4
– held for trading debt and equity instruments	2 392	2 942	15	434	235	2 258	–
– held for trading derivatives	9 306	9 306	923	1 515	4 836	2 028	4
– mandatorily at fair value	487	487	–	–	–	487	–
Financial assets at fair value through other comprehensive income	23 181	25 471	139	2 290	19 870	3 172	–
Financial assets at amortised cost *of which:*	613 747	650 927	232 084	61 486	178 826	173 817	4 714
Loans and advances to banks	185 944	190 551	184 616	1 861	3 238	823	13
Loans and advances to customers	427 803	460 376	47 468	59 625	175 588	172 994	4 701
Positive fair value of hedging derivatives	7 199	7 199	94	457	2 296	4 352	–
Equity investments	3 979	3 979	–	–	–	–	3 979
Property, equipment and right of use assets	2 955	2 955	–	–	–	–	2 955
Intangible assets	2 097	2 097	–	–	–	–	2 097
Tax receivables	853	853	(66)	–	919	–	–
Non-current assets held for sale	31	31	–	31	–	–	–
Other assets	1 692	1 692	957	735	–	–	–
Financial liabilities at fair value through profit or loss, *of which:*	11 537	11 537	4 153	1 525	3 604	2 252	3
– held for trading debt instruments	3 010	3 010	3 010	–	–	–	–
– held for trading derivatives	8 527	8 527	1 143	1 525	3 604	2 252	3
Financial liabilities at amortised cost *of which:*	567 206	569 228	515 115	32 098	14 977	6 874	164
Deposits from banks	132 031	132 046	118 103	5 070	7 325	1 387	161
Deposits from customers, *of which:*	415 017	415 455	395 112	16 965	2 902	473	3
Lease liabilities	1 911	2 007	93	298	1 147	469	–
Other than lease liabilities	413 106	413 448	395 019	16 667	1 755	4	3
Debt securities issued	20 158	21 823	82	10 361	5 897	5 483	–
Negative fair value of hedging derivatives	7 624	7 624	155	854	2 346	4 269	–
Changes in fair value of the portfolio of hedged instruments	1 096	1 096	1 096	–	–	–	–
Tax liabilities	570	570	570	–	–	–	–
Other liabilities	7 884	7 884	6 111	1 772	–	1	–
Provisions for risks and charges	869	869	–	–	–	–	869
Equity	75 766	75 766	–	–	–	–	75 766
Undrawn loan facilities	125 656	125 656	6 169	27 829	25 169	66 489	–
Bank guarantees	45 297	45 297	4 801	10 596	24 755	5 142	3

(d) Operational Risk
Operational risk is the risk of loss due to deficiencies or failures of internal processes, people and systems or external events. This definition includes legal risk, however, it does not include strategic or reputation risk. Legal risk includes, inter alia, the risk of fines, sanctions or punitive damages resulting from supervision measures and private settlement.

The Bank's organisational structure and its internal rules fully respect the segregation of incompatible duties to prevent conflict of interests. Internal rules unambiguously define the obligations and competencies of employees, including management, and regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Department is an independent body 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 is performed by authorised employees of individual departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives and assesses the control and management system's functionality.

The Bank has continued developing and setting up its comprehensive system for the identification, monitoring and management of operational risk. In line with the 2020 Operational Risk Management Strategy, the Bank defined its priorities with respect to mitigating operational risk exposure that are consistent with the risk profile and risk appetite of the Bank. The operational risk appetite is the operational risk level acceptable to the Bank and is measured using ELOR (Expected Loss on Revenue), which is the proportion of anticipated losses arising from operational risk (estimate based on historical data) to income (budgeted income on a quarterly basis). Setting the ELOR limit and its monitoring was performed in line with the Bank's policies.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by UniCredit Group. The system complies with the requirements for capital adequacy management. The data acquired through the system is taken into account when calculating the capital requirement and when managing operational risk. It serves as the basis for designing processes that reduce the number of particular events and mitigate the consequences (eg when preparing process mitigation measures or the Bank's strategic insurance plan). 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 2020, 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 overall awareness of operational risk within the Bank and trains the Bank's staff via 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 UniCredit Group model based on internal and external data, the results of scenario analyses and risk indicator data is used.

Covid-19 impacts on Operational Risk
In terms of risk management in 2020, the most important activities included the establishment of measures and procedures to manage the pandemic situation following the spread of the Covid-19. Analysis were carried out in order to identify risks arising from process changes adopted time by time to protect the health of employees and customers.

(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 Bank's regulatory capital consists of the following:
- Common Equity Tier 1 (CET 1) capital which comprises registered capital, share premium, reserve funds, retained earnings, accumulated other comprehensive income from revaluation of available-for-sale securities, post-tax profit for the period if audited at the time of reporting; minus intangible assets and gaps in the coverage of anticipated losses through adjustments for credit risk using the internal rating based approach;
- Tier 1 (T1) capital creating CET1; and
- Tier 2 (T2) capital which is the excess in the coverage of anticipated credit losses when using the internal rating based approach.

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

Statement of capital for the Banks's capital adequacy calculation on a stand-alone basis as reported to the regulator in accordance with applicable rules as of 31 December 2020 and as of 31 December 2019 is stated in the Annual Report, part *"Separate financial highlights".*

36. Related party transactions

Entities are deemed to be related parties in the event that one entity is able to control the activities of another, 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 parties. 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 Bank's parent company, Bank's fellow subsidiaries and other companies controlled by UniCredit Group or where UniCredit Group exercises significant influence the, the Bank's subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

UniCredit Group has prepared an equity programme for the employees of UniCredit Group under which the employees may purchase shares of UniCredit Group parent at a discounted price. The Discounted employee shares may not be sold during the vesting period. Vested shares are forfeited if the respective employee's employment by the UniCredit Group ends. The provided discount is allocated to individual UniCredit Group companies involved in the programme and these companies recognise and defer the discount over the vesting period.

(a) Transactions with the parent company

	31 Dec 2020	31 Dec 2019
Assets		
Loans and advances to banks	1 865	928
Financial assets held for trading	4 576	1 836
Positive fair value of hedging derivatives	2 460	925
Total	**8 901**	**3 689**
Liabilities		
Deposits from banks	48 926	118 092
Financial liabilities held for trading	4 390	1 656
Negative fair value of hedging derivatives	1 774	1 417
Total	**55 090**	**121 165**
Off-balance sheet items		
Issued guarantees	570	1 490
Irrevocable credit facilities	789	311
Total	**1 359**	**1 801**

	2020	2019
Interest income	279	296
Interest expenses	(19)	(100)
Fee and commission income	1	1
Fee and commission expenses	(4)	(1)
Net profit/loss from financial assets and liabilities held for trading	202	200
Net profit/loss from hedging of the risk of change in fair values	(260)	(3)
Administrative expenses	(62)	(12)
Total	**137**	**381**

(b) Transactions with subsidiaries

	31 Dec 2020	31 Dec 2019
Assets		
Loans and advances to customers	38 772	44 743
of which:		
UniCredit Leasing CZ, a.s.	24 527	29 858
UniCredit Leasing Slovakia, a.s.	10 827	11 401
UniCredit Fleet Management, s.r.o. (CZ)	61	74
UniCredit Factoring Czech Republic and Slovakia, a.s.	2 190	2 408
HVB Leasing Czech Republic s.r.o.	827	649
Total	**38 772**	**44 743**
Liabilities		
Deposits from customers	363	439
of which:		
UniCredit Leasing Slovakia, a.s.	339	360
UniCredit pojišťovací makléřská spol. s r.o.	18	13
Total	**363**	**439**

	31 Dec 2020	31 Dec 2019
Off-balance sheet items		
Issued guarantees	1	14
of which:		
UniCredit Factoring Czech Republic and Slovakia, a.s.	1	14
Irrevocable credit facilities	1 823	1 053
of which:		
UniCredit Leasing CZ, a.s.	307	117
UniCredit Fleet Management, s.r.o. (CZ)	14	1
UniCredit Factoring Czech Republic and Slovakia, a.s.	1 107	170
UniCredit Leasing Slovakia, a.s.	167	575
Total	**1 824**	**1 067**

	2020	2019
Interest income	373	439
of which:		
UniCredit Leasing CZ, a.s.	320	362
UniCredit Leasing Slovakia, a.s.	33	49
Interest expenses	(8)	(9)
of which:		
UniCredit Leasing Slovakia, a.s.	(8)	(9)
Fee and commission income	29	48
of which:		
UniCredit Leasing CZ, a.s.	14	30
UniCredit Leasing Slovakia, a.s.	11	15
Fee and commission expense	(2)	–
of which:		
UniCredit Leasing CZ, a.s.	(2)	–
General administrative expenses	(1)	(3)
of which:		
UniCredit Fleet Management, s.r.o. (CZ)	(3)	(6)
UniCredit Fleet Management, s.r.o. (SK)	(1)	(2)
Total	**391**	**475**

(c) Transactions with key management members

	31 Dec 2020	31 Dec 2019
Assets		
Loans and advances to customers	147	114
of which:		
Board of Directors	20	17
Other management members	127	97
Total	**147**	**114**
Liabilities		
Deposits from customers	133	169
of which:		
Board of Directors	47	85
Other management members	86	84
Total	**133**	**169**
Off-balance sheet items		
Irrevocable credit facilities	3	3
of which:		
Board of Directors	1	1
Other management members	2	2
Total	**3**	**3**

(d) Transactions with other related parties

	31 Dec 2020	31 Dec 2019
Assets		
Financial assets held for trading	2 888	1 654
of which:		
UniCredit Bank AG	2 888	1 654
Loans and advances to banks	875	165
of which:		
UniCredit Bank AG	20	1
UniCredit Bank Austria AG	685	78
Yapi ve Kredi Bankasi AS	–	54
UniCredit Bank Hungary Zrt.	85	16
AO UniCredit Bank	50	1
Loans and advances to customers	707	801
of which:		
UCTAM Czech Republic s.r.o.	288	398
UCTAM SVK, s.r.o	419	403
Positive fair value of hedging derivatives	5 706	4 139
of which:		
UniCredit Bank AG	5 706	4 139
Total	**10 176**	**6 759**

	31 Dec 2020	31 Dec 2019
Liabilities		
Deposits from banks	1 281	1 338
of which:		
UniCredit Bank Austria AG	178	511
UniCredit Bank AG	41	750
UniCredit Bank Hungary Zrt.	995	55
Deposits from customers	224	248
of which:		
UniCredit Services S.C.p.A.	91	110
Financial liabilities held for trading	3 792	2 495
of which:		
UniCredit Bank AG	3 792	2 495
Negative fair value of hedging derivatives	4 191	3 310
of which:		
UniCredit Bank AG	4 191	3 310
Total	**9 488**	**7 391**

	31 Dec 2020	31 Dec 2019
Off-balance sheet items		
Issued guarantees	1 537	2 348
of which:		
UniCredit Bank AG	1 336	1 853
UniCredit Bank Austria AG	113	325
UniCredit Bank Hungary Zrt.	5	12
AO UniCredit Bank	36	53
Irrevocable credit facilities	992	534
of which:		
UniCredit Bank AG	517	433
Total	**2 529**	**2 882**

	2020	2019
Interest income	32	109
of which:		
UniCredit Bank AG	4	2
UniCredit Bank Austria AG	12	90
Interest expenses	(203)	(353)
of which:		
UniCredit Bank AG	(188)	(268)
UniCredit Bank Austria AG	(13)	(83)
Fee and commission income	64	128
of which:		
UniCredit Bank AG	47	111
UniCredit Bank Hungary Zrt.	2	2
UniCredit Bank Austria AG	13	12
Fee and commission expenses	(10)	(8)
of which:		
UniCredit Bank Austria AG	(5)	(4)
Net profit/loss from financial assets and liabilities held for trading	46	(303)
of which:		
UniCredit Bank AG	46	(303)
Net profit/loss from hedging against risk of changes in fair value	421	50
of which:		
UniCredit Bank AG	421	50
Administrative expenses	(909)	(900)
of which:		
UniCredit Services S.C.p.A.	(888)	(900)
Total	**(559)**	**(1 277)**

37. Fair value of financial assets and financial liabilities

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

Financial assets at fair value through profit or loss

Held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Debt securities	518	516	–	1 034
Derivatives	32	15 259	217	15 508
Total	**550**	**15 775**	**217**	**16 542**
31 Dec 2019				
Debt securities	2 392	–	–	2 392
Derivatives	35	9 159	112	9 306
Total	**2 427**	**9 159**	**112**	**11 698**

Mandatorily at fair value

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Shares and Other debt securities	–	277	263	540
Total	**–**	**277**	**263**	**540**
31 Dec 2019				
Shares and Other debt securities	–	–	487	487
Total	**–**	**–**	**487**	**487**

Financial assets at fair value through other comprehensive income

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Debt securities	18 006	2 441	64	20 511
Shares	–	–	7	7
Total	**18 006**	**2 441**	**71**	**20 518**
31 Dec 2019				
Debt securities	19 829	3 281	65	23 175
Shares	–	–	6	6
Total	**19 829**	**3 281**	**71**	**23 181**

Positive fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Fair value hedging	–	2 425	–	2 425
Cash flow hedging	–	7 973	–	7 973
Total	**–**	**10 398**	**–**	**10 398**
31 Dec 2019				
Fair value hedging	–	1 370	–	1 370
Cash flow hedging	–	5 829	–	5 829
Total	**–**	**7 199**	**–**	**7 199**

Financial liabilities held for trading

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Liabilities from short sales	2 115	–	–	2 115
Derivatives	–	14 473	224	14 697
Total	**2 115**	**14 473**	**224**	**16 812**
31 Dec 2019				
Liabilities from short sales	3 010	–	–	3 010
Derivatives	–	8 442	85	8 527
Total	**3 010**	**8 442**	**85**	**11 537**

Negative fair value of hedging derivatives

	Level 1	Level 2	Level 3	Total
31 Dec 2020				
Fair value hedging	–	745	–	745
Cash flow hedging	–	6 720	–	6 720
Total	**–**	**7 465**	**–**	**7 465**
31 Dec 2019				
Fair value hedging	–	360	–	360
Cash flow hedging	–	7 264	–	7 264
Total	**–**	**7 624**	**–**	**7 624**

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 statement of financial position (the fair value is calculated using discounted future cash flows under the application of arm's length market rates to which credit mark-ups derived from internal rating categories of individual clients are added):

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2020					
Financial assets					
Loans and advances to banks	136 930	136 967	0	117 693	19 274
Loans and advances to customers	446 164	437 959	0	116 893	321 066
Financial liabilities					
Deposits from banks	94 950	94 676	–	50 717	43 959
Deposits from customers	424 922	424 879	–	590	424 289
Debt securities issued	10 058	10 362	–	10 362	–

	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 Dec 2019					
Financial assets					
Loans and advances to banks	185 944	185 941	–	168 194	17 747
Loans and advances to customers	427 803	425 043	–	167 902	257 141
Financial liabilities					
Deposits from banks	132 031	132 087	–	125 423	6 664
Deposits from customers	415 017	414 988	–	1 758	413 230
Debt securities issued	20 158	20 374	–	20 374	–

For the year ended 31 December 2020 and 31 December 2019, no financial assets reported at fair value were transferred between Levels 1 and 2.

For the years ended 31 December 2020 and 31 December 2019, no financial liabilities reported at fair value were transferred between Levels 1 and 2.

