Consolidated Annual Report 2020

THE FUTURE IS YOU KB

Komerční banka, a.s.

This document is a transcription of the 2020 Consolidated Annual Report of Komerční banka, a.s., except it does not include tags in XBRL language.
The official 2020 Consolidated Annual Report has been published in accordance with the applicable regulations in European Single Electronic Format (ESEF), and it is available at https://www.kb.cz/en/about-the-bank/for-investors/reporting-and-results/annual-and-half-yearly-reports

Loans to clients
(KB Group, gross loans, CZK billion)*

CZK 691.4 billion +5.7%

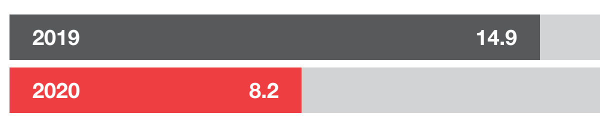
* Excluding Other amounts due from customers and repo operation with clients, but including debt securities issued by KB corporate clients.

Client deposits
(KB Group, CZK billion)*

CZK 893.0 billion +9.4%

* Excluding repo operations with clients.

Net profit attributable to KB's equity holders
(KB Group, CZK billion)



CZK 8.2 billion (45.3%)

Number of standalone Bank clients

1,641,000 clients (1.4%)

ANNUAL REPORT 2020

Komerční banka, a.s.

Survey of Results 2016–2020

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2020	2019	2018 restated[1]	2017 restated[2]	2016
Financial results					
Net operating income	29,664	32,573	32,203	31,060	31,750
of which Net interest income	21,360	23,591	22,704	20,985	21,067
of which Net fees and commissions	5,210	5,983	6,025	6,284	6,683
of which Net profit on financial operations	2,884	2,804	3,209	3,576	3,837
Total operating expenses	(14,995)	(14,932)	(14,635)	(14,510)	(14,026)
Profit attributable to the Group's equity holders	8,156	14,901	14,846	14,930	13,688
Earnings per share (CZK)[3]	43.19	78.90	78.61	79.05	72.48
Balance sheet					
Total assets	1,167,131	1,077,334	1,059,932	1,001,652	922,737
Loans and advances to customers, net[4]	679,956	647,259	624,954	593,639	580,198
Amounts due to customers	906,217	821,507	812,451	762,043	699,377
Total shareholders' equity[5]	113,816	105,540	99,931	94,450	101,570
Ratios (%)[6]					
Return on average equity (ROAE)[7]	7.44	14.50	15.28	15.07	13.42
Return on average assets (ROAA)[7]	0.73	1.39	1.44	1.55	1.51
Net interest margin[7]	2.03	2.35	2.33	2.33	2.53
Cost/income ratio	50.55	45.84	45.45	46.72	44.18
Capital[8]					
Capital adequacy (%)	22.34	19.72	18.48	18.63	16.18
Tier 1 ratio (%)	21.73	19.14	17.91	18.02	16.18
Tier 1	97,906	84,062	80,788	76,525	71,659
Tier 2	2,784	2,546	2,578	2,560	0
Total regulatory capital	100,690	86,608	83,366	79,084	71,659
Total risk-weighted assets	450,628	439,237	451,052	424,566	442,865
Other data					
Number of employees, average	8,061	8,167	8,413	8,492	8,476

Notes
1) As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for 2018 were restated.
2) Comparative data has been restated to reflect the presentation of the year 2018 and reclassifications in the Consolidated Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
3) Adjusted for the effect of 1-to-5 split of KB shares carried out in April 2016.
4) Figure for 2016 includes also debt securities issued by KB corporate clients.
5) Excluding Non-controlling interest.
6) According to the Komerční banka methodology.
7) Ratios for 2018–2020 based on figures according to IFRS 9; ratios for 2016–2017 based on figures according to IAS 39.
8) According to Basel III.
Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective section herein.

Credit ratings (as of the end of February 2021)[1]	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A1
Fitch	F1	A

1) KB was assigned a credit rating by rating agencies registered under Regulation of the European Parliament and Council Regulation (EC) No. 462/2013. KB has considered appointment of rating agencies in accordance with Article 8d of this Regulation and decided not to appoint a rating agency whose market share is smaller than 10%.

Separate data (CZK million)	2020	2019	2018 restated[1]	2017 restated[2]	2016
Financial results					
Net operating income	26,288	30,599	30,707	29,216	30,608
of which Net interest income	18,611	20,550	19,694	17,756	20,571
of which Net fees and commissions	4,536	5,313	5,390	5,702	5,979
of which Net profit on financial operations	2,878	2,802	3,181	3,570	3,830
Total operating expenses	(13,573)	(13,428)	(13,155)	(13,058)	(12,710)
Net profit	6,929	14,816	15,238	14,914	14,119
Balance sheet					
Total assets	1,093,508	1,011,519	1,001,504	944,230	868,065
Loans and advances to customers, net[3]	589,741	567,805	553,888	531,085	527,143
Amounts due to customers	849,029	762,157	755,039	702,053	638,410
Total shareholders' equity	105,196	98,218	92,721	87,004	93,032
Ratios (%)[4]					
Return on average equity (ROAE)[5]	6.81	15.52	16.96	16.42	15.15
Return on average assets (ROAA)[5]	0.66	1.47	1.57	1.64	1.66
Net interest margin[5]	1.91	2.20	2.17	2.13	2.34
Cost/income ratio	51.63	43.88	42.84	44.69	41.53
Capital[6]					
Capital adequacy (%)	23.82	21.10	19.6	19.41	16.91
Tier 1 ratio (%)	23.13	20.46	18.97	18.75	16.91
Tier 1	93,360	80,982	77,769	72,622	67,263
Tier 2	2,775	2,546	2,578	2,560	0
Total regulatory capital	96,135	83,528	80,347	75,181	67,263
Total risk-weighted assets	403,622	395,828	409,958	387,330	397,796
Other data					
Number of employees, average	7,104	7,210	7,458	7,551	7,549
Number of points of sale[7]	243	343	365	387	392
Number of clients (thousands)	1,641	1,664	1,668	1,664	1,654
Number of ATMs	809	796	776	764	768

Notes
1) As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for 2018 were restated.
2) Comparative data has been restated to reflect the presentation of the year 2018 and reclassifications in the Consolidated Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
3) Figure for 2016 includes also debt securities issued by KB corporate clients.
4) According to the Komerční banka methodology.
5) Ratios for 2018–2020 based on figures according to IFRS 9; ratios for 2016–2017 based on figures according to IAS 39.
6) According to Basel III.
7) Including one branch in Slovakia.
Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective section herein.

Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors www.kb.cz/investors. Additional information on corporate social responsibility and ethics at KB is available in the 'Corporate Social Responsibility' section at https://www.kb.cz/en/about-the-bank/about-kb. Information about KB's products and services is accessible from the homepage www.kb.cz/en.

This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based on numerous assumptions, both general and specific. As a result, there is a risk that these projections will not be fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified, as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

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The full legal names of KB Group companies mentioned in simplified form throughout this annual report are listed in the section *"Komerční banka Group"*.

History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception in 1993, as well as within the RM-SYSTÉM Czech Stock Exchange.

In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market.