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

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2019	**2 331**	**346**	**70**	**–**	**n/a**	**2 747**
Revaluation gains and losses						
In the income statement	–	139	–	–	–	139
In other comprehensive income	–	–	–	–	–	–
Purchases	43	–	–	–	–	43
Sales/maturity	(2 178)	–	–	–	–	(2 178)
Transfers from/to other levels	(122)	–	–	–	–	(122)
Other	38	2	1	–	849	890
Closing balance at 31 Dec 2019	**112**	**487**	**71**	**–**	**849**	**1 519**
Total revaluation gains and losses included in the income statement for the period:						139
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						139

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Hedging derivatives	Property measured at fair value	Total
	Held for trading	Other than held for trading mandatorily at fair value				
Opening balance at 1 Jan 2020	**112**	**487**	**71**	**–**	**849**	**1 519**
Revaluation gains and losses						
In the income statement	–	53	–	–	(1)	52
In other comprehensive income	–	–	–	–	(12)	(12)
Purchases	81	–	–	–	43	124
Sales/maturity	–	–	–	–	–	–
Transfers from/to other levels	63	(277)	–	–	–	(214)
Depreciation	n/a	n/a	n/a	n/a	(31)	(31)
Other	(39)	–	–	–	12	(27)
Closing balance at 31 Dec 2020	**217**	**263**	**71**	**–**	**860**	**1 411**
Total revaluation gains and losses included in the income statement for the period:						52
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end						52

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

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2019	**1 304**	**–**	**1 304**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	30	–	30
Sales/maturity	(1 173)	–	(1 173)
Transfers from/to other levels	(75)	–	(75)
Other	(1)	–	(1)
Closing balance at 31 Dec 2019	**85**	**–**	**85**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

	Financial liabilities at fair value through profit or loss held for trading	Hedging derivatives	Total
Opening balance at 1 Jan 2020	**85**	**–**	**85**
Revaluation gains and losses			
In the income statement	–	–	–
In other comprehensive income	–	–	–
Issue	87	–	87
Sales/maturity	–	–	–
Transfers from/to other levels	75	–	75
Other	(23)	–	(23)
Closing balance at 31 Dec 2020	**224**	**–**	**224**
Total revaluation gains and losses included in the income statement for the period:			–
Of which: Total revaluation gains and losses included in the income statement for the period arising from financial assets held at the period end			–

38. Offseting of financial assets and financial liabilities

The Bank does not offset financial assets and financial liabilities.

The below table shows assets which are subject to netting agreements according to Credit risk management arrangements included in the Derivative Framework agreements such as ISDA or similar. The assets are subject to netting on settlement (performance netting) and on position closeout.

	Gross reported financial assets	Gross offset financial liabilities	Net reported financial assets	Potential amounts available for offset		Net amount
				Financial instruments	Obtained cash collateral	
31 Dec 2020						
Derivatives	19 640	–	19 640	17 172	–	2 468
31 Dec 2019						
Derivatives	14 361	–	14 361	12 079	–	2 282

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

	Gross reported financial liabilities	Gross offset financial assets	Net reported financial liabilities	Potential amounts available for offset		Net amount
				Financial instruments	Provided cash collateral	
31 Dec 2020						
Derivatives	21 250	–	21 250	17 172	–	4 078
31 Dec 2019						
Derivatives	13 348	–	13 348	12 079	–	1 269

39. Subsequent events

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

The Bank is carefully monitoring current Covid-19 development and taking all necessary precautions in line with current development and government measures.

The financial statements were approved by the Board of Directors of the Bank and authorised for issue on 16 March 2021.

Jakub Dusílek
Chairman of the Board
of Directors

Massimo Francese
Member of the Board
of Directors

Individual in charge
of the accounting records

Lea Branecká

Individual in charge
of the financial statements

Michaela Mrštíková

Auditor's report on the annual report

The report below represents the auditor's report that relates solely and exclusively to the official annual report prepared in the XHTML format.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Having its registered office at: Želetavská 1525/1, 140 92, Prague 4 – Michle

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic and Slovakia,a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2020, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "Consolidated Financial Statements").

The separate financial statements comprise the separate statement of financial position as at 31 December 2020, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information (the "Separate Financial Statements").

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Related audit procedures
Impairment of receivables from customers	
(Please refer to Note 15 to the Consolidated and Separate Financial Statements for the details)	
At 31 December 2020, gross receivables from customers (hereinafter "receivables") were CZK 472 465 million and CZK 455 065 million for the Group and the Company respectively against which impairment of receivables from clients (hereinafter "impairment") of CZK 10 989 million and CZK 8 901 million for the Group and the Company respectively were recorded. The directors exercise significant judgment when determining both when and how much to record as impairment.	We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant loan portfolios. We assessed the correctness of the classification and recognition of loan receivables with deferred payments related to government measures to mitigate the negative consequences of the COVID-19 pandemic in both Czech republic and Slovakia.
The assessment of loan loss provisions for loans to clients requires Bank management to exercise a significant level of judgment, especially with regards to identifying impaired receivables and quantifying loan impairment. The level of uncertainty and level of subjectivity of management judgments relating to 2020 financial reporting increased significantly due to the COVID-19 pandemic.	We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes.
To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters from internal and external sources. If necessary, historical input parameters are adjusted so they can be used for a more appropriate estimation of expected credit losses.	
In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank.	For receivables regarding which the Bank has not identified any difficulties likely to prevent the full repayment of receivables (Stage 1 and Stage 2), the testing focused on controls related to timely identification of potential difficulties with receivable repayment and correct classification of receivables to corresponding impairment stages.
The assessment of classification to stages of impairment includes the combination of relative and absolute factors. Impairment Stage 2 includes loans where significant increase in credit risk has occurred since their initial recognition determined based on assessment of: • Relative comparison between the probability of default at the initial recognition of the receivable and at each reporting date, • Absolute factors such as limits set by related regulations (i.e. 30 days past due), • Other factors with internal relevance for the Bank (e.g. new classifications as forbearance receivables). Impairment Stage 3 includes credit impaired receivables regarding which any of the following events have occurred: • The debtor is in default with payments for more than 90 days;	For provisions for loan losses at Stage 3, the testing included controls related to creation and period review of watch-lists, regular client creditworthiness review processes, approval of experts' collateral valuation and management review and approval of the impairment evaluation results. On a sample of exposures we assessed the correctness of the classification of exposures to individual stages of impairment and evaluated appropriateness of provisioning methodologies and their application We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows. For loan receivables in Stage 3 with exposure of over EUR 1.0 million we also verified correctness of discounted cash flows calculations applied in deriving the recoverable

- It is likely that the debtor will be unable to settle its payables on timely basis and in full without the Bank resorting to realising collateral.

Where no repayment difficulties have been identified for a particular receivable, the Bank creates a provision using the statistical model for a homogeneous group of loans (Stage 1 and Stage 2). The expected loan loss provision is calculated using available historical data and anticipated future development determined using macroeconomic indicators.

The statistical model used is based on the probability of default and the estimated amount of the loss given default and assessment of forward looking information. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management, including the assessment of the COVID-19 pandemic impact.

When determining the provision level for impaired loans (Stage 3):

1) With respect to receivables with exposure of over EUR 1.0 million, Bank management considers the following factors:
   a) The Bank's estimated rate of success of recovering debt;
   b) Amount and timing of expected future cash flows;
   c) Collateral value.
2) With respect to receivables with exposure of less than EUR 1.0 million the provision is calculated using models based on expected recovery.

The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 2 894 million and CZK 2 238 million for the Group and for the Company respectively. The loan loss provision for impaired loans at Stage 3 represents CZK 8 095 million and CZK 6 663 million for the Group and for the Company respectively, out of the total recognised amount of CZK 10 989 million and CZK 8 901 million for the Group and for the Company respectively as at 31 December 2020.

amount of the loan. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias.

Our credit risk experts assessed the amounts of provisions for Stage 1, Stage 2 and Stage 3 with exposure below EUR 1.0 million and reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default. On a sample of loans we verified correctness and appropriateness of input data used in the calculation models of the Bank.

As regards macroeconomic parameters, we assessed the analysis prepared by the Bank's management as to the necessity to manually adjust macroeconomic and other parameters of the IFRS 9 model to fairly reflect the expected degree of defaults and recoverability of loans in the future.

Our procedures included also assessment of adequacy of Management analysis and adjustments resulting from the impact made by the COVID-19 virus crisis on all aspects of the estimation of Expected Credit Losses. The impact analysis include Management assessment of various scenario analyses and sensitivity analyses.

The overall conclusion was supported by an analysis performed at an overall portfolio level aimed to identify anomalies in:

a) Classification of loans to corresponding impairment stages, and
b) The provision amount calculated by the Bank.

Interest Income and Fee and Commission Income Recognition

(Please refer to Note 1 and Note 2 to the Consolidated and Separate Financial Statements for the details)

For the year ended 31 December 2020 the interest income represents CZK 14 493 million and CZK 13 007 million for the Group and for the Company respectively, and fee and commission income represents CZK 4 858 million and CZK 4 350 million for the Group and for the Company respectively, the main source being loans to customers, accounts administration and payment cards. These transactions are the main contributors to the operating income of the Bank affecting the Bank's profitability.

We have tested the design and operating effectiveness of the key internal controls and focused on:

- Inputs on interest/fee related to customer loans and deposits, including authorisation of the changes in the interest rates and fees and authorisation of non-standard interest rates/fees;
- Recording of fee and interest income and management oversight; and
- IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.

We also performed the following procedures with regard to interest and fee income recognition:

While interest income is accrued over the expected life of the financial instrument, the recognition of fee income depends on the nature of the fees as follows: • Fees that are directly attributable to the financial instrument are recognised over the expected life of such an instrument and are presented as interest income. • Fees for services provided are recognised when service is provided and are presented as fee and commission income. • Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income. Revenue recognition specifics, high volume of individually small transactions dependent on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.	1) We evaluated the accounting treatment applied by the Bank to determine whether the methodology complies with the requirement of the relevant accounting standard. We have focused our testing on verification of the correct classification of: • Fees that are identified as directly attributable to the financial instrument; • Fees that are not identified as directly attributable to the financial instrument. • 2) We evaluated the correctness of mathematical formula used for recognising the relevant income over the expected loan life. We have analysed correctness of the recorded amount of interest income and fee and commission income using substantive analytical tests. These tests included determination of expected volumes of income based on the observed historical development over past years and the actual development of the market, which was compared to the related amount recorded by the Bank.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the Consolidated and Separate Financial Statements does not cover the other information. In connection with our audit of the Consolidated and Separate Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate Financial Statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Company to express an opinion on the Consolidated and Separate Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Report on Relations between the Controlling and Controlled Entities (the "Report on Relations")

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2020 which is included in this annual report on pages 233 to 240. This Report on Relations is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the Report on Relations based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Report on Relations is free of material factual misstatements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the Report on Relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the Report on Relations of UniCredit Bank Czech Republic and Slovakia, a.s. for the year ended 31 December 2020 contains material factual misstatements.

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 1 April 2020 and our total uninterrupted engagement including previous renewals has lasted for 8 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 16 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

<u>Provision of Non-audit Services</u>

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

<u>Non-financial information report</u>

As stated in Section 23 on page 232 of the annual report, the Company does not prepare non-financial information since the relevant information is to be presented in the annual report or separate report of the consolidating entity. As a result, we do not report on the preparation of non-financial information.

Report on Compliance with the ESEF Regulation

We have conducted a reasonable assurance engagement on the verification of compliance of the financial statements included in the annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation") that apply to the financial statements.

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of the financial statements in compliance with the ESEF Regulation. Inter alia, the Company's Board of Directors is responsible for:

- The design, implementation and maintenance of the internal control relevant for the application of the requirements of the ESEF Regulation;
- The preparation of all financial statements included in the annual report in the valid XHTML format; and
- The selection and use of XBRL mark-ups in line with the requirements of the ESEF Regulation.

Auditor's Responsibilities

Our task is to express a conclusion whether the financial statements included in the annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation, based on the audit evidence obtained. Our reasonable assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and scope of the selected procedures depend on the auditor's judgment. A reasonable assurance is a high level of assurance; however, it is not a guarantee that the examination conducted in accordance with the above standard will always detect a potentially existing material non-compliance with the requirements of the ESEF Regulation.

As part of our work, we performed the following procedures:

- We obtained an understanding of the requirements of the ESEF Regulation;
- We obtained an understanding of the Company's internal control relevant for the application of the requirements of the ESEF Regulation;
- We identified and evaluated risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- Based on this, we designed and performed procedures responsive to those risks and aimed at obtaining a reasonable assurance for the purposes of expressing our conclusion.

The aim of our procedures was to assess whether

- The financial statements included in the annual report were prepared in the valid XHTML format;
- The disclosures in the consolidated financial statements were marked up where required by the ESEF Regulation and all mark-ups meet the following requirements:
  - XBRL mark-up language was used;
  - The elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
  - The mark-ups comply with the common rules for mark-ups pursuant to the ESEF Regulation.

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

Conclusion

In our opinion, the Company's financial statements for the year ended 31 December 2020 included in the annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 16 March 2021

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

David Batal
registration no. 2147

Do the right thing!
for Diversity&Inclusion

UniCredit Group is is committed to promoting a positive working environment that embraces our core values: Ethics & Respect.

TAKING ACTION AT THE 2020 D&I WEEK

More than 21,000 colleagues joined our 120 events in 15 countries, incl. Czech Republic and Slovakia. With 270 external speakers and 145 hours of workshops, coaching sessions and online discussions, we made sure everyone could join UniCredit's second annual Diversity & Inclusion Week.

Supplementary information

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

1. Basic data

Business name:	UniCredit Bank Czech Republic and Slovakia, a.s.
Registered office:	Želetavská 1525/1, 140 92 Prague 4, Czech Republic
Company ID No.:	64948242
Companies register:	recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, file 3608
Tax ID No.:	CZ64948242
Date of incorporation:	1 January 1996, for an indefinite period
Legal form:	joint-stock company
Internet address:	www.unicreditbank.cz
E-mail:	info@unicreditgroup.cz
Phone:	+420955911 111
Fax:	+420 221 112 132
LEI:	KR6LSKV3BTSJRD41IF75

UniCredit Bank Czech Republic and Slovakia, as (hereinafter referred to as „UniCredit Bank" or „Issuer") is a joint-stock company incorporated according to Czech law.

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

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

2. Persons responsible for the audit of the financial statements

Person in charge:	David Batal
License No.:	2147
Domicile/Place of business:	Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady
Auditor:	Deloitte Audit s. r. o.
License No.:	079
Registered office:	Churchill I, Italská 2581/67, 120 00 Prague 2 – Vinohrady

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

3.1 History and development of the Issuer

UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter also referred to as "Issuer"), launched its activities in the Czech market on 5 November 2007. Its name was changed after it merged with the Slovak UniCredit Bank Slovakia, a.s., as at 1 December 2013.

UniCredit Bank Czech Republic, a.s., itself was established through the merger of HVB Bank Czech Republic, a.s., and Živnostenská banka, a.s. The assets of the dissolved company Živnostenská banka, a.s., having its registered office in Prague 1, Na Příkopě 858/20, PC 113 80, Company ID No.: 000 01 368, recorded in the Companies Register maintained by the Municipal Court in Prague, Section B, File No. 1350, were assumed by the successor company, HVB Bank Czech Republic, a.s., as a result of the merger.

HVB Bank Czech Republic, a.s., was established by the merger of HypoVereinsbank CZ, a.s., and Bank Austria Creditanstalt Czech Republic, a.s., without liquidation, on 1 October 2001. All rights and obligations of the dissolved company Bank Austria Creditanstalt Czech Republic, a.s., were assumed by HVB Bank Czech Republic a.s. The change of name, amount of issued capital and other facts connected with the merger were recorded on 1 October 2001 in the Companies Register maintained by the Municipal Court in Prague, Section B, File 3608.

Živnostenská banka was established in 1868 as a bank oriented toward financing small and medium-sized Czech enterprises. It was the first bank founded in Austria-Hungary exclusively with Czech capital. In 1945, it was nationalised, as were other banks. From 1950 to 1956, it still existed as a legal entity but its activities were significantly restricted. Some of Živnostenská banka's asset ratios were adjusted by Decree No. 36/1956 Coll., and its legal continuity was subsequently confirmed by Section 27 of Act No. 158/1989 Coll., on Banks and Savings Banks. On the day of its entry in the Companies Register maintained by the Municipal Court in Prague in Section B, File No. 1350, i.e. on 1 March 1992, Živnostenská banka assumed authorisation to operate as a bank on the basis of Banking Act No. 21/1992 Coll., further to Act No. 92/1991 Coll. and Government Resolution No. 1 from 9 January 1992, by which the privatisation of Živnostenská banka was approved. In February 2003, the bank UniCredito Italiano SpA completed the acquisition of an 85.16% share in the issued capital of Živnostenská banka, a.s., from Bankgesellschaft Berlin AG, and thus the oldest Czech bank became part of the UniCredito Italiano Group.

As part of restructuring in UniCredit Group, the Bank's shareholder changed on 1 October 2016 from UniCredit Bank Austria AG to UniCredit S.p.A., which is the ultimate parent company of the entire Group (hereinafter the "Group") holding 100% of the Bank's shares. UniCredit Bank Czech Republic and Slovakia, a.s., is a strong and rapidly developing bank offering a wide range of quality products to both corporate and private clients in the Czech Republic and Slovakia. It is one of the strongest banks in both markets in the area of project, structured and syndicated corporate finance.

The bank has also built an extraordinarily strong position in acquisition financing and ranks first in commercial real estate financing. Among other services, UniCredit Bank's clients can utilise services to obtain project financing from the EU structural funds offered through UniCredit Bank's European Competence Centre. In the area of services for private clients, UniCredit Bank plays a significant role in the market of private banking or securities and, in the retail segment, it is a significant player in the field of consumer loans, mortgages, and credit cards. It is doing very well in serving clients in freelance professions (doctors, judges, attorneys-at-law, notaries, etc.). The Bank's Competence Centre for Freelance Professions is devoted to these clients.

UniCredit Bank Czech Republic and Slovakia, a.s. operates in all regional cities in both countries and currently has 108 branches and 421 ATMs. The merged Bank holds 9% of the market share with its balance sheet sum totalling more than CZK 649 billion (non-consolidated data) and is the fourth largest bank in the Czech Republic and the largest in Slovakia. The Bank is a universal bank, providing services of small, commercial and investment banking in Czech crowns as well as in foreign currencies to local and foreign clients mainly in the Czech Republic, in Slovakia and, further, in other EU countries.

3.2 Issued share capital

The Bank's share capital amounts to CZK 8,754,617,898 divided as follows:

a) 100 registered shares, each with a nominal value of CZK 16,320,000;
b) 200 registered shares, each with a nominal value of CZK 13,375,000;
c) 436,500 registered shares, each with a nominal value of CZK 10,000;
d) 10 registered shares, each with a nominal value of CZK 7,771,600;
e) 106,563 book-entry registered shares with a nominal value of CZK 46.

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

UniCredit Bank's share capital has been fully paid up. In accordance with the Commercial Code and the Bank's Articles of Association, UniCredit Bank's shares entitle the shareholder to participate in the company's management and to share in its profit as well as in its liquidation balance upon dissolution of the company. UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares. UniCredit Bank does not hold any of its own participating securities nor does any entity in which UniCredit Bank has a direct or indirect ownership interest exceeding 50% of that entity's share capital or voting rights hold any such securities. The Bank's shares are freely transferable and no consent of any Bank's body is required for the transfer or pledge thereof to be effective. The sole shareholder of UniCredit Bank is UniCredit S.p.A., having its registered office at Piazza Gae Aulenti 3, Tower A – 20154 Milan, Republic of Italy, Reg. No.: 00348170101.

In accordance with UniCredit Bank's Articles of Association, the sole shareholder may only influence the Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. UniCredit Bank is not party to a controlling contract or a contract for transfer of profit. The nature of the control by the controlling entity, which is UniCredit S.p.A., results from the directly owned portion of the Issuer's shares.

To prevent misuse of the control and controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the Report on Relations between the controlled entity and other entities controlled by the same controlling entity (Report on Relations between the related entities). No agreements that could lead to a change of control over the Issuer are known.

3.3 Additional information

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

Currently there exist no authorisations or special powers of the Board of Directors in terms of Section 118, par. 5h) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended. UniCredit Bank has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.

There are no programmes in UniCredit Bank that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions. UniCredit Bank has concluded no significant contracts that will take effect, change or expire in case of a change in the control of the Issuer as a result of a takeover bid.

4. Summary of business activities

4.1 Scope of business activities:

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

a) receiving deposits from the public;
b) granting loans;
c) investing in securities on its own account;
d) finance lease;
e) operating a system of payments and clearing;
f) issuing and administering payment products;
g) granting guarantees;
h) opening letters of credit;

i) administering cash collection;
j) providing investment services:
– main investment service pursuant to Section 8, par. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), receipt of and conveying instructions related to investment instruments on a customer's account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, par. 1a) and 1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2c) of the Securities Act, trading in investment instruments on a trader's own account, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, main investment service pursuant to Section 8, par. 2d) of the Securities Act, management of individual portfolios at its own discretion within the terms of a contractual covenant with a client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act,
– main investment service pursuant to Section 8, par. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a) – 1b) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1c) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3c) of the Securities Act, provision of credits or loans to a customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, par. 1a)–1d) and 1g) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision of advice and services related to mergers and acquisitions of companies,
– supplementary investment service pursuant to Section 8, par. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, par. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, par. 1a)–1b) of the Securities Act,
– supplementary investment service pursuant to Section 8, par. 3f) of the Securities Act, consulting services related to investment in investment instruments, with respect to investment instruments pursuant to Section 8a, par. 1a)–1g) of the Securities Act, and
– supplementary investment service pursuant to Section 8, par. 3g) of the Securities Act, executing of foreign currency operations related to the provision of investment services,
k) issuing mortgage bonds;
l) financial brokerage;
m) depository services;
n) foreign currency exchange services (purchase of foreign currencies);
o) providing banking information;
p) trading foreign currencies and gold on its own account or on behalf of clients;
q) renting safe-deposit boxes; and
r) other activities directly related to the activities specified above.

4.2 Key activities Corporate & Investment Banking

Corporate and investment banking
- Corporate and investment banking;
- Credit transactions;
- Financing commercial real estate;
- Project financing and structured financing;
- Trade and export financing;
- Documentary transactions;
- Treasury & custody services;
- Asset management;
- EU funds (consulting and payment);
- Maintaining accounts and deposits;
- Payment systems;
- Electronic banking;
- Direct banking;
- SWIFT services;
- Cash pooling;
- Payment cards;
- Card acquiring;
- European Commodity Clearing;
- Comprehensive management of client assets, including portfolio management;
- Comprehensive factoring services – domestic factoring, export factoring, invoice discounting, reverse factoring, credit cover, sales ledger management;
- Global Investment Strategy – strategic advisory for capital market investments;
- Open architecture of investment products.

Launching new products or activities

Year 2020 revolved around intensive support of clients across the corporate banking segments, and particularly in the context of the impacts of the Covid-19 pandemic. In accordance with our values and the „Do the Right Thing" vision, we came up with the option to use a commercial moratorium with our corporate clients as early as in spring, allowing the postponement of loan instalments by up to 6 months. Later on in April 2020, the option of instalment postponement became a widespread practice thanks to state moratorium.

We were actively working on the preparation of state guarantee programmes both in the Czech Republic and Slovakia giving the small, medium as well as large companies opportunity to obtain advantage state-guaranteed loans. During 2020, we launched 4 new Czech and 4 new Slovak programmes at UniCredit Bank, which made us one of the banks offering the widest portfolio of guarantee schemes. These programmes enabled us to offer our clients loans at an advantage rate and lower requirement for own collateral. Wider establishment of the portfolio then significantly translated to the total volume of state-guaranteed loans and the loans granted on the Czech market amounted to nearly CZK 7 billion and on the Slovak market to more than EUR 120 million.

Considering the contemporary trends and new approaches to servicing corporate clients, we launched two centres focusing on remote and digital servicing for clients from among the small and medium enterprises segment in 2020. Thanks to using modern technologies and simplified processes, our clients may now handle their requirements from their homes without the need to visit a branch office. At the same time, we managed to maintain individual approach and personal consulting provided by experienced specialists in the corporate banking area.

As regards the modus operandi of the division, we continued to put strong emphasis on ongoing simplification, automation and digitisation of internal processes in 2020. Changes related to the approval of credit transactions and simplification of credit due diligence, digital processing of documents and automated preparation of contractual documentation. Improvement of quality and accessibility of services to our clients and, consequently, strengthening the positive client experience on both markets in all segments remains our goal and priority. This is our DNA.

Retail banking

- Accounts for individual clients, the U konto account, Dětské konto account, U konto Premium account, U konto TANDEM account, U konto pro mladé account, and accounts for small enterprises;
- Mortgage loans and consumer credit, including the PRESTO Loan, and overdrafts for individual clients;
- Operating, investment and mortgage loans for corporate clients;
- Payment cards, including insurance (debit, credit and partner cards);
- Deposit, savings and investment products (the Bank's own or in cooperation with Amundi);
- Insurance products (property insurance, life insurance, car insurance, travel insurance, CPI);
- Internet and mobile banking;
- Cash and money changing operations and supplementary services.

Introduction of new products and activities

Mortgages

We have been working hard on the digitizing the mortgage application process for clients and third parties to be launched in 2021. An ability-to-repay insurance paid on a monthly basis and a new type of loan for unspecified immovable property with an approved loan limit and 6 months to find a property to purchase was introduced in Slovakia. The requirement to provide proof of income was cancelled for employed clients; their income can now be checked in the register of the Social Insurance Agency in Slovakia.

Accounts

We run innovative campaigns, whether within the well-tried cooperation with supermarket chains or unusual connection between the world of banking and film by way of design payment cards. New clients were also remunerated for opening the account and active use of our payment cards.

Insurance

Life insurance products were presented on both markets along with Allianz. We were working together on simplification of processes, e.g. on the option to arrange contracts remotely, which allowed us to offer clients insurance products in the difficult Covid times; in the Czech Republic, we presented new variants of ability-to-repay insurance attached to loan products introducing a package covering severe diseases which is unique on the Czech market compared with competitors.

Payment cards

We concluded a strategic contract with VISA and re-issued under this brand majority of the card portfolio. We presented new modern vertical designs of cards, moved the payment card data to the back page and removed the signature strip which is of no use anymore. Card data are applied by way of laser. The campaign was supported with a contest in cooperation with VISA.

We introduced the Dragon Pass service for premium Platinum and Infinite cards, and a new VISA Cinestar product which also serves as an admission to the CineStar Club Extra. We launched automatic issuance of cards to clients which have an account at our bank, but their access to the money in the account is difficult.

Small companies and entrepreneurs

We amended the offer of our products to include the option to use the guarantee programmes Covid II, Covid Praha and Covid III, and could thus provide funding also to sectors we normally do not finance.

Branch network

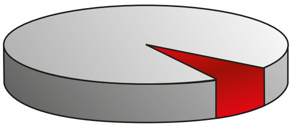
Thanks to the ongoing developments in digital servicing of clients, we merged several branch offices and transformed 8 branch offices in Slovakia to the so-called bound financial agents, an equivalent to Czech franchises, in 2020.

4.3 Competitive position of the Issuer

All charts below provide non-consolidated data.

(i) Profit after tax

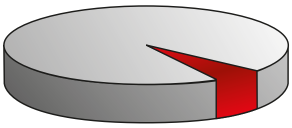
Profit after tax (MCZK)	2020
Banking sector CZ	47,514
UCB CZ & SK	5,162



Non-consolidated data

(ii) Total net assets

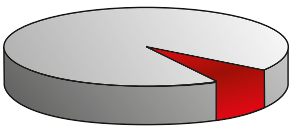
Total assets (MCZK)	as at 31 Dec 2020
Banking sector CZ	7,965,122
UCB CZ & SK	648,590



Non-consolidated data

(iii) Gross receivables from clients in CZ*

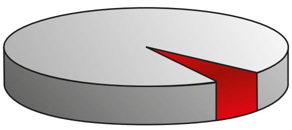
Receivables from clients (MCZK)	as at 31 Dec 2020
Banking sector CZ	3,277,397
UCB CZ & SK	295,665



Non-consolidated data, residents

(iv) Gross receivables from clients in SK***

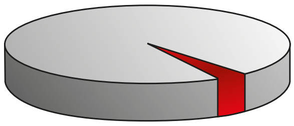
Receivables from clients (MCZK)		as at 31 Dec 2020
Banking sector SK	61 138 mil. EUR**	1,685,735
UCB CZ & SK		123,029



Non-consolidated data, residents

(v) Liabilities to clients in CZ*

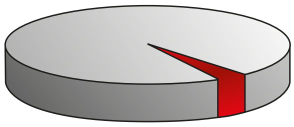
Liabilities to clients CZ (MCZK)	as at 31 Dec 2020
Banking sector CZ	4,901,014
UCB CZ & SK	313,024



Non-consolidated data, residents

(vi) Liabilities to clients in SK***

Liabilities to clients SK (MCZK)		as at 31 Dec 2020
Banking sector SK	MEUR 63,061**	1,655,037
UCB CZ & SK		83,093



Non-consolidated data, residents

* 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 26,245 CZK/EUR as at 31 December 2020.
*** Data for SK branch

5. Organisational structure

The Bank is part of the UniCredit Banking Group (hereinafter referred to as the “Group”). As a member of the Group, the Bank must comply, with the exception of certain relevant legal regulations, with directives issued by UniCredit S.p.A , as the parent company (hereinafter the “Parent Company”). The Parent Company shall monitor the proper implementation and observation of the directives (hereinafter the “Holding Guidelines”) issued by the Parent Company (hereinafter the “Holding Company”) in the Bank.

The Holding Guidelines are rules that define the management, organisational structure and managerial responsibilities within key processes in the Group that are issued in exercising its powers to supervise and co-ordinate the Group in accordance with the instructions issued by the Italian surveillance authority, with the aim to maintain the Group’s stability.

History of the Group

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

Growth continued over the next few years with purchase of the Pioneer Investments group, the subsequent formation of Pioneer Global Asset Management, and then further strategic acquisitions gradually carried out in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic, and Turkey. In 2005, UniCredit merged with the German group HVB, which had itself been formed in 1998 by the joining of two Bavarian banks: Bayerische Vereinsbank and Bayerische Hypotheken- und Wechsel-Bank. The result was a single, major European bank.

Integration with the HVB Group – reinforced by its own merger in 2000 with Bank Austria Creditanstalt, which was strongly represented in many areas of post-communist "new" Europe – creates a basis for UniCredit Group to continue strengthening its European focus.

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

UniCredit is now a simple successful Pan European commercial bank with a fully plugged in Corporate & Investment Banking, delivering its unique Western, Central and Eastern European network to its extensive franchise. UniCredit offers local expertise as well as international reach. We support our clients globally, providing them with unparalleled access to our leading banks in 13 core markets as well as to additional 16 countries worldwide. UniCredit's European banking network includes Italy, Germany Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, and Serbia.

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 on all affairs of the Bank falling under its competence by law or under these 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 the listing of the Bank's participating securities for trading on the European regulated market or withdrawal of the securities from trading on the European regulated market,
h) deciding on winding up the Bank with liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration and approving the draft distribution of liquidation balance,
i) approving a transfer or discontinuation of an operation of a plant or any such part thereof which would result in a substantial change in the bank's scope of business or activities,
j) approving agreements on silent partnerships, amendments thereto and termination thereof,
k) appointing auditors of the Bank based on the recommendation of the Audit Committee,
l) deciding on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation, and
m) deciding on other issues that the Act on Business Corporations, other legal regulations or the Articles of Association define as falling under the competence of the General Meeting.

7.2 Board of Directors of UniCredit Bank

The Board of Directors is the statutory body of UniCredit Bank and had seven members as at 31 December 2020. The members of the Board of Directors exercise their powers and responsibilities within the office on their own. 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 is required for a resolution to pass. In the event of a parity of votes, the chairman of the Board meeting shall cast the deciding vote. If all members so agree, the Board of Directors may adopt resolutions at the company's registered office or elsewhere by any means of communication that enables all its members to simultaneously hear one another during the meeting (i.e. via teleconference) or in writing without holding a meeting (per rollam). In such case, the voting persons shall be regarded as present.