The development of the Bank was based not only on organic growth but also on optimising the Bank's and the Group's presence on the market in the form of acquisitions. Therefore, in 2004, a short-lived subsidiary of KB and SG, FRANFINANCE CONSUMER CREDIT, was merged with ESSOX and focused on consumer finance. In 2005, Komerční banka sold 100% of its stake in the asset management company Investiční kapitálová společnost KB, a.s. to SG Asset Management and a 51% stake in Komerční pojišťovna to SOGECAP S.A., whereby it retained a 49% minority interest. In 2006, it completed the acquisition of Modrá pyramida by buying the remaining 60% stake, through which the Bank gained full control over the third-largest building savings bank in the Czech Republic. Another significant step in extending the offer to clients was the acquisition of a 50.1% share in SG Equipment Finance Czech Republic s.r.o., the leading provider of asset-backed financing in the Czech Republic, in May 2011. Through a branch, SGEF also is active in Slovakia. In 2016, KB established a business alliance for credit and debit card acceptance whereby it transferred a share of its Cataps subsidiary to Worldline SA/NV. In July 2016, then, ESSOX's subsidiary completed takeover of a 100% stake in PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. and PSA FINANCE SLOVAKIA, s.r.o. In 2019, KB established a fully owned subsidiary, KB SmartSolutions s.r.o., as a platform facilitating introduction of new services to the clients. This subsidiary has acquired several stakes in start-up fintech companies. In 2020, KB established Bankovni identita, a.s., a joint venture with Česká spořitelna and Československá obchodní banka, for providing electronic identification and electronic signature services based upon the digital identities of bank clients.

Komerční banka has been operating in Slovakia since 1995, originally in the form of a subsidiary. Komerční banka Bratislava has successfully implemented changes connected with the adoption of the euro (EUR) on 1 January 2009. Since 1 January 2011, it has operated as a foreign branch of the Bank.

In 2018, the Bank launched a transformation programme, KB Change, which comprised, among other things, the simplification of the management and distribution structures and switching of important central functions to agile working methodology.

Komerční banka followed upon full implementation of the transformation steps from that plan by announcing in 2020 a further KB Change 2025 strategic programme, which will assure KB's leading position in the new era of digital banking.

ESG ratings

Komerční banka is a constituent company in the FTSE4Good Index Series of companies demonstrating strong environmental, social and governance (ESG) practices, and it is rated A in MSCI ESG ratings measuring companies' resilience to long-term, industry material ESG risks.

Société Générale Group

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Société Générale is one of the leading European financial services groups. Based on a diversified and integrated banking model, the SG Group combines financial strength and proven expertise in innovation with a strategy of sustainable and responsible growth. Committed to the positive transformations of the world's societies and economies, Société Générale and its teams seek to build, day after day, together with its clients, a better and sustainable future through responsible and innovative financial solutions.

Active in the real economy for over 150 years, with a solid position in Europe and connected to the rest of the world, Société Générale has over 138,000 staff members in 62 countries and supports on a daily basis 29 million individual clients, businesses and institutional investors around the world by offering a wide range of advisory services and tailored financial solutions. The Group is built on three complementary core businesses:

- French Retail Banking, which encompasses the Société Générale, Crédit du Nord, and Boursorama brands. Each offers a full range of financial services with omnichannel products at the cutting edge of digital innovation;
- International Retail Banking, Insurance, and Financial Services to Corporates, which include Komerční banka, with networks in Africa, Russia, Central and Eastern Europe, and specialised businesses that are leaders in their markets;
- Global Banking and Investor Solutions, which offers recognised expertise, key international locations, and integrated solutions.

Société Générale is included in the principal socially responsible investment indices DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (World, Europe, and Eurozone), four of the STOXX ESG Leaders indices, and the MSCI Low Carbon Leaders Index.

Company profile

Komerční banka, a.s. (hereinafter also "KB" or the "Bank") is the parent company of KB Group (hereinafter also the "Group") and a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate, and investment banking. Member companies of Komerční banka Group provide additional specialised financial services, such as pension savings and building society schemes, leasing, factoring, consumer lending, and insurance. These are accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients as well as through selected subsidiaries.

	Loans to clients – gross loans*		Amounts due to customers**	
CZK billion	31 December 2020	31 December 2019	31 December 2020	31 December 2019
KB Group	**691.4**	**654.0**	**893.0**	**816.3**
KB - total (including KB Slovakia)	599.6	573.1	835.1	757.0
- Individuals	271.7	255.5	322.0	285.8
- Businesses and other (including KB Slovakia)	327.9	317.6	513.2	471.2
- Small businesses	39.8	36.7	218.9	196.2
- Medium corporates and municipalities	110.2	100.8	190.9	163.9
- Top corporates and other (including KB Slovakia)	178.0	180.1	103.3	111.0
Modrá pyramida	63.9	56.2	60.8	61.8
ESSOX (including PSA FINANCE)	17.7	17.4	0.2	0.2
Factoring KB	8.3	9.4	0.8	1.0
SGEF	30.3	29.0	n.a.	n.a.
BASTION	2.5	2.6	n.a.	n.a.
Consolidation and other adjustments	(31.0)	(33.7)	(3.9)	(3.7)

* Excluding Other amounts due from customers and repo operations with clients, but including debt securities issued by KB corporate clients.
** Excluding repo operations with clients.

The Bank's identification details as of 31 December 2020

Komerční banka, a.s., entered in the Commercial Register maintained with the Municipal Court in Prague, Section B, File No. 1360

Date of registration:
5 March 1992

Registered office:
Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

Identification number:
45317054

Legal entity identifier (LEI):
IYKCAVNFR8QGF00HV840

Legal form:
Public limited company

Business activities:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:
   a) acceptance of deposits from the public;
   b) granting of loans;
   c) investing in securities on the Bank's own account;
   d) financial leasing;
   e) making and receiving payments and administration of a clearing system;
   f) issuing of payment instruments, such as payment cards and traveller's cheques;
   g) provision of guarantees;
   h) issuing of letters of credit;
   i) provision of collection services;
   j) provision of investment services including:
      - main investment services of reception and transmission, on behalf of investors, of orders in relation to investment instruments,
      - main investment services of execution of orders on behalf of investors in relation to investment instruments,
      - main investment services of dealing in investment instruments for the Bank's own account in relation to investment instruments,
      - main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
      - main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues in relation to investment instruments,
      - ancillary services of safekeeping and administration in relation to investment instruments,
      - ancillary services of safe custody,
      - ancillary services of granting credits or loans to an investor for the purpose of allowing the investor to carry out a transaction in one or more investment instruments wherein the firm granting the credit or loan is involved in the transaction in relation to the investment instrument,
      - ancillary services of advice to undertakings on capital structure, industrial strategy and related matters, and advice and service relating to mergers and the purchase of undertakings,
      - ancillary services of services related to underwriting in relation to investment instruments,
      - ancillary services of investment advice concerning investment instruments in relation to investment instruments, and
      - ancillary services of foreign-exchange service where these are connected with the provision of investment services;
   k) dealing on the Bank's own account or on the client's account in foreign currencies and gold;
   l) financial brokerage;
   m) foreign exchange operations (purchase of foreign currency);
   n) provision of depository services;
   o) provision of banking information;
   p) renting of safe-deposit boxes;
   q) issuing of mortgage bonds; and
   r) activities directly related to those mentioned in paragraphs a) – q).

II. Furthermore, the business activities comprise activities carried out for another as long as these activities relate to the operation of the Bank and to the operation of other banks controlled by it, of saving and credit unions, investment companies, insurance and reinsurance companies, financial institutions, and businesses which provide ancillary banking services in the scope specified below:
   a) accounting consultancy activities, book-keeping, tax record-keeping;
   b) intermediating of trades and services;
   c) advisory and consulting activities, preparation of expert studies and reports;
   d) administration and maintenance of real property;
   e) organisation of specialised courses, training, and other educational programmes, including teaching;
   f) provision of software, advisory in information technologies, data processing, hosting and relating activities, and web portals; and
   g) administration and organisational services.