The powers and responsibilities of the Board of Directors particularly include, without limitation:

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;
   – annual, extraordinary, consolidated or interim financial statements along with a proposal for the 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, at least 30 days before the date of the annual General Meeting, including information as to where the financial statements are available for inspection, or publish, using the procedure applicable to convening a General Meeting, information as to where on the Bank's website the financial statements are available in accordance with Section 436(1) second sentence of the Act on Business Corporations;
e) to decide on the establishment and cancellation of the Bank's branches;
f) to appoint and dismiss the Bank's managers;
g) to exercise the rights of an employer;
h) to issue, if it deems fit, rules of procedure for the Board of Directors which may not contradict the Articles of Association; any rules of procedure for the Board of Directors is subject to prior approval by the Supervisory Board;
i) to grant and withdraw authorisations to act on behalf of the Bank and the powers of attorney to the Bank's representatives;
j) in accordance with generally binding legal regulations, to 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 perform other duties stipulated by law or by the Articles of Association.

JAKUB DUSÍLEK

Chairman of the Board of Directors and CEO, responsible for the Bank's overall results and for managing the General Manager and the Chief Risk Officer. He also reports to the Bank's Board of Directors for the management of finance and legal issues.
Work address: Želetavská 1521/1, Prague 4
Domicile: Měsíční 1366/10, Uhříněves, 104 00 Prague 10
Born: 17 December 1974

MARCO IANNACCONE

Vice-Chairman of the Board of Directors and General Manager, responsible for Human Resources, Management and Control of Bank's business activities and coordination of the activities of Bank's competence and service lines, so that they contribute, directly or indirectly, to achieving the Bank's business results to the maximum possible extent.
Work address: Želetavská 1521/1, Prague 4
Domicile: Nad Šárkou 1677/17, Dejvice, 160 00 Prague 6
Born: 26 August 1970

ALEN DOBRIĆ

Member of the Board of Directors and Head of Risk Management Division responsible for preparation of the Bank's lending policy, quality of the loan portfolio, management of all activities in the area of credit risks and meeting the limits of banking regulation, as well as for the management of the activities in the area of market and operational risks.
Work address: Želetavská 1521/1, Prague 4
Domicile: 11070 Belgrade, Bulevar Arsenija Carnojevica no 41/30, Republic of Serbia
Born: 17 June 1980

SLAVOMÍR BEŇA

Member of the Board of Directors and Head of Corporate and Investment Banking Division, responsible for managing and supervising the Bank's business activities in the relevant business segment.
Work address: Želetavská 1521/1, Prague 4
Domicile: Mliekárenská 3, 82109 Bratislava, Slovak Republic
Born: 22 April 1976

TOMÁŠ DRÁBEK
Member of the Board of Directors and Head of Retail and Private Banking Division.
Work address: Želetavská 1521/1, Prague 4
Domicile: Bílkova 863/17, Staré Město, 110 00 Prague 1
Born: 14 January 1978

MASSIMO FRANCESE
Membr of the Board of Directors and Chief Financial Officer.
Work address: Želetavská 1521/1, Prague 4
Domicile: Senovážné náměstí 1465/7, Nové Město, 110 00 Prague 1
Born: 4 November 1965

MIROSLAV ŠTROKENDL
Member of the Board of Directors and Head of foreign branch in Slovakia
Work address: Šancová 1/A, 813 33 Bratislava
Domicile: Charkovská 7, Bratislava, 841 07, Slovak Republic
Born: 12 November 1958

Changes in the Board of Directors in 2020
Marco Iannaccone replaced Paolo Iannone, Massimo Francese replaced Ljubisa Tesic, and Alen Dobrić replaced Aleš Barabas effective as of 1 April 2020.

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 Act on Business Corporations in conjunction with Act on Transformations of Commercial Companies and Cooperatives. The members of the Supervisory Board exercise their powers and responsibilities within the office on their own. Members of the Supervisory Board are elected for three years and may be re-elected. The Supervisory Board shall have a quorum if an absolute majority of all its members is present or otherwise participating (for example via teleconference). The approval of an absolute majority of all members of the Supervisory Board is required for a resolution to pass. In the event of a parity of votes, the Chairman shall cast the deciding vote.

The Supervisory Board may adopt resolutions at or outside the company's registered office or by way of technical devices which enable all participants at a meeting to identify each other and enter in real time the discussion on the topics examined, as well as receive, send and view documents. The meeting can only be opened after the person chairing the meeting established that these conditions have been met. If all members so agree, the Supervisory Board members may also pass resolutions in writing without holding a meeting (per rollam); the voting persons shall be regarded as present. A resolution passed per rollam should be then included in the minutes of the next meeting of the Supervisory Board.

The Supervisory Board set up the Remuneration Committee which consists of three members of the Supervisory Board (Jiří Kunert, Andrea Vintani and Klára Čapková). The powers of the Remuneration Committee include preparation of draft resolutions on remuneration, including those adopted by the Bank's Supervisory Board and having an impact on the obligor's risks and risk management. When preparing those resolutions, the Remuneration Committee takes into consideration the long-term interests of the Bank's shareholders, investors and other stakeholders, as well as the public interest. The Remuneration Committee directly supervises the remuneration of managers responsible for risk management, internal audit and compliance functions.

Further, the Supervisory Board set up the Appointment Committee which consists of three members of the Supervisory Board (Jiří Kunert, Andrea Vintani and Niccolo' Ubertalli). The powers of the Appointment Committee include the selection of candidates for vacancies in the Bank's Board of Directors and submitting them for approval to the Supervisory Board. Within this task, the Appointment Committee also assesses the proper proportion in competence, skills and diversity in composition of the body as a whole. The Appointment Committee drafts job descriptions including skills required for the position in question and estimated time schedule for meeting the goals related to exercise of the office. Additionally, the Appointment Committee also recommends the target gender proportion in the Board of Directors and the principles as to how the share of the less represented gender in the Board of Directors can be increased to match the target goal;

a) regularly, at least once a year, evaluates the structure, size, composition and activities of the Board of Directors and submits recommendations to the Supervisory Board regarding any alterations;
b) regularly, at least once a year, 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 evaluation reports to the Supervisory Board;
c) regularly reviews policies of the Board of Directors as to the selection and appointment of a candidate to top management and submits recommendations to the Supervisory Board.

Further, the Supervisory Board set up the Risk Management Committee which consists of three members of the Supervisory Board (Wolfgang Schilk, Andrea Vintani, Goffredo Guizzardi). The Risk Management Committee performs particularly the following activities:

a) regularly, at least once a year, 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 evaluation reports to the Supervisory Board;
b) examines whether the valuation of assets, liabilities and off-balance sheet items reflected in the offer to clients fully complies with the Bank's business model and its risk management

strategy. If the existing risks are not properly reflected in prices in accordance with the existing business model, then the Risk Management Committee submits a corrective plan to the Supervisory Board.

The Supervisory Board is authorised to supervise the business activities performed by the Bank and the powers and responsibilities performed by the Board of Directors.

The Supervisory Board:

- reviews the specific directions of the Bank's activities and business policy and supervises its implementation;
- is authorised to verify any steps taken in the Bank's affairs;
- reviews the annual, extraordinary, consolidated or, as the case may be, even the interim financial statements and the profit distribution or loss settlement proposal, and presents its opinions to the General Meeting;
- is authorised, through any of its members, to inspect any documents and records regarding the Bank's activities;
- 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;
- convenes the General Meeting if the Bank's interests so require and proposes the necessary measures to be taken by the General Meeting;
- 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;
- issues, if it is deemed appropriate, rules of procedure for the Supervisory Board which may not contradict the Articles of Association;
- approves the rules of procedure (if any) for the Board of Directors;
- 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;
- stipulates general terms and conditions for the Bank's activities and terms and conditions for maintaining its credit risk exposure in accordance with decrees of the Czech National Bank and legal norms published in the Collection of Laws of the Czech Republic;
- approves board member 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(1) of the Act on Business Corporations;
- decides remuneration of the members of the Board of Directors and stipulates rules for remunerating the Director of the Internal Audit Department and the Director of the Compliance Department. If the general meeting resolves, in accordance with Section 8(2)(n) of the Articles of Association, that the variable component of the remuneration for the Board of Directors members may be higher than the fixed component, but no more than double the fixed component, the Supervisory Board will in each individual case set a ratio between the fixed and variable components of the remuneration;
- sets up committees of the Supervisory Board and defines their responsibilities;
- oversees the effectiveness and efficiency of the Bank's management and control system;
- may ask the Chairman of the Audit Committee to convene a meeting of the Audit Committee; and
- performs other responsibilities stipulated by law, the Articles of Association and the Group's rules.

JIŘÍ KUNERT
Chairman of the Supervisory Board
Domicile: Čerchovská 1981/6, Vinohrady, 120 00 Prague 2
Born: 31 January 1953

NICCOLO' UBERTALLI
Vice Chairman of the Supervisory Board
Domicile: Via del Lauro, 2 Milan, Italy
Born: 2 March 1973

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Italy
Born: 24 March 1967

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

JANA SZÁSZOVÁ
Domicile: Bratislava, Hany Meličkovej 2989/18, 84105, Slovakia
Born: 17 January 1963

KLÁRA ČAPKOVÁ
Domicile: Střimelická 2497/14, Prague 4, 141 00
Born: 10 November 1983

WOLFGANG SCHILK
Domicile: 2603 Felixdorf, Steinfeldgasse 36, Republic of Austria
Born: 16 March 1967

GOFFREDO GUIZZARDI
Domicile: Via Ausonio 9/a, 20123 – Milan, Italy
Born: 21 February 1972

ANDREA VINTANI
Domicile: 21013 Gallarate (Va), Via Col di Lana 8, Republic of Italy
Born: 5 May 1979

Changes in the Supervisory Board in 2020
After expiry of the office of Andrea Diamanti, Goffredo Guizzardi was elected to fill the vacancy as of 1 March 2020. Niccolo' Ubertalli was elected to fill the vacancy as of 28 April 2020 after expiry of the term of office of Heinz Meidlinger. Effective as of 17 July 2020, Klára Čapková was elected by employees to replace Miloš Bádal.

7.4 Audit Committee

The Audit Committee is an independent committee with the task of overseeing, monitoring and advising in matters of concern regarding accounting and financial reporting, internal control, auditing and risk management, external auditing, and monitoring compliance with laws, the Bank's regulations and the Code of Conduct.

The Audit Committee consists of three (3) members appointed and dismissed by the General Meeting for a term of three (3) years from among the Supervisory Board members or third persons. Majority of the members of the Audit Committee must be independent from the Bank and competent. At least one member of the Audit Committee must be a person who is, or was, a statutory auditor or a person knowledge or work experience of which in the area of accounting are a precondition for due exercise of the office of an Audit Committee member in view of the sector in which the Bank operates; such a member must at all times be independent.

The Audit Committee can order inspections and specifically focused audit investigation of the Bank's functions, other Bank units and their subsidiaries. Additionally, the Audit Committee can be asked to assess interbank transactions and intragroup transactions and other transactions involving direct or indirect conflict of interests. Upon conduct of its business, the Audit Committee can ask the Group Audit function for consulting. In such case, the Group Audit staff will be obliged to comply with all non-disclosure provisions.

Without prejudice to the liability of the members of the Board of Directors or the Supervisory Board, the Audit Committee performs particularly the following activities:

- monitors the efficiency of internal control, risk management system;
- monitors the efficiency of internal audit and its functional independence;
- monitors the process of compilation of the financial statement and the consolidated financial statement, and submits to the Board of Directors or the Supervisory Board recommendations to ensure integrity of the accounting and financial reporting system;
- recommends an auditor to the Supervisory Board, providing due justification for such recommendation, unless otherwise provided under a directly applicable regulation of the European Union governing specific requirements for statutory audit of public interest entities;
- assesses independence of the statutory auditor and the audit company, and the provision of non-audit services to the Bank by the statutory auditor and audit company;
- discusses with the auditor the risks posing threat to his or her independence and the protective measures adopted by the auditor to mitigate such risks;
- monitors the statutory audit process, relying on the summary report treating the quality assurance system;
- gives opinion on termination of the obligation under the statutory audit contract or withdrawal from the statutory audit contract;
- examines whether to subject the audit contract to examination of audit contract quality management by other statutory auditor providing audit services in his or her name and on his or her own account or by audit company under Article 4(3), first sub-paragraph of the Regulation (EU) No 537/2014 of the European Parliament and of the Council;
- informs the Supervisory Board of the statutory audit outcome and the knowledge obtained during monitoring the statutory audit process;
- informs the Supervisory Board of how the statutory audit helped ensure integrity of the accounting and financial reporting system;
- decides whether or not the auditor should continue to carry out the statutory audit in accordance with Article 4(3), second sub-paragraph of the Regulation (EU) No 537/2014 of the European Parliament and of the Council;
- approves provision of other non-audit services;
- approves the selection procedure report resulting from the selection procedure in accordance with Article 16 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Meetings of the Audit Committee shall have a quorum if attended in person or via teleconference by 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. A resolution passed per rollam should be then included in the minutes of the next meeting of the Audit Committee.

The Audit Committee appoints and dismisses a chairman from among its members. The Chairman coordinates and plans activities of the Audit Committee, convenes meetings and chairs meetings. The chairman must be independent.

The auditor is obliged to submit, from time to time, reports to the Audit Committee of significant events arising out of the statutory audit, particularly of significant shortcomings found in the internal control system relating to the process of compilation of the financial statement or the consolidated financial statement.

MARCO RADICE
Chairman of the Audit Committee
Domicile: Via S. Simpliciano, 5 – 20121 Milan, Republic of Italy
Born: 28 August 1957

WOLFGANG SCHILK
Domicile: 2603 Felixdorf, Steinfeldgasse 36, Republic of Austria
Born: 16 March 1967

BENEDETTA NAVARRA
Domicile: 00187 Rome, Via del Gambero 23, Republic of Italy
Born: 24 March 1967

Changes in the Audit Committee in 2020
Heinz Meidlinger was, upon expiry of his office, replaced by Wolfgang Schilk.

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

The Issuer is not aware of any possible conflicts of interest between the duties to the Issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest. The main activities carried out by the members of managing and control bodies of the Issuer outside the Issuer are not significant for the Issuer.

7.6 Information on company management and administration codes

The Bank adopted no company management and administration code. The Bank follows the rules of conduct set by the UniCredit Group.

8. Legal and arbitration proceedings

As at 31 December 2020, 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 2020, no significant change has occurred in the financial situation of the Issuer.

10. Received Loans from multilateral development banks and international organizations

Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	2 143 TEUR
Interest rate:	3M EURIBOR + 0,33 %
Loan origination date:	28. 7. 2014
Due date:	28. 7. 2021
Collateral:	Bonds
Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	5 714 TEUR
Interest rate:	3M EURIBOR + 0,03 %
Loan origination date:	16. 11. 2015
Due date:	16. 11. 2022
Collateral:	Bonds
Lender:	**The European Bank for Reconstruction and Development**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	3 571 TEUR
Interest rate:	6M EURIBOR + 0,40 %
Loan origination date:	30. 10. 2017
Due date:	23. 2. 2023
Collateral:	Bez zajištění
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	2 917 TEUR
Interest rate:	3M EURIBOR + 0,06%
Loan origination date:	30. 6. 2017
Due date:	28. 6. 2024
Collateral:	Bill of exchange

Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	2 105 TEUR
Interest rate:	3M EURIBOR + 0,25%
Loan origination date:	31. 5. 2019
Due date:	28. 6. 2024
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	16 013 TEUR
Interest rate:	0,80%
Loan origination date:	31. 8. 2015
Due date:	31. 3. 2028
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	421 TEUR
Interest rate:	0,80%
Loan origination date:	31. 8. 2015
Due date:	31. 3. 2028
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	19 380 TEUR
Interest rate:	0,90%
Loan origination date:	30. 12. 2015
Due date:	29. 9. 2028
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	510 TEUR
Interest rate:	0,90%
Loan origination date:	31. 3. 2016
Due date:	29. 9. 2028
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	545 TEUR
Interest rate:	–0,153%
Loan origination date:	04. 4. 2017
Due date:	30. 6. 2021
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	1 154 TEUR
Interest rate:	0,686%
Loan origination date:	31. 10. 2018
Due date:	29. 6. 2029
Collateral:	Pledge of receivables

Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	30 TEUR
Interest rate:	0,686%
Loan origination date:	31. 10. 2018
Due date:	29. 6. 2029
Collateral:	Bill of exchange
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	9 344 TEUR
Interest rate:	0,426%
Loan origination date:	10. 4. 2017
Due date:	29. 6. 2029
Collateral:	Pledge of receivables
Lender:	**Oesterreichische Kontrollbank**
Debtor:	UniCredit Bank Czech Republic and Slovakia, a.s.
Loan amount:	246 TEUR
Interest rate:	0,426%
Loan origination date:	10. 4. 2017
Due date:	29. 6. 2029
Collateral:	Bill of exchange
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	288 750,0 TCZK
Interest rate:	2,47%
Loan origination date:	2. 11. 2018
Due date:	2. 11. 2023
Collateral:	Letter of comfort
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	250 000,0 TCZK
Interest rate:	2,25%
Loan origination date:	29. 3. 2019
Due date:	29. 3. 2022
Collateral:	Letter of comfort
Lender:	**Česká spořitelna a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	20 000,0 TEUR
Interest rate:	0,05 %
Loan origination date:	29. 12. 2020
Due date:	5. 1. 2021
Collateral:	Letter of comfort
Lender:	**Raiffeisenbank a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	22 000,0 TEUR
Interest rate:	0,07 %
Loan origination date:	29. 12. 2020
Due date:	5. 1. 2021
Collateral:	Letter of comfort

Lender:	**Komerční banka a.s.**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	44 000,0 TEUR
Interest rate:	1,41 %
Loan origination date:	29. 12. 2020
Due date:	5. 1. 2021
Collateral:	Letter of comfort
Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	35 000,0 TEUR
Interest rate:	0,000%
Loan origination date:	14. 6. 2019
Due date:	14. 6. 2024
Collateral:	Bonds
Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	45 000,0 TEUR
Interest rate:	0,015%
Loan origination date:	26. 5. 2020
Due date:	26. 5. 2025
Collateral:	Bonds
Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing CZ, a.s.
Loan amount:	27 500,0 TEUR
Interest rate:	0,110%
Loan origination date:	10. 9. 2018
Due date:	10. 9. 2023
Collateral:	Bonds
Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	45 000,0 TEUR
Interest rate:	0,015%
Loan origination date:	19. 5. 2020
Due date:	26. 5. 2025
Collateral:	Bonds
Lender:	**Council of Europe Development Bank**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	35 000,0 TEUR
Interest rate:	0,000%
Loan origination date:	6. 6. 2019
Due date:	14. 6. 2024
Collateral:	Bonds
Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	13 750,0 TEUR
Interest rate:	0,123%
Loan origination date:	26. 9. 2018
Due date:	2. 10. 2023
Collateral:	Bonds

Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	12 500,0 TEUR
Interest rate:	0,036%
Loan origination date:	20. 11. 2018
Due date:	30. 11. 2022
Collateral:	Bonds
Lender:	**Evropská investiční banka, Luxemburg**
Debtor:	UniCredit Leasing Slovakia, a.s.
Loan amount:	4 976,7 TEUR
Interest rate:	3M EURIBOR + 0,559 %
Loan origination date:	30. 9. 2011
Due date:	29. 9. 2023
Collateral:	Bonds
Total loans on 31 Decemberi 2020	**10 218 423 TCZK**

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 on 31 December 2020: CZK 10,057,919,534.

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

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

14. Principles of remunerating the Issuer's managers

Remuneration policy

The remuneration policy for managers is established in accordance with "UniCredit Group's Remuneration Policy" and with Decree No. 163/2014 Coll., and consists of the basic salaries policy, the "Group Incentive System", and the benefits system. The key pillars of the remuneration policy are: clear and transparent governance, compliance with regulatory requirements & ethical rules, continuous monitoring of market trends & practices, sustainable pay for sustainable performance, and motivation & retention of all employees with particular focus on promising staff members and those who are critical for fulfilling the company mission.

Board of Directors

The Remuneration Committee of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter the "Remuneration Committee") approves the remuneration for members of the Board of Directors for the relevant year on the basis of supporting materials submitted by the Human Resources Department and prepared in cooperation with the UniCredit Group Human Resources Department . In 2020, the Remuneration Committee consisted of Jiří Kunert, and other members included Heinz Meidlinger who was replaced by Andrea Vintani on 4 May 2020, and Miloš Bádal who was replaced by Klára Čapková on 21 October 2020. Starting May 2014, in line with the new Civil Code, the Board of Directors members perform work based on the Board Member Agreement and receive remuneration that is set as a fixed amount paid monthly (for holding the office of a Board of Directors member), an annual variable bonus, and they are granted certain additional benefits. Foreign members of the Board of Directors are not entitled to local remuneration for holding the office; remuneration for the Bank's foreign executive managers is provided by the parent company. These costs are charged to the Bank by the parent company and are included in the remuneration summary.

Contractual salaries of the Bank's executive managers

Contractual salaries are defined on the basis of the value of a position within the classification system of top management positions in UniCredit Group ("Global Job Model"), the key competencies of executive managers and a market comparison with other entities on the financial and banking markets in the Czech Republic, within UniCredit Group, and in Central and Eastern Europe.

Changes in the contractual salaries of the members of the Bank's Board of Directors, Head of Compliance, and Head of Internal Audit are approved by the Remuneration Committee based on supporting materials submitted by the Human Resources Department and prepared in cooperation with the UniCredit Group Human Resources Department.

Variable annual bonuses for the Bank's executive managers
The target variable bonus for the members of the Bank's Board of Directors is approved by the Remuneration Committee based on supporting materials submitted by the Human Resources Department and prepared in cooperation with the UniCredit Group Human Resources Department. The target variable bonus of each executive manager is determined individually and comprises 50 – 100% of his or her annual contractual salary. A portion of the remuneration is in the form of shares and non-monetary instruments.

UniCredit Group's "20120 Group Incentive System" (hereinafter the "System") was approved by the Remuneration Committee as a binding regulation for variable bonuses of executive managers.

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

1. **„Bonus pool";**
2. **„Entry Conditions";**
3. **„Group and Local Risk Adjustments";**
4. **„Performance Screen";**
5. **„Bonus cap";**
6. **„Compliance Assessment", „Continuous Employment Condition", „Claw Back" and „Personal hedging".**

Ad 1.
The bonus pool is based on Country risk-adjusted results. The bonus pool is defined in the budget phase for each Country as a percentage of the respective funding KPI, considering: historical data analysis, expected profitability, business strategy and market context/external benchmarking.

Ad 2.
The „Entry Conditions" indicator measures annual profitability, ability to lend and liquidity. The "Entry Conditions" are the mechanism that verifies the possible application of the malus condition (Zero Factor) based on the level of achievement of the indicators. In order to align with regulatory requirements, in case the "Entry Conditions" are not met, a Zero Factor will apply to the bonuses of the Executives/Identified Staff population.

If the „Entry Conditions" are met, the Zero Factor is not activated, and further adjustments are performed pursuant to the Performance & Risk Factor Adjustments.

Ad 3.
Group and Local Risk Adjustments make the Bonus pool aligned with the overall performance and risk assessment.

Application of the "Group and Local Risk Adjustments" parameters affirms, reduces or entirely terminates an executive manager's bonus payment.

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

In 2020, Entry Conditions were defined using the following parameters

Group	CEE Division	Local
Net Operating Profit	Net Operating Profit	Net Operating Profit
Net Profit	Net Profit	
Common Equity Tier 1 Ratio Transitional		
Liquidity Coverage Ratio		
Net Stable Funding Ratio		

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

Ad 4.

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

The "Performance Screen" should contain at least 4 performance goals (it is recommended to use no more than 6), of which at least half are sustainable. The executive managers may have other goals assigned 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 2020 included, for example:

- RACE,
- Asset Quality (NPE ratio and New business EL %),
- OPEX,
- Underlying Net Profit.

Other goals were quantitative and qualitative and differed for each individual executive manager depending on the priorities of the segment for which the particular executive manager is responsible.

Ad 5.

The Capital Requirements Directive (CRD IV) approved by the European Parliament introduced a cap on bonuses effective as of 1 January 2014. The bonus cap has been set at the level of one annual fixed compensation, with the possibility to increase it to double the annual fixed compensation, if allowed by local regulators and subject to shareholders' approval with a qualified majority. A more conservative approach applies to the Control Functions, providing for the bonus a cap set at 80% of the annual fixed compensati

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. The following is subject to such assessment: whether during the evaluated period the executive manager acted in accordance with the principles of UniCredit Group's Integrity Charter and Articles of Association; whether he or she committed serious errors, including errors which could have a tangible impact on banking risk or the balance sheet; as well as whether or not he or she breached legal norms, UniCredit Group's rules or UniCredit Bank's internal regulations, regardless of whether a disciplinary hearing is taking place or other disciplinary sanctions have already been imposed. This assessment is carried out by the executive manager's direct superior and approved by the Remuneration Committee.

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

In order to strengthen the compliance culture within the Group, a bonus entitlement "gateway" is introduced where an employee's rate of completing mandatory compliance-related trainings is 90% or less as at 30 September 2020. The list of trainings covered by this provision is determined by Compliance based on local and Group requirements and employees are informed of the same. The "gateway" envisages automatic deletion of the annual bonus payment (payment beforehand as well as future payment) to which an employee would otherwise have been entitled in the relevant assessment year and it has no automatic impact on deferred payments of previous years.

In order to further strengthen the prevention of the risk of money laundering and terrorist financing, the Group has also introduced a necessary condition for the entitlement to the 2020 bonus related to periodic data recovery in KYC (Know Your Client) questionnaires. According to this condition, the employees responsible for completing these questionnaires must have completed a total of 99% of the questionnaires in the client portfolio under their direct management as at 31 October 2020 in order to be entitled to the bonus.

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 is subject to the Clawback application in compliance with legislation in force, including payment of remunerations effected on a basis later proved to be incorrect.

Executive managers are required to undertake not to use personal hedging strategies on remuneration and liability-related insurance to mitigate the risks associated with their remuneration scheme. Involvement in any form of hedging transaction shall be considered a breach of Compliance policies and therefore any right to receive variable remuneration pursuant to the System shall expire.

Bonus Plan

According to the "2020 Group Incentive System" rules, payment of the bonus for the given period (2020) is spread out over a multiple-year period:

Executive Vice-Presidents and Senior Positions with variable remuneration over EUR 430,000

- The first part (2021) is payable one half in cash and one half in non-monetary instruments, comprising 40% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2023) is payable one half in cash and one half in non-monetary instruments, comprising 24% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2024) is payable in non-monetary instruments, comprising 12% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2025) is payable in non-monetary instruments, comprising 12% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fifth part (2026) is payable in cash and comprises 12% of the bonus established for the given period.
- In 2021 – 2026, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Executive Vice-Presidents and Senior Positions with variable remuneration below EUR 430,000

- The first part (2021) is payable one half in cash and one half in non-monetary instruments, comprising 50% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2023) is payable one half in cash and one half in non-monetary instruments, comprising 20% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2024) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2025) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fifth part (2026) is payable in cash and comprises 10% of the bonus established for the given period.
- In 2021 – 2026, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Senior Vice-Presidents and Other Identified Staff with variable remuneration over EUR 430,000

- The first part (2021) is payable one half in cash and one half in non-monetary instruments, comprising 40% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2022) is payable as 5% of the bonus established for the given period in cash and 15% of the bonus established for the given period in non-monetary instruments; non-monetary instruments are subject to a one-year retention period.
- The third part (2023) is payable as 5% of the bonus established for the given period in cash and 15% of the bonus established for the given period in non-monetary instruments; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2024) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2021 – 2024, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

Senior Vice-Presidents and Other Identified Staff with variable remuneration below EUR 430,000

- The first part (2021) is payable one half in cash and one half in non-monetary instruments, comprising 60% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The second part (2022) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The third part (2023) is payable in non-monetary instruments, comprising 10% of the bonus established for the given period; non-monetary instruments are subject to a one-year retention period.
- The fourth part (2024) is payable in cash and comprises 20% of the bonus established for the given period.
- In 2021 – 2024, each bonus payment is subject to the Zero Factor application.
- In each year, the bonus payment is conditional upon completing the Compliance Assessment, Continuous Employment Condition and Clawback application, which confirm, reduce or entirely cancel the entitlement to bonus payment.

The Remuneration Committee approves the fulfilment of the payment conditions in each year and the release of the deferred bonus payment based on a proposal from UniCredit Group's Board of Director

Benefits of the Bank's executive managers

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

- The following benefits are provided to executive managers by virtue of their Board Member Agreement: contribution to supplementary pension insurance, contribution to capital life insurance.
- By virtue of their managerial position, executive managers are provided a company car for business as well as personal use.
- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers receive benefits connected with their long-term stay abroad.

The aforementioned benefits are provided in the form of payment in kind, 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 holding their office.

Fixed contractual remuneration may only be agreed with those members of the Supervisory Board who concurrently do not hold executive positions within UniCredit Group by virtue of an employment contract. The remuneration is valid for the entire term of office of the Supervisory Board member, and is approved by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s. based on the Bank's Board of Directors proposal.

The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by four members of the Supervisory Board from among the employees of the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code, one Supervisory Board member having been replaced throughout the year. At the same time, the Supervisory Board always included three representatives of the Bank employees, 2 foreign members of the Supervisory Board having a fixed remuneration in place agreed with the shareholder based on the above rules, one of which ceased to hold the office in the Supervisory Board throughout the year, and one local member of the Supervisory Board. The remaining members of the Supervisory Board are not remunerated by the Issuer.

The remuneration policy in the case of Supervisory Board members coming from among the employees of 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 in employment relationship to the Issuer and the components of their remuneration which are paid to them by virtue of their employment contracts including variable remuneration are defined by the Bank's internal regulation. The variable annual bonus payment is determined for employees as a percentage of the target variable annual bonus (0 – 150%) on the basis of fulfilling quantitative and qualitative performance indicators which are defined in the "Goal Card", which is part of the system of variable remuneration of the Bank's employees based on an evaluation of individual and team targets.

The performance parameters in the "Goal Card" for Supervisory Board members who are employed with the Issuer are dependent on the jobs they perform by virtue of their employment contracts in accordance with the Labour Code and in no way relate to their holding 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 holding the office of an Audit Committee member. The remuneration is valid for the entire term of office of the Audit Committee member, and is approved by the general meeting of UniCredit Bank Czech Republic and Slovakia, a.s. based on the Bank's Board of Directors proposal.

In 2020, the aforementioned fixed contractual remuneration was agreed with three members of the Audit Committee. The office of one of them expired throughout the year, with the substitute of such a member serving without compensation. The aggregate amount thereof is stated in the remuneration summary.

15. Diversity policy – diversity and inclusion

Each of us is unique and we are well aware of that. Our Bank has been working on creating a naturally diverse corporate culture on a long-term basis. Our goal is to cooperate as **One Team, One UniCredit.**

Emphasis on inclusive environment was crucial in 2020 in a completely new light due to the COVID-19 pandemic. Extreme need for home work created an unprecedented pressure on work flexibility and support of employees and made managers and Bank management apply a new modus operandi. The Bank responded to the situation really quickly and promptly took steps to protect the health and safety of all employees. Strict pandemic control measures reduced employee access to offices to a minimum. Employees were provided with protective equipment to the maximum possible extent and additional measures were taken at our branch offices focusing first of all on creating the safest possible conditions both for our employees and our clients. We managed to switch to on-line work in a very short time thanks to fast procurement of the necessary IT equipment and also helped our employees equip their home offices by lending them monitors and ergonomic chairs.

A not less important aspect of the transformation was the support of development in the area of remote management in such topics as, for example:

- **Changes in the corporate culture in remote setting** and re-definition of the team culture as an essential part of the change;
- **Motivation of remote workers** – how to strengthen key motivators within remote work and, on the contrary, weaken demotivators;
- **Holding remote meetings.**

We continue to **strengthen gender diversity** and presence of women in middle and top management. The basic strategy consists in succession planning and identification of successors to managerial positions. Here, we manage to achieve solid gender balance on a long-term basis. We have systematically worked on faster preparation of women to occupy higher management positions and support them on an individual basis in their development by way of mentoring and other development programmes.