Registered capital:
CZK 19,004,926,000; of which paid up: 100%

Method of the Company's establishment:
In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole founder, established the public limited company Komerční banka, a.s., based on a Deed of Incorporation of 3 March 1992 under Section 172 of the Commercial Code.

Foreign branch:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic

Report of the Board of Directors

on the Bank's and Group's business activities and financial position

Purpose

Building together with our clients a better and sustainable future through responsible and innovative financial solutions

Mission

Be a leader in the new era of banking for 2 million active clients

Strategic pillars

Growth, helpfulness, responsibility

KB Change 2025 strategy

On the occasion of announcing its results for the third quarter of 2020, Komerční banka presented on 5 November 2020 also its updated strategic directions as formulated in the KB Change 2025 plan. This followed on from the successful implementation of the KB Change 2020 transformation programme announced in spring 2018 and addresses the emerging challenges and opportunities for a strong, client-focused bank.

The transformation ensuing from the KB Change 2020 plan is visible in significant simplification, digitalisation, and acceleration of key customer and operational processes. The organisational structure has been delayered both at headquarters and across the distribution network. Almost half of central functions are now developed and delivered by cross-functional teams employing agile working methods. Products and services increasingly are provided via digital channels, much to the satisfaction of clients. The offer has been further expanded in partnerships with start-up and fintech companies.

KB Group has been able to provide quality financial services and best-in-class advisory in a safe, reliable, and convenient way. This is reflected in the improved client satisfaction during 2018–2020 within all main client segments as measured by Net Promoter Score. The financial targets of the KB Change 2020 plan were not achieved, however, as a direct consequence of the global coronavirus pandemic and its economic impacts.

Looking to the 2025 horizon of the updated strategy, it is expected that the Czech economy will begin recovering in 2021 from the drop in output caused by the pandemic and that in the following years it will resume the 2–3% growth pace achieved just prior to the recent dip. Short-term interest rates will probably remain anchored close to zero until 2021, then begin rising moderately from 2022. Nevertheless, the 2.25% two-week repo rate reached as recently as in February 2020 may not be seen again before 2025. Long-term rates should begin on their normalisation path somewhat earlier but surpass the 3% mark only in 2025. Loan market growth should decelerate slightly in 2021 with the expiry of guarantee programmes, but lending should grow in step with or slightly faster than nominal GDP in the following years. The local currency liquidity position of Czech banking may further improve as a reflection of solid deposit growth. Although the Czech banking market will continue to develop while building upon its healthy fundamentals, impacts of the economic shock may lead some participants to pursue consolidation strategies.

The KB Change 2025 plan recognises the following five categories of challenges and opportunities defining a new era of digital banking:

- Evolving customer needs – with emphasis on reliability, trust, and partnership with clients; a need for simple and fast but personalised solutions accessible anywhere and anytime;
- A changing competitive landscape – characterised by considerable pressure on profit margins, disruption caused by fintech and neobanks, scale as a requisite for efficiency;
- The urgency of environmental, social, and governance considerations – in view of risks stemming from climate change, energy dependencies, weakened social cohesion, lack of diversity, and deficiencies in governance;
- Technological revolution – transforming legacy banking systems, changing client expectations, new development practices and ways of working and analysing data, big leaps in productivity, strengthening the role of technology providers across industries; and
- Increasing regulatory responsibilities of banks – including for preventing financial crime, consumer protection, and financial stability.

In the plan document, KB formulates its intention to build together with its clients a better and sustainable future through responsible and innovative financial solutions. Within the planning horizon to 2025, KB aims to be a leader in the new era of banking for 2 million active clients. The strategy builds on the pillars of helpfulness, growth, and responsibility, with specific objectives established in nine thematic areas.

KB will build a new digital bank founded on new technological and process infrastructure, introducing new services and new partners, and supported by smart innovations. As a data-driven company, KB will maximise the business value extracted from data in the digital world even as it assures the privacy of the client data. The Bank will develop a new advisory model supported by data analytics. To evolve its agile, adaptive, and effective organisation, the Bank will implement DevOps practices as well as the Smart office concept of workplace organisation. Both methodologies are expected also to support employee engagement at high levels. The new digital KB will rebalance its organisation towards fully digital sales and services. Its position on the housing finance market will be reinforced by creating a single mortgage factory delivering solutions for clients of both KB and Modrá pyramida. KB will aim to protect its already best-in-market level of client satisfaction in corporate and investment banking by focusing on speed, predictability, and efficiency of corporate customer journeys. With digitisation and automation incorporating artificial intelligence and data science components as well as advanced fraud prevention, KB's risk management will aim to identify emerging risks and contain risk losses in the new world of digital banking and within a volatile environment.

Komerční banka will furthermore position itself as a green bank and a sustainability leader in the Czech financial market and within Société Générale Group. By 2025, it will reduce its carbon dioxide footprint by 80%, and it aims further to improve its standing in such global sustainability indices as FTSE4Good and MSCI ESG.

KB will extract revenues from new and novel sources, including the developed ecosystem of services for small businesses and individual clients, authentication and identification, co-operation with start-ups, bolt-on acquisitions, insurance, wealth management, and consumer financing. At the same time, the Bank will strive to reaffirm its leading position in operational efficiency within the CEE region, including by further centralising back- and head-office functions and premises across KB Group, sharing certain services even with other banks, optimising the branch network, insourcing, and implementing the DevOps concept.

Meeting the ambitious objectives of the strategic plan will be supported by a thoroughly considered and co-ordinated set of changes to the banking technologies. As a foundation for building the new digital bank, KB will deploy a new core banking system featuring 24 × 7 availability, a multi-entity setup, and a modular approach as an enabler for the digitisation of its business propositions and for offering personalised and flexible products. The existing and new core banking systems will run in parallel for a certain time in order to assure a smooth transition and limit operational risks. Furthermore, the Bank will launch new card management, digital hub, and payment processing systems for the new digital bank.

Komerční banka will implement several business initiatives, often enabled by the new and flexible banking technologies. In the corporate segments, KB will launch a new Corporate and Investment Banking portal and a front-office solution for investment banking services that supports digitisation, data-driven sales, and a multichannel approach. It will increase the penetration of investment banking services among small business customers. The utilisation of the weTrade blockchain payment platform will be extended, as will that of digital identity tools. The corporate loan granting system will be replaced, the primary goal being to shorten the Bank's time to market. KB will develop its offer of sustainable, positive-impact financing and advisory competence in the green economy area. It will roll out new methods of financing (such as crowdfunding or so-called invisible finance providing frictionless purchasing experiences), and KB will pursue its already successful strategy to increase financing with acceptable risk to an extended population of eligible clients within the state guarantee programmes (such as COVID programmes).

Developments in retail segments will include building a joint mortgage factory for KB and Modrá pyramida, an investment portal, and a new advisory and sales platform that features financial coaching. While utilising artificial intelligence capabilities, the new best-in-class digital channels will automate large parts of service and marketing tasks. The fully digital sales capabilities will include loans, banking packages, insurance, and other products in a very simple and convenient way.

The plan's operational targets are formulated for the standalone bank. It aims to increase the level of client satisfaction as measured by Net Promoter Score in the retail clients and small and medium-sized enterprises segments while stabilising that satisfaction at the already very high level (above 50 points) within the large corporations segment. Based upon organic growth, the clients' seamless omnichannel experience should help the Bank to achieve its target of 1,850,000 clients by 2025. The branch will remain an important contact point for clients, but, as the trend in providing services increasingly is towards migration to digital channels, the Bank aims to have 200 branches by the strategy's horizon. Optimisation of operations through digitisation, branch reduction and switching to cashless banking, automation of middle- and back-office and support functions, and robotics deployment will mean that the standalone bank's full operations and services will be handled by approximately 5,500 employees. The upgraded working and management methods will lead to employee empowerment and effective teamwork across the entity. Motivation, sense of importance, and recognition will improve, and effective leadership should help to achieve further gains in employee engagement levels as measured by a proprietary blended index to the level of 83 points from a strong 78 points in 2019. KB believes that pursuing sustainability in business and operations generates long-term benefits in delivering new business and value for shareholders as well as compliance with future Czech and European regulations. As a measure of maturity in the environmental, social, and governance areas, KB has selected the globally recognised FTSE4Good index of sustainably managed companies, and its target will be to exceed the level of 4 points. Its index stood at 3.3 in 2019.