As part of the UniCredit Group's commitment of **fair remuneration of employees** irrespective of gender, the Bank monitors the „Same-role Gender Pay Gap" indicator. Whereas the topic of gender equality and support of equal opportunities is perceived by UniCredit Group as one of the strategic priorities, the Group committed to reduce the above indicator in the next few years as close to nil as possible by paying gender-balanced remuneration. Close to the year end, the Bank started implementing the first step out of the activities plan with the aim to meet this commitment and decreased the indicator to 1.9% and plans to continue in that trend.

In the second year, the Bank attended the Group-wide **Diversity and Inclusion Week** and prepared an inspirational programme full of personal narratives. This time, it everything went on-line. The panel discussion with Jakub Dusílek (CEO), Hana Čitbajová (Head of Human Resources) and Marco Innaccone (General Manager) brought their personal views on how diversity forms an integral part of our Bank, makes our work lives richer, and develops each of us. Inspirational on-line meetings with interesting guests produced professional stance on why it is sometimes good to be different, how we tend to react to diversity, and how it moves business forward. This year's programme was also about the uniqueness and individuality of our colleagues whom we interviewed on how their unique hobbies help them succeed at work and how diversity of each of us supports innovations, creativity and strengthens unique culture at the Bank.

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

Amounts in CZK					
Members of the Board of Directors					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
61,842,818	**9,423,372**	**16,564,657**	**0**	**2,325,037**	**90,165,885**
Members of the Supervisory Board					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
3,721,271	**0**	**0**	**0**	**0**	**3,721,271**
Members of the Audit Committee					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
743,724	**0**	**0**	**0**	**0**	**743,724**

Other executive managers					
Short-term employee benefits	Employee benefits after termination of employment	Other long-term employee benefits	Benefits upon early termination of employment	Share-based payments	Total
110,591,374	**1,350,000**	**3,500,961**	**0**	**960,798**	**116,403,133**

Note: The above data contains amounts actually paid during 2020 as compared to the financial statement which contains information on costs concerning 2020.

17. Information on remuneration to auditors recognised in the reporting period

(CZK thousand, excl. VAT)	Bank	Consolidated companies	Total consol. group
Audit	13,361	6,303	19,664
Tax advisory	–	–	–
Other advisory services	8,170	1,077	9,247
Total	**21,531**	**7,381**	**28,911**

18. Major future investments other than financial investments (planned for 2021)

Total investments of UniCredit Bank for 2021, excl. financial investments, are planned in the amount of CZK 2.5 billion, of which CZK 1.2 billion is for the planned purchase of assets for rent for UniCredit Leasing. Another major item is investment in information technologies (hardware and software) totalling CZK 1.1 billion, which is primarily intended for the development of the Bank's information systems, with an emphasis on digitisation, automation and streamlining of processes, as well as for complying with the requirements of a regulatory and operating nature. It is only part of total IT investment because part of IT investment is supplied in the form of services by third-party suppliers and recognised in operating costs. Investments in fixed capital, including rented buildings, in the amount of CZK 236 million are focused mostly on the development and renovation of the distribution network and the headquarter.

19. Guarantees provided by the Issuer

(CZK thousand)	31 Dec 2020	31 Dec 2019
Granted guarantees and collaterals	45,412,568	44,141,617
Guarantees granted under L/Cs	462,949	691,593
Total	**45,875,517**	**44,833,210**

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

All internal processes with either a direct or indirect influence on the Bank's reporting have been described in the UniCredit Czech Republic and Slovakia Group including the risks associated 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 financial reporting, achieve broader awareness of the risks associated with compilation of financial reports and keep these risks under control and at an acceptable level. The entire process is in accordance with Italian Act No. 262/2005 and legal regulation No. 303/2006, which were inspired by the American Sarbanes-Oxley Act.

The UniCredit Bank Czech Republic and Slovakia Group has internal regulations in place relating to particular areas of the Group's activities which influence the Group's accounting. The valuation procedures applied to the statement of financial position and statement of comprehensive income items are described in the annex to the individual and consolidated annual financial statements, which form a part of this annual report. These annual financial statements are submitted for review by auditor and financial data intended for consolidation of the parent company are also submitted for review by auditor twice a year (mid-year and at year-end).

21. Licences and trademarks

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

22. Information on regulated markets and rating of the Issuer or its debt securities

The Issuer has been assigned no rating. On 15 June 2020 the rating agency Moody's Investors Service España, S.A. (hereinafter referred to as "Moody's") decreased the rating of selected debt securities issued by the Issuer (referred to in the summary below) by one notch from the original Aa2 to Aa3.

Moody's carries on its activities in the European Union and is registered in line with Regulation (EC) No 1060/2009 of the European Parliament and of the Council as amended (hereinafter referred to as the "Regulation on Credit Rating Agencies"). It is included in the list of credit agencies published by the European Securities and Market Authority (ESMA) on its web site (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in line with the Regulation on Credit Rating Agencies.

The Issuer has not contracted any other rating agency to issue a rating of identical issues or debt securities referred to in the summary below. If such a possibility occurs in the future, the Issuer shall act in line with Article 8d of the Regulation on Credit Rating Agencies.

Summary of issued and outstanding debt securities of the Issuer admitted to trading on a regulated market

A list of outstanding debt securities of the Issuer admitted to trading on the Prague Stock Exchange is presented in the following table. The data is valid as at 31 December 2020.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
HZL HVB 5.00/25	CZ0002000680	23 Nov 2005	15 Nov 2025	23 Nov 2005	–
UCB HZL 10Y FLOAT/37	CZ0002001910	21 Dec 2007	21 Dec 2037	21 Dec 2007	Aa3
UCB HZL 3,04/2028	CZ0002003114	7 Jun 2013	7 Jun 2028	19 Aug 2013	Aa3

A list of outstanding debt securities of the Issuer admitted to trading on the Luxembourg Stock Exchange is presented in the following table. The data is valid as at 31 December 2020.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 3M FLOAT/23	XS1206759406	20 Mar 2015	15 Sep 2023	20 Mar 2015	Aa3
UCB HZL 3M FLOAT/21	XS1206761139	20 Mar 2015	16 Mar 2021	20 Mar 2015	Aa3
UCB HZL 0,75/22	XS1559750671	3 Feb 2017	3 2 2022	3 Feb 2017	Aa3
UCB HZL II 0,75/22	XS1643471250	11 Jul 2017	11 Jul 2022	11 Jul 2017	Aa3
UCB HZL 1,00/24	XS1892859577	16 Oct 2018	16 Oct 2024	16 Oct 2018	Aa3
UCB HZL 6M FLOAT/24	XS2188797729	15 Jun 2020	15 6 2024	15 Jun 2020	Aa3
UCB HZL 6M FLOAT/25	XS2188802230	15 Jun 2020	15 Jun 2025	15 Jun 2020	Aa3
UCB HZL 6M FLOAT/26	XS2188802313	15 Jun 2020	15 Jun 2026	15 Jun 2020	Aa3
UCB HZL 6M FLOAT/27	XS2188802404	15 Jun 2020	15 Jun 2027	15 Jun 2020	Aa3
UCB HZL 0.01/25	XS2259866064	19 Nov 2020	19 Nov 2025	19 Nov 2020	Aa3

A list of outstanding debt securities of the Issuer admitted to trading on the Bratislava Stock Exchange is presented in the following table. The data is valid as at 31 December 2020.

Name of the issue	ISIN	Date of the issue	Due date	Date when trading begins	Rating (Moody's)
UCB HZL 1.55/2021	SK4120010208	28 Aug 2014	30 Aug 2021	22 Dec 2014	–
UCB HZL 1,20/2022 (UCBHZL14H)	SK4120010752	25 May 2015	25 May 2022	20 Jan 2016	Aa3
UCB HZL EUR 1,40/2024	SK4120011131	15 Oct 2015	15 Oct 2024	20 Jan 2016	–
UCB HZL EUR 1,80/2025	SK4120011123	15 Oct 2015	15 Oct 2025	20 Jan 2016	–
UCB HZL EUR 0,65/2021	SK4120011305	10 Dec 2015	10 Dec 2021	20 Jan 2016	Aa3

23. Non-Financial Information

UniCredit Bank Czech Republic and Slovakia, a.s. uses the exemption under Section 32g(7) of the Act on Accounting and the non-financial information is published by parent company UniCredit SpA. UniCredit SpA published non-financial information in English at https://www.unicreditgroup.eu/en/a-sustainable-bank/.

A report on relations

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

Pursuant to Article 82 et seq. of Act No. 90/2012 Coll. on Commercial Corporations, the Board of Directors of **UniCredit Bank Czech Republic and Slovakia, a.s.** having its registered office at Prague 4, Želetavská 1525/1,140 92, Reg. No. 64948242, registered in the Commercial Register maintained by the Prague Metropolitan Court, Section B, Insertion 3608 (" UniCredit Bank"), for the **period from 1. 1. 2020 to 31. 12. 2020** (hereinafter referred to as the "Period") prepared a report on relations.

1. Structure of Relations between UniCredit Bank and the Controlling Entity and Entities Controlled by the same Controlling Entity

Over this period, UniCredit Bank was directly controlled by **UniCredit, S.p.A.** having its registered office at Piazza Gae Aulenti 3 – Tower A - 20154 Milan, Italy. UniCredit Bank itself controlled during the period the companies **UniCredit Leasing CZ, a.s.,** Reg. No. 15886492, Želetavská 1525/1, 140 10 Prague 4**, UniCredit Factoring Czech Republic and Slovakia, a.s.** Reg. No.: 15272028, Želetavská 1525/1, Michle, 140 00 Prague 4.

UniCredit Leasing CZ, a.s. during the period, was the sole shareholder of the following companies:
UniCredit Leasing Slovakia, a.s., Reg. No.: 35730978, Šancová **1/A, 814 99 Bratislava, UniCredit Fleet Management, s.r.o., Reg. No.:62582836, Želetavská 1525/1, Michle, 140 00 Prague 4, UniCredit pojišťovací makléřská spol. s r.o., Reg. No.:** 25711938, Želetavská 1525/1, Michle, 140 00 Prague 4, **HVB Leasing Czech Republic s.r.o.**, Reg. No.: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4, **BACA Leasing Alfa s.r.o.**, Reg. No.:25751841, Želetavská 1525/1, Michle, 140 00 Prague 4, **CA-Leasing OVUS s.r.o.**, Reg. No.: 25714538, Želetavská 1525/1, Michle, 140 00 Prague 4, **ALLIB Leasing, s.r.o.**, Reg. No.: 25708376, Prague 4 – Michle, Želetavská 1525/1, 14010

UniCredit Leasing Slovakia, a.s. is the sole shareholder of the following companies: **UniCredit Leasing Insurance Services, s. r. o.,** Reg. No.: 47926481, Šancová 1/A, Bratislava 814 99, **UniCredit Broker, s. r. o.**, Reg. No.: 35800348, Šancová 1/A, Bratislava 814 11 a **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35820381, Šancová 1/A, Bratislava 814 99.

The structure of the UniCredit Group is described in detail in Annex No. 1 of this Report.

2. UniCredit Bank's Role within UniCredit Group:

The Czech and the Slovak Republics are among the leading countries within the CEE division. UniCredit Bank is at the same time one of the largest banks within the CEE region in terms of consolidated profits.

UniCredit Bank performs the role of a universal bank in Slovak and Czech markets; within the CEE region it often has a role of product innovator. UniCredit Bank supports group-wide solutions in the area of products, processes or sales channels, which piloted within different countries and in case they are confirmed as successful, they are later implemented in other UniCredit banks in the Central and Eastern Europe divisions. UniCredit Bank is very active in this area.

In the area of standard banking activities, in addition to the contracts provided below, the controlled entity concluded with the controlling entity and with related parties, interbank, derivative and other banking transactions, and these entities cooperated in the issue of bonds, and also entered into client operations (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of controlled entities is backed by bank guarantees provided by UniCredit S.p.A., UniCredit Bank Austria AG and UniCredit Bank AG.

Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

3. Method and Means of Control

The general meeting is the supreme body of UniCredit Bank. UniCredit Bank S.p.A. manifests its will through exercising the authority of the general meeting through by sole shareholder's resolutions acting in capacity of the General Meeting.

According to UniCredit Bank Articles of Association, also the election of Supervisory Board members falls within the competence of the general meeting. The Supervisory Board monitors the conduct of Bank business and the exercise of Board of Directors responsibilities. The Supervisory Board also elects and removes the members of the Board of Directors and recommends candidates for the Chairman and Vice-Chairman of the Board of Directors. However, the members of the Board of Directors are not bound by such a recommendation in their election.

The controlling entity has its representatives both in the Bank Supervisory Board and in the Board of Directors.

UniCredit Bank as a member of the UniCredit Group must, subject to relevant legal regulations, perform the regulations issued by UniCredit S.p.A (the "Holding Company")within the Bank and all companies controlled by it through its directives (the "Directives of the Holding").

The Directives of the Holding means rules defining the management, the organisation chart and responsibilities of the managers within key processes in the UniCredit Group, which are issued in the exercise of Holding Company's powers in the area of supervision of the UniCredit Group and coordination of the UniCredit Group, all this according to instructions issued by Italian supervisory body in order to maintain the stability of the UniCredit Group.

UniCredit Bank performs its influence on its subsidiary companies through the exercise of its shareholder rights and also through its representatives in the bodies of some of these companies, in particular in their supervisory boards.

4. An overview of mutual contracts between UniCredit Bank and the controlling entity or between controlled entities

4.1. Between UniCredit Bank and **UniCredit S.p.A.,** Piazza Gae Aulenti 3, Tower A – 20154 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Zmluva o správe CP v zaknihovanej forme	Správa a úschova cenných papierov	25. 6. 2003
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic (jointly with UniCredit Bank Austria AG)	2. 2. 2015
Intercompany services agreement	Advisory services in the area of methodological group management	11. 12. 2015
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	29. 6. 2016
GMRA Master Agreement	A general credit contract for secured by a transfer of securities	12. 8. 2016
Deposit Netting Agreement	Agreement concerning the reciprocal set-off of payables and receivables from interbank deposits in the event of default.	22. 9. 2016
Agreement on Anti money laundering transaction of Correspodent Banking monitoring	AML monitoring pro korespondenční banky	28. 1. 2018
GMSLA Master Agreement	Securities lending framework agreement	5. 6. 2019
Agreement	UniCredit SpA's commitment to provide UCB CS with KYC analysis of correspondent banking clients	16. 12. 2019
DPA – Data processing agreement	Data processing agreement	13. 1. 2020
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Czech client.	2. 11. 2020

4.2. Between UniCredit Bank and **UniCredit Bank Austria AG,** Rothschildplatz 1, 1020 Vienna, the Republic of Austria

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Custody and administration of securities (a branch in Slovakia)	24. 11. 1995
Subcustody Agreement	Storage, management and settlement of securities	1. 8. 1997
Brokerage Agreement	Securities trading	2. 1. 2002
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	24. 5. 2012
Consultancy Service Agreement	Learning and Development Consultancy Services in the area of special professional skills, soft skills training and development and talent management	2012
Agreement on reporting to a trade repository in accordance with Art.9 EMIR „Reporting SLA"	Fulfillment of reporting obligations according to EMIR	24. 3. 2014
Risk Sharing Instrument (RSI) Guarantee Agreement	Tripartite agreement with the European Investment Fund for the provision of guarantees within the RSI programme (Risk Sharing Instrument)	24. 6. 2014
Agreement Funds Advisory	Purchase and sale of fund units through the platform UC Bank Austria	25. 3. 2005
Swapclear Dealer Clearing Agreement	Contract for settlement of swap transactions with central counterparties	7. 7. 2014
Subcustody Agreement	Management and custody of foreign securities	10. 11. 2014
Interadvisory Agreement	Advisory services related to M&A advisory for specific clients for specific acquisition with respect to the Czech Republic	27. 2. 2015
Mandate Agreement	Tripartite agreement with CYRRUS CORPORATE FINANCE, Inc. regarding activities related to the squeeze-out	25. 5. 2016
Agreement for Fair Value	Calculation of the fair value and fair value hierarchy	25. 1. 2017
Risk Participation Agreement	Unfunded risk participation for taking on the risk of financing a Czech client.	22. 3. 2016 The agreement expired on 15. 7. 2020 by refinancing the secured loan.
Data Processing Agreement	Contract on the processing of personal data in connection with the reconciliation of OTC derivatives pursuant to contract No. SML 200029	22. 9. 2020
Service contract No. SML 200029	Contract for reconciliation of OTC derivatives	22. 9. 2020