The financial targets have been set on a KB Group basis. Based upon organic growth, the Group's revenues should record a dynamic average growth rate over the 2025 horizon, after bottoming out due to the pandemic in 2021. The revenue growth will be driven mainly by rising business volumes, digital sales, the advisory model supported by data analytics, and new sources of revenues. Operating expenses will grow at a much slower pace than revenues, and slower than inflation. These positive operating jaws will be powered by savings from simplification and decommissioning of old technologies and a decrease in the numbers of branches and employees. The cost-to-income ratio is targeted to move below 40%, with significant improvement during 2024–2025 driven by new revenues and savings from rolling out the new digital bank. With a view to reinforcing the scale of KB's existing business and thus optimising efficiency and competitiveness in high-potential business segments within the 2025 planning horizon, KB will consider to enhance its performance with non-organic growth elements. Implementation of any such ambition will be subject to further careful assessments and validations. The minimum ambition for the number of bank clients inclusive of the non-organic growth component has been set at 2,000,000. The targeted 40% cost-to-income ratio is valid also for the scenario of non-organic growth. Upon successful implementation of non-organic growth components, and assuming normalisation in the cost of risk levels at 25 basis points, KB Group targets ROE at 15% for 2025.

Principles of corporate social responsibility

To act responsibly towards the society within which it operates is a strategic priority of Komerční banka. Responsibility is the basis of every partnership, and it is also a precondition for long-term successful business. Komerční banka acts responsibly in its relationships with clients, employees, shareholders, society as a whole, and the environment. KB perceives that such behaviour is in accordance with the interests and expectations of the main stakeholders, as well as with applicable regulations.

Specifically, KB develops responsible business in economic, environmental, and societal areas through a variety of activities at all levels and as an integral aspect of the entire organisation.

KB's CSR activities are developed within the following six basic areas:
- Client satisfaction
- Ethics and responsible banking
- Responsible employer
- Protection of the environment
- Responsible and innovative financing
- Sponsoring and charity

Information on Komerční banka's activities in the areas of respect for human rights and social and employment relations is provided in the Employee relationships chapter of this annual financial report.

Information on improving clients' satisfaction and introducing service improvements and innovations is provided in the chapter KB Group clients and their service.

Information about fighting against corruption and bribery is presented in the chapter Risk management.

Further detailed non-financial information on Komerční banka's corporate responsibility activities and results is provided in KB's 2020 Non-Financial Report, which will be issued along with this annual financial report.

Code of conduct
Only by taking an ethical approach to doing business and providing financial services can Komerční banka hope to maintain and even strengthen its market position over the long term. A fundamental prerequisite to successfully developing the company consists in professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and preserving direct and open relationships with clients and by fortifying mutual trust. Komerční banka expects all its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics and to endeavour always to adhere to those standards.

Corporate governance
Komerční banka acceded to and upholds all the principal standards of the Corporate Governance Code of the Czech Republic (2018) issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular, G20/OECD Principles of Corporate Governance from 2015). Its full text in Czech is available at https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812.

Komerční banka's Board of Directors applies and develops the aforementioned principles of corporate governance in a spirit of transparency, accountability, and with a view to the long term, and it translates these best practices into its internal procedures and regulations.

Sustainable development
Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures that on the one hand should eliminate negative influences on the environment and on the other contribute to its protection and improvement. KB monitors the impact of its activities on the environment and identifies those areas upon which it needs to focus. Komerční banka then adopts measures directed towards effectively reducing its environmental impact.

Tax policy
Komerční banka ensures that all KB Group companies fully respect the tax rules of all countries wherein the Group operates. Within its tax policy, Komerční banka complies with all applicable reporting obligations. Komerční banka does not encourage or promote tax evasion for itself or its clients and refrains from operations whose main purpose is tax-motivated unless this is consistent with the intention of the law.

Komerční banka strictly respects correct tax procedures and maintains open and transparent relations with tax authorities and its good reputation. KB adheres to the SG Group Tax Code of Conduct[1)] and all of KB's employees are obliged to comply with this Code. Tax policy is internally supervised by the Internal Audit arm. External oversight in relation to Czech tax law is performed by the Specialised Tax Office. The statutory auditors' responsibility in respect of calculating KB's income tax liability is limited to detecting errors and discrepancies in the context of the audit of the financial statements as a whole.

1) https://www.kb.cz/getmedia/7ba00421-a9c9-420f-9041-7727aba5973b/sg-tax-code-of-conduct.pdf.aspx

Major events of 2020

January

On 1 January 2020, Komerční banka celebrated the 30th anniversary of its existence.

SGEF was one of the first companies to react to the amendment to the law changing the VAT payment of the leasing company and the right to deduct on the part of the lessee. When using financial leasing, its clients have gained a better choice of how and when to pay the amount corresponding to the tax.

February

On 6 February, Komerční banka announced its business and financial results for 2019 and at the same time stated that the Board of Directors would propose a dividend of CZK 11.0 billion (i.e. CZK 58 per share) from the 2019 profit. KB management's intent had been to propose a dividend payment equal to 65% of the consolidated net profit attributable to shareholders for 2020. This intention was later changed due to the Covid-19 pandemic.

The new law allowed banks to authenticate clients remotely also for providing commercial services by contractual third parties, as well as for accessing government services and signing legal documents. KB, together with Česká spořitelna, a.s and Československá obchodní banka, a. s., announced its intention to create a joint venture, open for all banks and foreign bank branches in the Czech Republic, for providing electronic identification and authentication services to private companies and public institutions.

March

On 1 March, the first three cases of Covid-19 were confirmed in the Czech Republic. On 12 March, the government declared a state of emergency throughout the Czech Republic due to the coronavirus outbreak, and introduced significant restrictions on social and economic life in the country. KB has followed its business continuity plan as updated for the specifics of the pandemic situation, and it continued providing all services to its clients, while rapidly taking measures to protect its employees and clients.

From 13 March, KB began offering voluntary instalment payment holidays to individual and small business clients affected by the pandemic. The subsidiaries, and in particular ESSOX and Modrá pyramida, launched similar offers on 13 or 16 March.

On 16 March, the Bank Board of the Czech National Bank convened in an extraordinary monetary policy meeting and decided on first measures to mitigate the economic effects of the coronavirus epidemic, including to lower the two-week repo rate by 50 basis points to 1.75% and reverse its earlier decision to increase the countercyclical capital buffer for exposures within the Czech Republic. The CNB further advised banks to refrain with immediate effect from any dividend payments or other steps that could jeopardise the resilience of individual banks, doing so until both acute and longer-term consequences of the new coronavirus epidemic would subside.

Due to the significant negative economic consequences of the measures adopted to contain the spread of the Covid-19 disease, KB withdrew on 23 March its outlook for 2020 financial and business results that had been announced on 6 February. At the same time, the Bank announced a new proposal of KB's Board of Directors to the Supervisory Board to retain the net profit earned in 2019 in order to comply with the measures the CNB had called for and while acknowledging the Bank's responsibility to guard against any increase in systemic risk to the domestic economy.

ESSOX launched a new ES-KLÍČ (ES-KEY) application for clients using its payment cards to protect and verify 3D Secure payments on the internet. ES-KLÍČ offers clients the possibility to verify payments via biometric data directly in the application on a mobile phone or by entering a PIN code.

April

KB and its subsidiary SGEF signed a Memorandum of Cooperation with energy company ČEZ ESCO and began preparing a new product that can contribute to limiting climate change – solar energy as a service – which will allow industrial companies to begin generating savings on their energy bills by making the roofs of their buildings available for photovoltaic panel installations.

Komerční banka launched a new service – Zaplaceno.cz. The first bank on the Czech market to do so, KB introduced an effective payment solution for e-shops using the so-called indirect payment order (PISP) made possible by the European PSD2 directive. The solution was prepared in co-operation with the fintech company BudgetBakers.

May

Komerční banka began offering loans to businesses within the guarantee programmes of the Bohemian–Moravian Guarantee and Development Bank (ČMZRB). KB has actively participated through the Czech Banking Association in designing the largest programme – COVID III.

The website of Modrá pyramida won the Site of the Year global competition, hosted by Kentico, for the best financial services website.

June

Jitka Haubová became a new member of Komerční banka's Board of Directors with effect from 4 June, with responsibility for the Transaction and Payment Services, Support Services, Investment Banking Services, and Legal departments, as well as the Payment Methods and Customer tribes.

Due to limitations caused by the Covid-19 epidemic and in accordance with applicable laws, Komerční banka held its annual general meeting using remote decision-making and communication arrangements. Voting and questioning took place in the period from 9 to 29 June. Komerční banka's shareholders approved the reported financial results and retention of the profit from 2019. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its assets for the year 2019, the consolidated financial statements, and the annual financial statements for 2019. Upon the Nomination Committee's proposal, the General Meeting elected Ms Maylis Coupet a member of the Supervisory Board. The General Meeting also approved the remuneration policy.

KB began offering a new programme of guaranteed lending aimed at mitigating impacts of the epidemic. Known as COVID Plus, it is operated by the Export Guarantee and Insurance Company (EGAP) of the Czech Republic. The programme makes available to large companies both working-capital and investment financing.

Komerční banka announced co-operation with additional Czech fintech companies Zakladači and Trivi. The company Zakladači attends to legal establishment of new limited liability companies for its clients, while KB provides the new entrepreneurs with a Profi account package that includes a business payment card. In partnership with Trivi, KB's internet banking offers a unique set of services for small businesses, including online accounting, regulatory reporting, and payroll assistance.

The digital magazine The Statement from the Lafferty Group named Komerční banka the best bank in the Czech Republic and at the same time one of the 100 best banking institutions in the world. The ranking evaluates the quality of banks in 21 categories, such as financial performance, relationships with clients and employees, approach to the environment, and benefits for shareholders.

FTSE Russell, a subsidiary of London Stock Exchange Group, affirmed Komerční banka as a constituent of the FTSE4Good Index Series, designed to measure the performance of companies demonstrating strong environmental, social, and governance (ESG) practices.

July

KB's fully owned subsidiary KB SmartSolutions acquired minority participation in the Czech start-up fintech company upvest, which operates an online crowdfunding platform for real estate development projects.

The Bank received the decision of the Czech National Bank on the Minimum Requirement on Own Funds and Eligible Liabilities (MREL). According to this decision, Komerční banka is required to comply with individual MREL on a sub-consolidated basis at the level of 8.58% of total liabilities and own funds and at the level of 19.2% of Total Risk Exposure Amount (TREA). The requirement shall be met by 31 December 2023.

Komerční banka became a member of the we.trade portal, a digital platform on blockchain technology designed for secure and transparent transacting in domestic and international trade.

August

Because the government had relaxed its pandemic measures in summer, it was possible to conduct in a reduced and shortened version the festival of new circus Letní Letná, which KB supported as its General Partner.

September

The company Bankovni identita, a.s. was established as a joint venture between Komerční banka and other important banks in order to provide electronic identification and electronic signature services in the Czech Republic. The company is based upon the digital identities of bank clients, it is a platform open to all banks, that will offer its services to public institutions as well as to private companies providing digital services.

Despite the pandemic, some of KB's partners were able to carry on some of their events under strict hygienic conditions. World Cleanup Day, which is organised in more than 150 countries, took place, with more than 220 tons of waste being cleaned up by 22,000 volunteers. Deployed in a total of 25 teams, KB employees participated in this event for the third time.

For the second year in a row, Komerční banka was the general partner of the Economic Olympiad, which is the largest nationwide competition in the Czech Republic for secondary school students testing knowledge of economics and finance.

Modrá pyramida started offering building savings online. Thanks to improvement of the MP Home mobile application, its clients can conveniently start building savings online, directly from their mobile phones.

MůjPodpis (MySignature) was introduced as a tool for legally binding remote closing of contracts using the KB Key authentication app, even to non-clients of KB who have their identities verified.

KB's Mobilní banka newly made pension savings schemes from KB Penzijní fond available to clients through the app.

October

KB further extended partnerships with fintech providers of value-added services via its fully owned KB Smart Solutions platform. In October, KB acquired an 11% stake in the Czech start-up company MonkeyData s.r.o., which, via its subsidiary Lemonero, has launched a digital platform employing big data and artificial intelligence to provide funding for small and medium-sized e-shops.

In co-operation with a German start-up, Re:ceeve, KB and ESSOX improved efficiency of the soft collection process within risk management, while also boosting client satisfaction levels.

Komerční banka was named The Safest Bank in CEE for 2020 and The Safest Bank in the Czech Republic for 2020 by Global Finance magazine. Meanwhile, Professional Wealth Management magazine awarded to Komerční banka, for the third time in a row, the prize for being The Best Private Bank for Digital Customer Service in CEE.

Komerční pojišťovna once again succeeded in the prestigious competition of Hospodářské noviny Best Insurance Company 2020 and won two awards, second place in the Best Life Insurance Company category and third place in the Client-Friendly Life Insurance Company category.

The Bank introduced a new edition of payment cards reflecting Komerční banka's pursuit of sustainability in all its activities. The new EKO card has a high proportion of recycled plastic (85.5%) and an unusual vertically oriented design.

In October, Komerční banka acceded to the European Diversity Charter, formally committing itself to promoting diversity and equal opportunities for the staff, in accordance with the strategy of KB Group.

November

On the occasion of announcing its results for the third quarter of 2020, Komerční banka presented also its updated strategic directions as formulated in the KB Change 2025 plan. This follows on from successful implementation of the KB Change 2020 transformation programme announced in spring 2018 and addresses the emerging challenges and opportunities for a strong, client-focused bank.

In November, KB adopted the Corporate Climate Protection Policy which accepts the responsibility of the Bank for its operational practices and sets out concrete measures in order to mitigate climate change. In the document, the Bank announced its target to become carbon neutral by 2026.

Employees of the KB and ESSOX call centres began helping health authorities to trace epidemiologically significant contacts of people infected with Covid-19, thus limiting the spread of the disease. Both companies also provided their technical infrastructure and equipment for this tracing.

December

KB acquired a 25% stake in a fintech company named Platební institute Roger offering a digital factoring solution for sellers who want to have money from their receivables available prior to the payment date on the invoice. The Roger mobile application launches an electronic auction whereby investors offer financing of such receivables that typically leads to very favourable conditions for the issuer of the invoice.

For the second year in a row, Komerční banka ranked first among banks in the field of Cash Management in the Czech Republic in a comparative survey by the prestigious Euromoney magazine, thus being awarded the title of Euromoney Market Leader.