4.3. Between UniCredit Bank and **UniCredit Bank AG**, Arabellastrasse 12,81925 Munich, Germany

Contract name	Subject-matter of contract	Contract concluded on
Brokerage agreement	Procurement of purchases and sale of foreign securities for Bank clients	6. 7. 2009
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	3. 3. 2010
Master Agreement – Global Debt Capital Markets	Conditions of cooperation of both banks in euro bond issues of clients.	30. 6. 2011
Subcustody Agreement	Custody, management and settlement of securities (the London branch)	17. 5. 2012
Agreement on reporting to a trade repository in accordance with Art.9 EMIR	Performance of duty to report according to EMIR	20. 3. 2014
Distribution agreement	Distribution of investment vehicles issued by UniCredit Bank AG through the Bank	10. 4. 2014
Agreement on reporting to a trade repository in accordance with Art.9 EMIRx	Performance of duty to report according to EMIR	20. 3. 2014
Agreement	Distribution of investment vehicles issued by UniCredit Bank AG through the Bank using electronic platform	3. 11. 2014
SLA for certain co-operative activities	The subject is cooperation in the development and distribution of analytical source materials.	1. 10. 2015
GMRA Master Agreement	A general credit contract for secured by a transfer of securities	21. 9. 2016
SLA Sophis „Risque“ Sub-Licensing Agreement	Support for the use of SW Murex and Sophis Risque (for OTC derivatives)	16. 9. 2016
Mandate Agreement	Mandating Unicredit Bank AG as an arranger for the bond program update (Frederick 2019) and an agreement on remuneration for external legal advisors (Allen & Overy).	23. 5. 2019
RET Service Level Agreement No. 001	UCtrader trading platform for FX trades – cost sharing	29. 3. 2019
Framework Agreement	Framework agreement on the sale and purchase of receivables	17. 12. 2020

4.4. Between UniCredit Bank, **Unicredit S.p.A** and **UniCredit Bank Austria AG**

Contract name	Subject-matter of contract	Contract concluded on
Agreement for Data Flow and Reporting	Agreement for Data Flow and Reporting in connection with the reorganization of the Group	30. 9. 2016

4.5. Between UniCredit Bank, **Unicredit S.p.A**, **UniCredit Bank AG** and **UniCredit Bank Austria AG**

Contract name	Subject-matter of contract	Contract concluded on
UniCredit Group – Master Cost Sharing Agreement	Cost allocation for seconded employees	19. 5. 2010

4.6. Between UniCredit Bank and **UniCredit Services S.C.p.A.** (until 30. 6. 2018 **Business Integrated Solutions S.C.p.A.)**, Via Livio Cambi 1, 201 51 Milan, Italy

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement No. 018/PP-2010/3560	Lease of non-residential premises in Šancova Street Bratislava	31. 12. 2010
Agency Contract	Sharing of the provision of services of Bank suppliers	1. 1. 2012
Sublease contract	Sublease of premises in the building no. 1525, Želetavská 1, Prague 4	29. 6. 2012 (The contract terminated by agreement as of 30. 6. 2018)
Non-residential Premises Lease Agreement	Lease of commercial space at Svätoplukova St. in Bratislava	1. 8. 2016
Confidentiality Agreement	Confidentiality Agreement	1. 11. 2017
Data Processing Agreement	Data processing and security agreement, protection and confidentiality of confidential information – CZ	26. 6. 2018
Data Processing Agreement	Data processing and security agreement, protection and confidentiality of confidential information – SK	26. 6. 2018
Project agreements	Delivery of individual projects Project Management EZY AGILE, Digital channel integration with CRM, E2E Digitization CZ/SK ….	Contracts valid in 2020
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement) – CZ	1. 12. 2017
Agreement on Outsourcing of ICT Services	Agreement Agreement for Outsourcing of the Information System and for Provision of IT services (this agreement replaces previous Outsourcing Agreement) – SK	1. 12. 2017
Mutual Agreement	Agreement on the abolition of the tax group between UniCredit Bank Czech Republic and Slovakia and UniCredit Services.	20. 12. 2019
Internal Dealing Agreement	Specification of services provided by UniCredit Services in the field of Compliance – SIRON.	31. 3. 2020

4.7. Between UniCredit Bank a **UniCredit Leasing CZ, a.s.**, Reg. No.: 15886492, Prague 4 – Michle, Želetavská 1525/1, 14010

Contract name	Subject-matter of contract	Contract concluded on
Contract on the owner's account and administration of securities no. 99100061	Management of the securities owner's account, administration and safekeeping of securities	27. 7. 2006
Contract on lease of premises for business purposes	Lease of premises in the building no. 28, Široká 5, Liberec	28. 7. 2015
Contract on sub-lease of non-residential premises incl. supplements	Sublease of premises in the building no. 1176-1177, Dr. Davida Bechera 26, Karlovy Vary	23. 3. 2010
Contract for Lease of Security Equipment and Camera System	Lease of system owned by Bank installed on leased premises of UniCredit Leasing CZ, a.s.	1. 4. 2012
Agency Contract	Sharing of the provision of services of Bank suppliers	2. 4. 2012
Sublease contract	Sublease of parking spaces in building no. 1525, Želetavská 1, Prague 4	13. 3. 2013
Non-residential Lease Agreement	Lease of premises in the building no. 545, Divadelní 2, Brno	30. 5. 2013
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	3. 6. 2013
Contract for Search for Prospective Clients	Contract for mediation of consumer loans for UCB	1. 3. 2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 3348, 28. října 65, Ostrava	1. 3. 2014
Contract for the Provision of Services and Contract of Mandate	UCL CZ outsourced certain its activities into the Bank	6. 8. 2014
Contract for Processing of Personal Data	Processing of personal data of UCL CZ by the Bank with respect to outsourcing	6. 8. 2014
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. Sublease of commercial space at 457, 28.října 15, Olomouc	29. 3. 2016
Contract on sublease of premises for business purposes	Sublease of premises for business purposes in building no. 36, Revoluční 2, Chomutov	24. 1. 2017
Contract on sublease of space serving business	Sublease of business premises in building no. 1222 Masaryk Square, Jihlava	26. 6. 2019
Contract for sublease of a space serving a business	Sublease of a space used for business in building no. 892, Zeyerova 7, Karlovy Vary	27. 11. 2020

4.8. Between UCB CS and **UniCredit Leasing CZ, a.s.**, IČ: 15886492, Praha 4 – Michle, Želetavská 1525/1, PSČ 14010 and **UniCredit Fleet Management, s.r.o.**, IČ: 62582836, Praha 4 – Michle, Želetavská 1525/1, PSČ 14010

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Cooperation in concluding loan agreements for the financing of motor vehicles	20. 7. 2020

4.9. Between UniCredit Bank and **UniCredit Factoring Czech Republic and Slovakia**, Reg. No.: 152 72 028, Prague 4 – Michle, Želetavská 1525/1, 14000

Contract name	Subject-matter of contract	Contract concluded on
Contract for Loan and Other Banking Services Provided in the Form of Multi-Purpose Line	Banking services	25. 6. 2010
General Contract for Trading in Financial Market	Trading in financial market	21. 1. 2015
Contract for the Provision of Services and Contract of Mandate	Provision of banking services	4. 1. 2016
Agreement on Mutual brokerage business cases	Mutual brokerage of business cases	4. 1. 2016
Contract for Right to Position for Logo	Use of a position for logo on the building no. 1525, Želetavská 1, Prague 4	21. 1. 2016
Risk participation contract (participation contract)	Participation in the risk of receivable non-payment	29. 3. 2017
Sublease Agreement	Sublease of office space and parking spaces	13. 11. 2020
Zero Balancing Master Agreement	Zero Balancing	25. 11. 2020
Zero Balancing Participating Agreement	Zero Balancing	25. 11. 2020

4.10. Between UniCredit Bank and **UCTAM Czech Republic s.r.o.**, Reg. No.: 24275671, Prague 1 – Nové Město, Náměstí Republiky 2090/3a, 11000

Contract name	Subject-matter of contract	Contract concluded on
Sublease contract	Sublease of premises for business purposes in building no. 2090, náměstí Republiky 3a, Prague 1	22. 3. 2016

4.11. Between UniCredit Bank and **UniCredit Leasing Slovakia, a.s.**, Reg. No.: 35 730 978, Šancová 1/A, Bratislava, 814 16, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Non-residential Lease Agreement No. 214/3563/2012	Lease of non-residential premises in Žilina in Národna Street	15. 6. 2012
Contract for the Provision of Services and Contract of Mandate	UCL SK outsourced certain its activities into the Bank	6. 8. 2014
Contract for Processing of Personal Data	Processing of personal data of UCL SK by the Bank with respect to outsourcing	6. 8. 2014
Non-residential Lease Agreement dated 31. 10. 2014	Lease of non-residential premises in Šancova 1/A BA (from 1. 11. 2014)	31. 10. 2014
Agreement on Lease of Commercial Space	Lease of Commercial Space Svätoplukova St. v Bratislava	1. 8. 2016
Non-residential Lease Agreement	Lease of non-residential premises in Štefánikova St. in Trnava	15. 1. 2017
Non-residential Lease Agreement	Lease of non-residential premises in Železničná St. in Lučenec	15. 1. 2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Hlavná St. in Dunajská Streda	1. 1. 2019
Non-residential Sublease Agreement	Sublease of non-residential premises in Majzonovo nám. in Nové Zámky	15. 1. 2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Nám. s. Anny in Trenčín	15. 1. 2017
Non-residential Sublease Agreement	Sublease of non-residential premises in Garbiarska St. in Liptovský Mikuláš	15. 1. 2017
Non-residential Lease Agreement	Lease of non-residential premises in Prešov in Hlavna Street (from 1. 11. 2017)	25. 10. 2017
Contracts for renting non-residential premises	Sublease of commercial premises in Poprad on Popradske nabrezi 18 (contract valid from 01.05.2019)	12. 4. 2019
Contracts for renting non-residential premises	Commercial premises for Rent in Zvolen, nám. SNP 50	1. 1. 2019
Lease agreement	Lease of non-residential premises in Nitra on Štefánikova street	8. 4. 2020
Lease agreement	Lease of non-residential premises in Košice na Roosevelt street	30. 6. 2020

4.12. Between UCB CS and **UniCredit Leasing Slovakia, a.s.**, Company Identification Number: 35 730 978, Šancová 1 / A, Bratislava 814 99, Slovak Republic and **UniCredit Fleet Management, s.r.o.**, Company Identification Number: 35 820 381, Šancová 1 / A Bratislava 814 99, Slovak republic

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Cooperation in concluding loan agreements for the financing of motor vehicles	30. 7. 2020

4.13. Between UniCredit Bank and **HVB Leasing Czech Republic s.r.o**, Reg. no: 62917188, Želetavská 1525/1, Michle, 140 00 Prague 4

Contract name	Subject-matter of contract	Contract concluded on
Framework Contract on Financial Market Trading	Financial Market Trading	7. 2. 2014

4.14. Between UniCredit Bank and **UniCredit Bank Hungary Zrt.**, Szabadság tér 5–6, Budapest, 1054, Hungary

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	9. 1. 1999
Subcustody Agreement	Management and custody of securities (a branch in Slovakia)	23. 1. 2003
ISDA Master Agreement	A general contract for trading in derivatives in the financial market	23. 5. 2007
Subcustody Agreement	Management and custody of foreign securities	21. 12. 2007
Subcustody Agreement	Custody, administration and settlement of securities	10. 3. 1998
Service Agreement	Consulting services in connection with custody, risk review, network management, coordination of projects within custody	16. 12. 2020
Data Processing Agreement	Data processing, amendment to the Service Agreement dated 16. 12. 2020	16. 12. 2020

4.15. Between UniCredit Bank and **UniCredit banka Slovenija d.d.**, Šmartinska cesta 140, 1000 Ljubljana, Slovenia

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Management and custody of foreign securities	10. 11. 2014

4.16. Between UniCredit Bank and **UniCredit Broker, s.r.o.**, Reg. No.: 35 800 348, Šancová 1/A, 814 11 Bratislava

Contract name	Subject-matter of contract	Contract concluded on
Cooperation Agreement	Mediation of clients	1. 1. 2011

4.17. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 62582836, Prague 4 – Michle, Želetavská 1525/1, 14010

Contract name	Subject-matter of contract	Contract concluded on
General Contract for Hire of Vehicles	Specification of general conditions for making individual Lease agreement and Agreement to Amend SLA	4. 3. 2013
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 318 cars	Contracts valid in 2020

4.18. Between UniCredit Bank and **UniCredit Fleet Management, s.r.o.**, Reg. No.: 35 820 381, Šancová 1/A Bratislava 814 99, Slovak Republic

Contract name	Subject-matter of contract	Contract concluded on
Operating Lease Contract	Conditions for operating lease of motor vehicles	30. 8. 2007
Contract for Hire of Transport Facility	Contracts for hire of vehicles – 127 cars	Contracts valid in 2020

4.19. Between UniCredit Bank and **UniCredit Bank SA**, Sediul Central Bd., Expozitiei Nr.1F, Sect 1, Bucharest, 012101, Romania:

Contract name	Subject-matter of contract	Contract concluded on
Service Agreement	Temporary advisory actions and support in banking services related to CEE 2020 Trade Finance Back and Project	26. 1. 2015
Risk participation agreement	Participation in the loan to a client in Romania	25. 4. 2017

4.20. Between UniCredit Bank and **Schoellerbank AG**, Renngasse 3, Vienna, Austria

Contract name	Subject-matter of contract	Contract concluded on
Cooperation agreement	Offer and mediation of services of Schoellerbank through UniCredit Bank	23. 11. 2012
Services Agreement	Providing services in the field of coordination of robo-advisory development, commercial initiatives and sharing of product know-how within the banking group.	9. 12. 2020

4.21. Between UniCredit Bank and **Diners Club CS, s.r.o., organizační složka** (a branch), Reg. No.: 24768669 Prague 1, Široká 36/5, 11000

Contract name	Subject-matter of contract	Contract concluded on
Intermediation Contract+ Contract for Processing of Personal Data	The content is cooperation concerning the mediation of the issue of charge cards Diners Club.	21. 10. 2009

4.22. Between UniCredit Bank and **UniCredit Services GmbH**, Rothschildplatz 4, 1020 Vienna, Austria:

Contract name	Subject-matter of contract	Contract concluded on
Project Framework Agreement	Framework agreement covering the implementation of IT projects managed on the basis of i) Waterfall methods and ii) Agile methods (CZ)	25. 11. 2019
Project Framework Agreement	Framework agreement covering the implementation of IT projects managed on the basis of i) Waterfall methods and ii) Agile methods (SK)	25. 11. 2019
Project Framework Agreement	Framework contract covering the implementation of IT projects managed under the Waterfall method. (CZ)	26. 2. 2018
Project Framework Agreement	Framework contract covering the implementation of IT projects managed under the Waterfall method. (SK)	26. 2. 2018
Standard Terms and Conditions	Standard contract terms and conditions for provision of IT services	18. 12. 2015
Agreement on implementation of CEE2020 projects	Cooperation in implementation of IT projects	18. 12. 2015
Standard Terms and Conditions	Standard contract terms and conditions for provision of IT services (a branch in Slovakia)	18. 12. 2015
Agreement on implementation of CEE2020 projects	Cooperation in implementation of IT projects (a branch in Slovakia)	18. 12. 2015
Data Processing, Data Security, Data Protection and Security	Data Processing, Data Security, Data Protection and Security	9. 6. 2016

4.23. Between UniCredit Bank a **UniCredit Bank AG, London Branch**, London, 120 London wall, United Kingdom

Contract name	Subject-matter of contract	Contract concluded on
Fee Split Agreement	Consulting services related to M & A / ECM consulting services for specific clients to specific acquisition related to the Czech Republic	11. 8. 2016

4.24. Between UniCredit Bank a **UniCredit Bulbank AD** Sofia, 7 Sveta Nedelya Sq, Bulgaria

Contract name	Subject-matter of contract	Contract concluded on
Subcustody Agreement	Storage, management and settlement of securities	25. 11. 2015

4.25. Between UCB CS and **UniCredit Consumer Financing EAD** 14 Gyueshevo str. 1303 Sofia, Bulgaria

Contract name	Subject-matter of contract	Contract concluded on
Confidential Information Protection Contract	Confidential Information Protection	24. 10. 2018

4.26. In addition to the above stated contracts, in the last financial year, also other contracts were effective between UniCredit Bank and some other companies of the Group, which, however, are subject to the obligation of banking secrecy. These contracts relate to interbank, derivative and other banking transactions. UniCredit Bank cooperated with such companies in the issue of bonds, and also entered into client banking transactions (payment cards, current accounts, deposit products, cash payment system, etc.), all this in standard market conditions. Within standard banking relations, some lending business of UniCredit Bank is backed by bank guarantees provided by UniCredit Bank Austria AG and UniCredit Bank AG. Within the Group, there is also the provision of credit products and guarantees by UniCredit Bank, on standard conditions.