The year 2021

On 12 January 2021, KB selected an innovative core banking platform Transact from Temenos, the world's leading supplier of banking software, for the processing of banking transactions. The simplified and consolidated internal IT environment will help Komerční banka to bring innovative products and services to the Czech market at a quicker pace.

From January 2021, ESSOX has become the sole partner for financing of Hyundai and Kia cars. Together with its partnership with PSA Group (Peugeot, Citroen) existing already since 2016, ESSOX is significantly reinforcing its position on the Czech market for new car financing.

On 13 January, KB successfully placed on the international debt capital market its inaugural EUR 500,000,000 mortgage covered bond, issued under the newly established EUR 5,000,000,000 mortgage covered bonds programme. The bond is rated AAA by Fitch Ratings and it is traded on the Luxembourg Stock Exchange.

Economic and monetary environment in 2020

The year 2020 was extremely difficult for the Czech economy, which was hit by two waves of the Covid-19 pandemic and the government's subsequent restrictive measures. The first wave culminated in April, the second in November. As a result of the pandemic crisis, the Czech economy's performance declined the most in its history. According to a preliminary estimate, the gross domestic product was 5.6% lower at constant prices than in 2019. The main sources of decline were drops in investment activity and household consumption. While the fall in investment acitvity was not yet dramatic during the spring wave of the pandemic, the decline in the following quarters was already significant. In terms of gross value added, the trade, transport, accommodation, and food service sectors suffered most from closure of the economy. Nevertheless, industry, construction, and most service sectors were also harmed.[1)]

The first pandemic wave hit industrial production very hard. The automotive sector interrupted its production, and supply chains were significantly disrupted. On the other hand, the industry has coped much better with the second wave. Since July, its output has grown rapidly, even with strong support from the automotive industry. Year-on-year dynamics of industrial production returned to positive values in October and remained there for the rest of the year. In total for the whole of 2020, however, its performance ended deeply in the negative. According to the Czech Statistical Office, industrial production in 2020 fell by 8.0% year on year. The largest contributors to this year-on-year change occurred in 'manufacture of motor vehicles, trailers and semi-trailers' (down by 12.3%). New orders in industry dropped by 8.0% year on year. Revenues from industrial activity at current prices were 6.9% lower year on year. The average registered number of employees decreased by 3.4% year on year. The average gross monthly nominal wage of these employees climbed 1.9% year on year in 2020.[2)]

After the first wave of the pandemic, export activity fell sharply. With the second wave, however, foreign trade performed relatively much better. Foreign trade overall even reached a record surplus in 2020, but this was largely due to a decline in investment activity and therefore weaker imports. It was also because of growth in exports after their slump in the first wave of the pandemic. The total foreign trade surplus reached CZK 190 billion in 2020, representing a year-on-year gain of CZK 44.3 billion. Compared to 2019, exports decreased by 4.5% and imports by 5.9%.[3)] The current account of the balance of payments also achieved excellent results, ending 2020 in a surplus of CZK 180 billion. This was helped, too, by the significantly lower volume of dividends paid abroad.[4)]

The unemployment rate as calculated according to the methodology of the Ministry of Labour and Social Affairs was 4.0% at the end of 2020. Compared to December 2019, this meant an increase of 1.1 percentage point, which is a very low number in light of the coronavirus crisis. Unemployment (seasonally adjusted) increased especially during April and May. In the following months, the growth in unemployment was practically negligible, which was a result of measures adopted by the government. In December alone, the Labour Office registered a total of 291,977 job seekers. This was 76,445 more than in 2019. Nevertheless, the Czech Republic maintained the lowest unemployment rate in the entire EU. This was also due to the fact that the Czech Republic entered the pandemic crisis with an extremely tight labour market. Government antivirus programmes, which support employment by contributing to the payment of wages while maintaining the jobs in companies, too, have played an important role.[5)] The seasonally adjusted employment rate among those 15–64 years old reached 73.9% in December, thereby decreasing by 1.4 percentage points compared to December 2019.[6)]

Anti-pandemic measures affected the development of retail sales in 2020. Although some segments benefited from the pandemic (sales of goods sold via the internet or by mail order grew by 28.2% year on year), this was not enough to compensate for the declines in other sectors, mainly due to the closure of most shops. The drop in sales was recorded mainly in stores with products for culture, sports and recreation (by 10.9%), as well as clothing and footwear (by 29.6%). For the whole of 2020, retail trade excluding motor vehicles fell by 0.9% year on year in real terms (after adjusting for calendar effects). The motor vehicle segment also paid a hard price for the pandemic. Revenues in this area adjusted for calendar effects in 2020 decreased by 15.4% at constant prices year on year.[7)] Revenues in services last year fell by 11.9% year on year at constant prices (after adjusting for calendar effects). Travel agencies suffered most, their revenues declining by 74% year on year. Revenues in air transport fell by 72%, and in accommodation, food and beverage services by 40% year on year.[8)]

The construction sector did not escape the effects of the pandemic crisis, either. It already had suffered from labour shortages in 2019, and this problem deepened even more with the foreign workers leaving. In addition, the sector was hit by a drop in demand. Thus, construction output slipped by 7.7% in 2020 compared to 2019.[9)]

During the first nine months of 2020, inflation remained above the upper tolerance band of the Czech National Bank's 2% inflation target. In October, it fell below this 3% level, remaining there for the rest of 2020.[10)] The gradual decline in the price level was mainly due to falling prices in the food, housing, and alcoholic beverages category. For the whole of 2020, the average inflation rate reached 3.2%. This was 0.4% more than in 2019. It was also the highest average annual inflation rate since 2012.[11)] Core inflation remained at high levels throughout the year and reached 3.6% in December. Its development was mainly influenced by

1) https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4th-quarter-of-2020

2) https://www.czso.cz/csu/czso/ari/industry-december-2020

3) https://www.czso.cz/csu/czso/ari/external-trade-december-2020

4) https://www.cnb.cz/en/statistics/bop_stat/bop_m/bop_m_en.htm

5) https://www.mpsv.cz/web/cz/-/nezamestnanost-v-prosinci-vzrostla-na-4- (only in Czech)

6) https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-december-2020

7) https://www.czso.cz/csu/czso/ari/retail-trade-december-2020

8) https://www.czso.cz/csu/czso/ari/services-4-quarter-of-2020

9) https://www.czso.cz/csu/czso/ari/construction-december-2020

10) https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-october-2020

11) https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-january-2021

rising prices in the services area, where operators tried to make up for lost profits after the reopening of establishments.[1)]

The Czech National Bank reacted to this unprecedented economic development by reducing its key repo rate by 50 bps on 16 March, by 75 bps on 26 March, and by another 75 bps on 7 May to the current 0.25%. To support liquidity in the banking sector, the CNB renewed its liquidity-providing repo operations at a fixed interest rate and zero spread with three times a week frequency. Parliament approved an amendment to legislation regulating the CNB that significantly expands the central bank's room to manoeuver in its financial market operations. The CNB was authorised to accept a larger range of securities as collateral, and the types of eligible counterparties were expanded. This amendment is valid until the end of 2021. The national bank also permitted banks and non-bank financial institutions to voluntarily provide deferral of loans instalments as a loss-prevention tool in accordance with European Banking Authority guidelines. This was allowed even before the respective law was passed by Parliament. On 16 March, the CNB rescinded its planned increase in the countercyclical capital buffer to 2%. It then reduced the buffer to 1% as of the end of March, with effect from 1 April through June. With effect from 1 July, it was further reduced to 0.5%. Another step to ease market conditions consisted in adjustments to mortgage regulation. The permitted loan-to-property ratio was expanded from 80% to 90%, the debt-to-income multiple restriction (formerly 9×) was eliminated from 1 April, and the permitted monthly payment as a proportion of disposable income was raised from 45% to 50% as from 1 April. The latter measure also was abolished as of 1 July.

Before the pandemic crisis, the Czech crown's exchange rate was in the range of 25.00–25.50 CZK/EUR. During the March wave of the pandemic, it jumped to 27.80 CZK/EUR. After the opening of the economy, it corrected to the level of 26.00 CZK/EUR. The second wave catapulted the domestic currency to the level of 27.40 CZK/EUR. After that, the crown began gradually to strengthen again, to 26.20 CZK/EUR at the end of 2020. The average exchange rate in 2020 was 26.40 EUR/CZK.[2)] Government bond yields also underwent a turbulent development. Two-year yields fell from 1.8% before the pandemic crisis to zero levels. Yields on 10-year bonds also did not escape the decline, although from October 2020 they began gradually to rise again.[3)]

The government addressed the epidemic's effects on the economy on several fronts. It enacted the possibility to request deferral of bank loan payments for 3 to 6 months in both the corporate and retail segments. It introduced a rent ceiling, limited the possibility of terminating a rental contract for a short time, and created a programme to support rental payments. It deferred the payment of certain taxes and health and social insurance. The government has introduced an employment support programme that contributes to the payment of wages while maintaining jobs in companies. The self-employed were provided one-off support. The government has prepared several waves of COVID programmes for entrepreneurs. The largest is the COVID III programme. It provides up to CZK 150 billion in state guarantees that should support additional bank financing of as much as CZK 500 billion. The government was continuously opening support programmes and adjusting existing ones to best fit the supported sector and type of cost compensated. Government support to the economy was naturally mirrored in management of the government budget deficit, which rose to a record CZK 367.4 billion, almost double that of the previous record year 2009. The 2020 deficit set an historical record also relative to GDP, exceeding that from 2009 by two percentage points to reach –6.8%. Compared to 2019, total revenues of the state budget declined by 3.1%, while expenditures grew by 18.8%.[4)] Government debt rose from CZK 1,640 billion in 2019 to CZK 2,050 billion. This corresponded to 36.9% of GDP. In 2019, the debt level had been at 28.5% of GDP.[5)]

1) https://www.cnb.cz/cnb/STAT.ARADY_PKG.PARAMETRY_SESTAVY?p_sestuid=21727&p_strid=ACBAA&p_lang=EN

2) Source: Bloomberg

3) Source: Bloomberg

4) http://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2021/pokladni-plneni-sr-40434 (only in Czech)

5) https://www.mfcr.cz/en/verejny-sektor/rizeni-statniho-dluhu/statistiky/struktura-a-vyvoj-statniho-dluhu (only in Czech)

Fulfilment of targets set for 2020

The development of the economic environment in the Czech Republic during 2020 was significantly different than the Bank had assumed in its outlook for business development and financial performance, first presented to investors on 6 February 2020. This outlook had been noted as being under review in KB's annual report published on 23 March, due to the rapidly evolving global pandemic situation caused by outbreaks of Covid-19.

The external environment changed significantly compared to original assumptions
As seen in other European countries, the Czech government proclaimed a state of emergency from 12 March 2020 and introduced a range of measures directed to containing the spread of the SARS CoV-2 coronavirus, including significant restrictions on cross-border travel to and from the Czech Republic; on hospitality services; on sales of non-essential products in retail shops; on social, cultural, and sports gatherings; on school attendance; and on personal access to some government services. At an extraordinary monetary policy meeting on 16 March, the Czech National Bank lowered its main policy rate by 75 bps to 1.5% and a further cut (by 50 bps to 1%) came at its regular meeting on 26 March. Several major industrial producers in the automotive and other sectors have interrupted their production in order to protect their employees, but also due to ensuing disruptions to global supply chains caused by the pandemic. The first state of emergency was lifted on 17 May 2020 following a temporary improvement in the epidemic situation and restrictive measures were partially relaxed. The state of emergency was reintroduced from 5 October, and it was extended into 2021, with restrictive measures generally being tightened in response to increasing numbers of infected people and worsening burden on the country's health care system.

KB maintained the full scope of services to clients, switched operations to protected mode
Komerční banka has met its responsibilities as a part of the Czech Republic's critical infrastructure. The KB Group companies have maintained operations throughout the state of emergency announced by the government, and they have maintained the full scope of the services offer to clients, including financing. KB has followed its business continuity plan as updated for the specifics of the current pandemic situation, and it has rapidly taken measures to protect its employees and clients. Most branches have remained open. At the peak of the country's lockdown as of 31 March 2020, KB had 224 branches open and 108 branches were temporarily closed.

Members of staff within the branch network and in certain operational functions have been working from their standard workplaces or from activated backup workplaces in a rotational mode, thereby limiting the risk of mutual infection. They have been provided with protective respirators, face masks, and gloves. The contact points and workplaces have been equipped with glass partitions and disinfectants.

More than 5,000 employees began working from home. To enable this, the Bank has purchased additional notebook computers and activated a virtual desktop infrastructure. The Bank has also expanded the capacity of its VPN (virtual private network) solutions and data lines. Thereby, it has smoothly absorbed the increased number of concurrent users.

Financial performance affected by the pandemic
Due to the negative economic consequences of the Covid-19 pandemic and restrictive measures implemented to contain spread of the coronavirus, the financial performance assumed for 2020 at the beginning of the year, as well as the ambitions of the KB Change 2020 plan presented in 2018, could be delivered only in part. A sharp drop in market interest rates linked to decrease in the Czech National Bank's monetary policy rates negatively affected net interest income. The subdued economic activity in the country was reflected in smaller fee income. Net gains from financial operations absorbed a negative contribution from a drop in numbers of currency conversions linked to diminished foreign trade volumes along with reduced tourism and business travel. This was offset by additional demand from some clients for hedging of financial risks in the environment of greater volatility and uncertainty.

Operating expenditures were managed in accordance with the approved budget, even though KB incurred additional costs linked to facilitating working from home for the vast majority of employees and increased hygienic precautions on its premises. This negative effect of the crisis on costs was mitigated by lower travel, event, and marketing expenses.

The Group recorded a strong impact from the pandemic on the cost of risk. During 2020, KB implemented statutory recalibration of IFRS 9 models for setting allowances and provisions to reflect the ongoing macroeconomic downturn. It has also prudently provisioned the most sensitive parts of the portfolio under moratoria in the retail and corporate segments. Furthermore, the Group created allowances for newly defaulted corporate clients and increased allowances on existing default situations.

In spite of the adverse market conditions, KB achieved even in 2020 a healthy level of profitability and maintained its robust capital adequacy and strong liquidity.

KB achieved good business results
Growth of the Group's loan portfolio reached the level assumed in its initially published outlook, even though clients' borrowing demand was influenced by the crisis to various extents within different loan categories. The prevailing uncertainty affected mainly unsecured consumer lending and, in business segments, clients were limiting or postponing their investment projects and thus demanded less long-term financing. On the other hand, demand for mortgages remained strong, underpinned by low interest rates and perception of housing as an asset providing safety. Financing of working capital needs expanded and business lending was underpinned also by the state guarantee programmes launched as a part of the government's counter-crisis measures. Komerční banka improved its market share on the Czech loan market, both in lending to individuals as well as in financing of non-financial corporations.

Growth in deposits even surpassed the budgeted level. That growth was strong in both retail and corporate segments, attesting to the high level of clients' confidence in Komerční banka also in uncertain times. KB increased its overall market share on the deposit market, as deposits in the Bank from non-financial corporations grew faster than the rate of the overall market. The expansion in deposits from individual clients was dynamic, but still a bit slower than on the market as a whole.