5. **Acts occurring in the last financial year, which were made on the initiative of or in the interest of the controlling entity or its controlled entities, if such acts related to assets exceeding 10% of equity of the controlled entity ascertained according to the most recent financial statements,**

The limit of 10% of UniCredit Bank equity, according to the financial statements at the end of 2020, was 82.539 mil CZK, exceeded in 2020 the funding provided by UniCredit Bank to UniCredit Leasing CZ, a.s. and UniCredit Leasing Slovakia, a.s. (and to their subsidiaries).

In the course of 2020, the controlling entity and/or its controlled entities deposited amounts on its accounts kept at UniCredit Bank exceeding 10% of UniCredit Bank equity. The deposits were provided on conditions which are standard in the interbank market for the relevant currency and maturity.

6. **Evaluation of whether any loss was caused to the controlled entity, and assessment of the compensation pursuant to Articles 71 and 72 of Act on Commercial Corporations**

The UniCredit Bank Board of Directors declares that no loss was caused to UniCredit Bank Czech Republic and Slovakia, a.s. under the concluded contracts and arrangements.

7. Evaluation of advantages and disadvantages arising from relationships between entities under paragraph 82 par. 1 of Act on Commercial Corporations

Advantages of integration of UniCredit Bank into the structure of the UniCredit Group:
A brand known internationally and reputational benefit resulting from the integration of the UniCredit Group into SIFI (Systemically Important Financial Institution).

Sharing of IT infrastructure, development, maintenance within the UniCredit Group and resulting economies of scale in the following areas:
Sharing of know-how of a major European bank and one of the most active and most significant banks in Central and Eastern Europe in the commercial area, i.e. in the development of products, introduction of business innovations and management of sales network.

Possible involvement in growth initiatives of the UniCredit Group, e.g., Transform 2019, providing UniCredit Bank with support and know-how in the area of development of a strong position of a universal bank in the Czech and Slovak markets.

Human Resources Development associated with sharing the UniCredit Group's experience in European markets, possible for employees to gain practical experience in other banks or Holding's management structures, career opportunities within the UniCredit Group.

Possible to apply, in local conditions, the Sponsoring and Marketing of the UniCredit Group on the European level.

Participation of UniCredit Bank in a sophisticated system of services for international clients through International desk / International clients Units in relevant countries, and mutual cooperation of these Units in handling and dealing with the needs of international clients.

We can include the following in possible disadvantages of integration of UniCredit Bank into the structure of the UniCredit Group:
A comprehensive organisational structure of a transnational banking group.

Possible mutual influence from other countries, mainly in the area of reputation and perception of the UniCredit brand (Cross-border sentiment).
When assessing a total influence of the integration of UniCredit Bank into the UniCredit Group, the advantages resulting from this position significantly outweigh the disadvantages. The Bank prevents actively the possible above stated disadvantages both in the form of operational measures in local management of UniCredit Bank and communication, and by building a strong 'brand' on the local level.

In Prague, on 16 March 2021

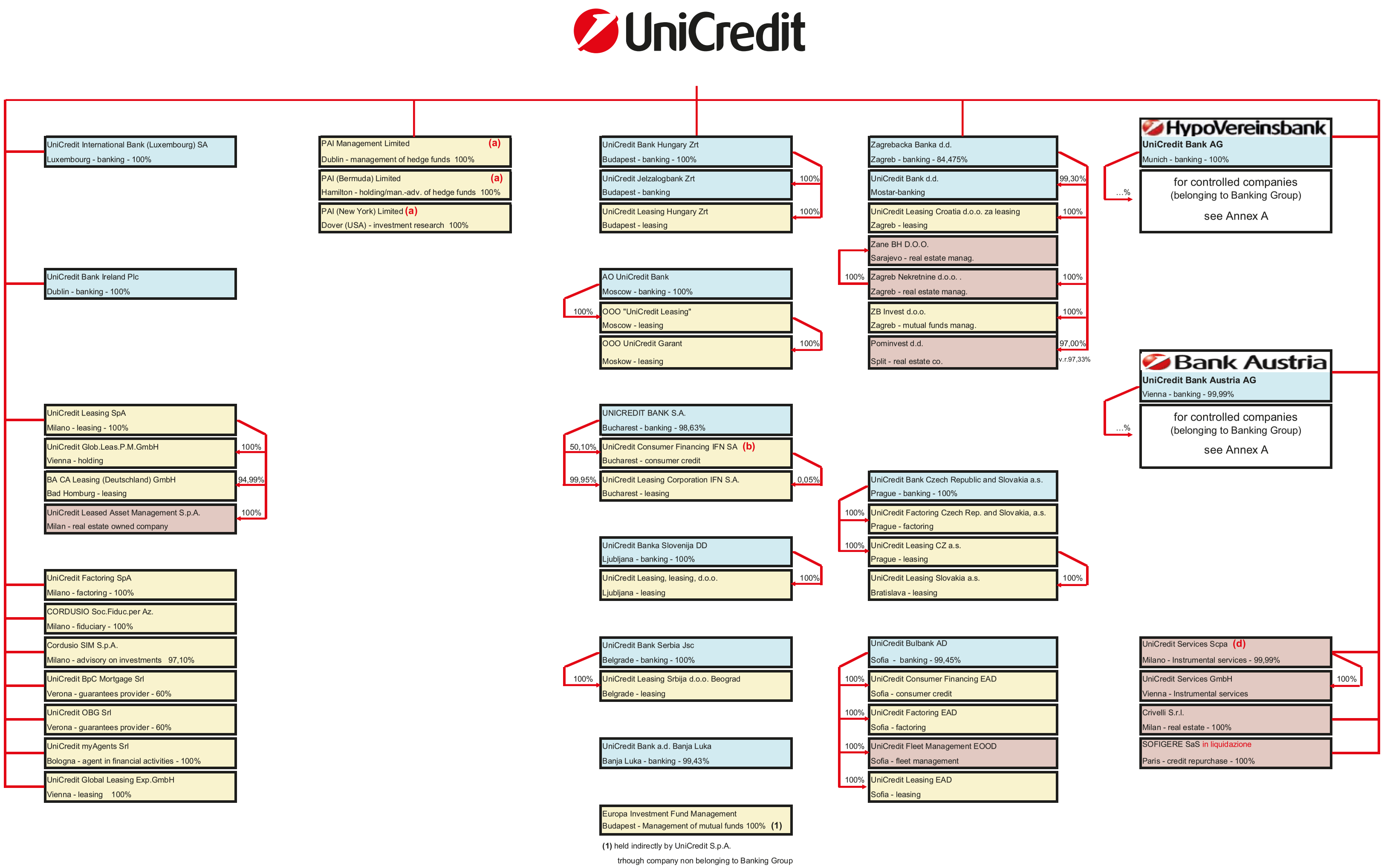
On behalf of the Board of Directors of
UniCredit Bank Czech Republic and Slovakia, a.s.

Mgr. Jakub Dusílek, MBA Chairman of the Board of Directors	Massimo Francese Member of the Board of Directors

Annexes:

1. Organisation Chart of the UniCredit Group

Structure of UniCredit Group



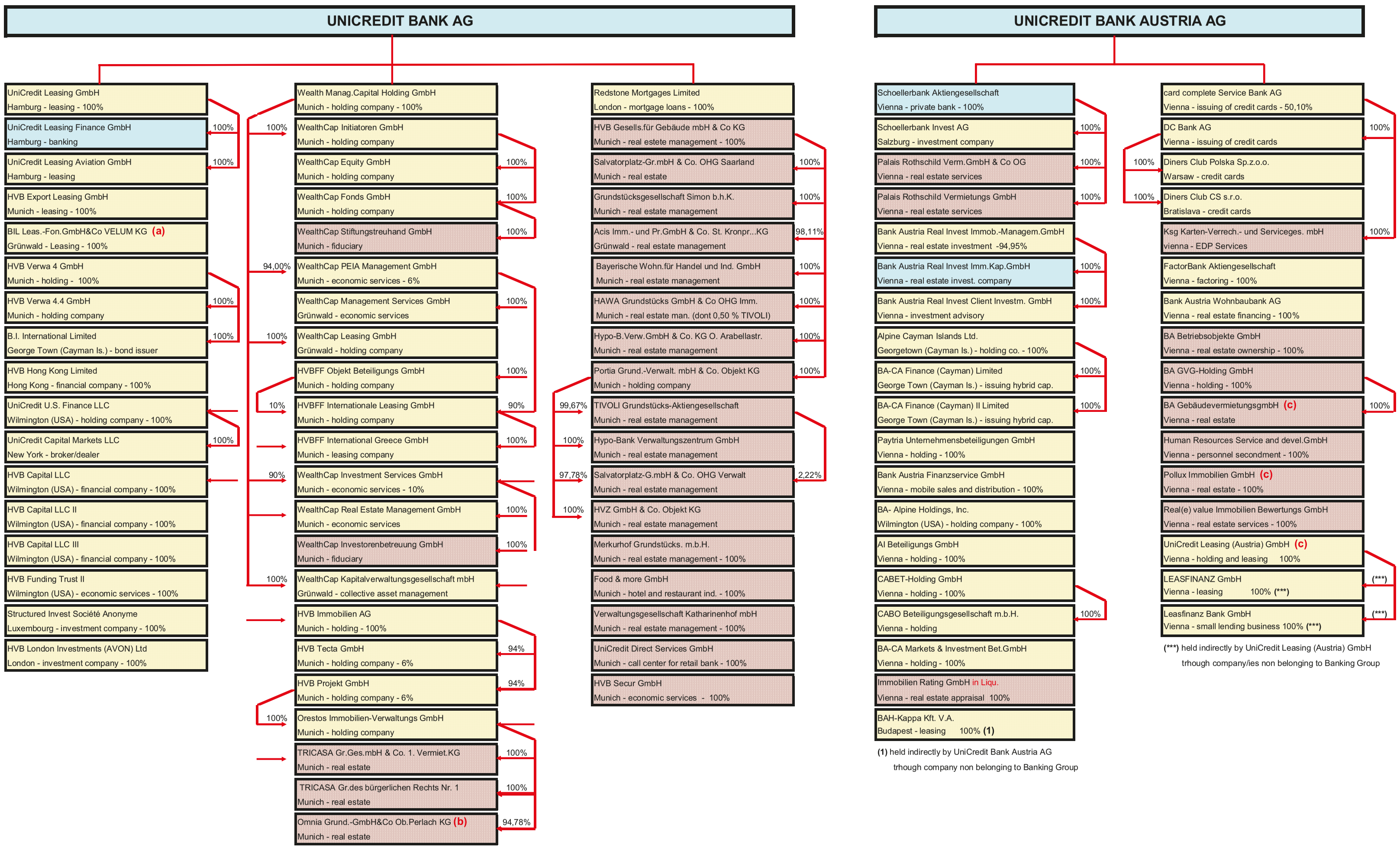
(a) not operative (b) 49,9% held by UniCredit SpA (d) Other companies belonging to UniCredit Group and third parties hold shares of the company
(z) Requested to Bank of Italy the inclusion in the Banking Group

Companies belonging to the Banking Group

banking
financial
instrumental

Updated
January 14th 2021

Annex A



(a) voting rights held by UCB AG (33,33%) and by BIL Leasing-Fonds Verwaltungs GmbH (33,33%) (b) 5,22% held by WealthCap Leasing GmbH (c) % considering shares held by other Companies controlled by BA
(z) Requested to Bank of Italy the inclusion in the Banking Group

Companies belonging to the Banking Group

- banking
- financial
- instrumental

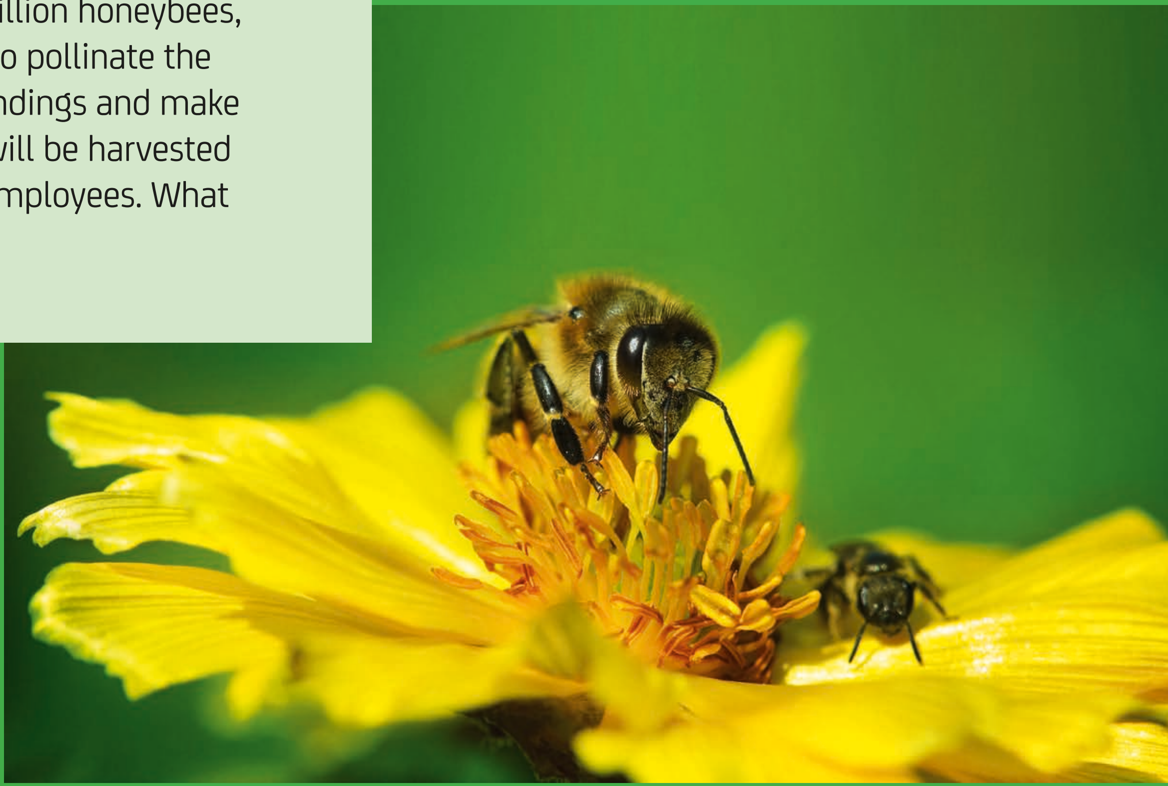
Updated
January 14th 2021

Do the right thing!
for our Environment

Our new sustainability targets, shared at the end of 2019, encouraged several sustainability-focused initiatives in 2020 focusing on protecting our environment.

CAUSING A BUZZ AT OUR NEW AUSTRIAN HQ

Not only employees moved into UniCredit new Austrian headquarters. They were joined by over one million honeybees, working hard to pollinate the nearby surroundings and make honey which will be harvested by UniCredit employees. What a sweet result!



List of Branches

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