In the uncertainty surrounding the pandemic situation, clients reduced their purchases of mutual funds.

During the year, KB Group companies were also able to introduce a range of innovative, convenient, and useful financial products and services, developed internally or in co-operation with external partners. Loan products with state guarantee under COVID programmes, digital authentication services, including establishment of the Bank ID joint venture of banks, additions to the services available through mobile and internet banking, and various offers developed on the KB SmartSolutions platform are examples of those innovations most appreciated by clients.

Acting as a responsible corporate citizen
Komerční banka has moved sustainability into the core of its business. In 2020, KB developed and began implementing strategic programmes in support of the sustainable activities of our clients, both in retail and corporate segments. This included allocation of dedicated funds for financing at preferential terms projects with a sustainable positive impact, developing advisory capabilities to help clients in their environmentally friendly activities, and launching new products helping to address environmental challenges.

The Bank has formally announced its aim to become carbon neutral by 2026. It had an independent agency measure its carbon footprint and continued to diminish energy consumption and waste production from its own operations. KB has also acceded to the European Diversity Charter promoting diversity, inclusion, and fair opportunities for all employees.

Employees of the KB and ESSOX call centres have been helping health authorities to trace epidemiologically significant contacts of people infected with Covid-19, thus limiting spread of the disease. The companies have also provided their technical infrastructure and equipment for this tracing. KB Group has also contributed directly or via KB Jistota Foundation to various activities addressing the pandemic situation, as well as some longer-term issues in society. The KB Group companies have not utilised direct financial support from the state, even when eligible to do so under conditions of individual support programmes, as KB Group prefers to leave the limited public resources to those most in need.

KB has been evaluated within renowned global assessments of environmental, social, and governance (ESG) aspects of the business. It received an A rating from the MSCI ESG ratings, designed to measure companies' resilience to long-term, industry-material ESG risks. KB was also included into the FTSE4Good Index series (with the ESG score of 3.3 out of 5), designed to identify companies that demonstrate strong ESG practices measured against international standards.

Prudently managing risks, assuring compliance
All risks have been managed in accordance with the approved Risk Appetite Statement. Although the quality of the loan portfolio and the cost of risk were affected by the sharp economic downturn caused by the pandemic, these remained firmly under control as the Group benefited from its historically prudent underwriting standards, dynamic portfolio monitoring supported by advanced risk indicators and tools, as well as avoidance of excessive concentration in sensitive sectors. Among many measures adopted in the credit risk area, KB modernised its retail collection setup and adequately calibrated the size and seniority of expert teams dedicated to recovery activities. The Instalment Moratorium Law continued to have a significant influence on the development of the overall risk profile. After all moratoria had ended by October 2020, default rates for loans that had exited the moratoria remained still low, benefitting also from the state support to employment as well as other state support measures.

In the area of compliance, KB has implemented several projects affecting important operational and business processes. It has reiterated its zero tolerance policy towards potential misconduct. Among other activities, KB has thoroughly reviewed its portfolio of clients in order to prevent misuse of its services for illegal activities, and it also has reinforced its controls assuring that its suppliers respect human rights and environmental and other regulations.

During the pandemic, KB activated its business continuity plan and adapted it to the new circumstances. In order to maintain strong oversight of the internal control system, KB has implemented a strict validation process and vigilant monitoring for all necessary changes in its processes. To mitigate an increased level of cyber security risk during the emergency period, the Bank has reinforced several security measures, including to implement two-factor authentication for employees (employing KB Key), enhance data leakage prevention capabilities, and heighten Security Operating Centre detection capabilities and capacities.

Fulfilling commitments to employees
KB's strategic vision in managing human resources is to create a professional relationship with employees based on trust, respect, mutual communication, equal opportunities, and the offer of interesting professional and career growth. Partnerships with employees are based on four basic values or principles of behaviour, which are team spirit, innovation, commitment, and responsibility. Together, they form the basis of the corporate culture upon which KB is building its future.

During 2020, the KB Group companies met all their obligations to employees arising from international and national regulations, the collective agreement with the trade unions, and internal commitments. During the pandemic, the Group took measures protecting the health of its employees to the maximum possible extent, and especially the most vulnerable, such as the chronically ill, pregnant women, single parents, and employees over 60 years of age.

The Bank regularly enquiries about employees' opinions, satisfaction, and engagement, and it adopts corresponding measures. One of the goals of the KB Change 2020 transformation programme was to increase employee engagement, as measured by a composite index from results of the KB Puls employee survey (covering the five topical areas effective teamwork, meaning and importance, motivation, recognition, and leadership) to 80% from 72% in 2018. This goal was achieved.

Strategic transformation implemented, new strategic programme prepared and launched
During 2020, KB successfully concluded implementation of the KB Change 2020 strategic transformation programme, introduced in spring 2018. The transformation ensuing from the KB Change 2020 plan has resulted in significant simplification, digitalisation, and acceleration of key customer and operational processes. The organisational structure has been delayered both at headquarters and across the distribution network. Following the changes, almost half of the central functions are developed and delivered by cross-functional teams employing agile working methods. Products and services are increasingly provided via digital channels, much to the satisfaction of clients. The offer has been further expanded in partnerships with start-up and fintech companies.

KB Group has been able to provide quality financial services and best-in-class advisory in a safe, reliable, and convenient manner. This is reflected in improving client satisfaction during 2018–2020 within all main client segments as measured by Net Promoter Score. The financial targets of the KB Change 2020 plan were not achieved, however, as a direct consequence of the global coronavirus pandemic and its economic impacts.

Based on experience with changed customer behaviour in the emergency state caused by the Covid-19 outbreak, KB's management decided in spring 2020 to accelerate optimisation of the branch network. By September 2020, the number of branches operated by Komerční banka in the Czech Republic had decreased to 242 from 342 branches as of 31 December 2019. The Bank has also rolled out the Smart Office, a flexible and agile workplace organisation based on three pillars: sharing of workplaces + remote working + rotation, whereby the office premises are allocated to teams rather than to individual team members. The Smart Office concept provides more flexibility to employees while achieving cost savings related to operating work premises and reducing carbon footprint from the Bank's operations. All employees retain the option to work from KB's offices.

Komerční banka had prepared and presented on 5 November 2020 its updated strategic directions for the period until the year 2025 as articulated in the KB Change 2025 plan. In the plan document, KB formulates its mission to build, together with its clients, a better and sustainable future through responsible and innovative financial solutions. Within the planning horizon until 2025, KB aims to be a leader in the new era of banking for 2 million active clients. The strategy builds on the pillars of helpfulness, growth, and responsibility, with specific objectives set in ten topical areas, including building a digital bank, data-driven company, agile and effective organisation, fully digital sales and services, one mortgage factory, assuring market leadership for corporate services, upgrading risk management, adopting a new generation of corporate social responsibility, finding new revenues resources, and reaffirming leading operational efficiency. KB began implementing first pillars of the KB Change 2025 strategy already in 2020.

Expected development and main risks to that development in 2021

(This outlook was first presented on 10 February 2021 on the occasion of the release of the results of Komerční banka for the full year 2020.)

In its baseline macroeconomic scenario for 2021, valid as of today, KB expects that the Czech economy should return to growth this year with the help of widespread vaccination and economic policy stimulus. On the whole, the Czech Republic is expected to grow at a rate of 2.6% in 2021. The growth should be mainly driven by recovering household consumption, while fixed investments, net exports, and inventories should contribute slightly to the growth as well. Nevertheless, it should be said that last year's non-economic shock has disrupted settled economic linkages and led to much greater forecasting uncertainty.

Given the high level of uncertainty surrounding the pandemic situation in addition to the usual risks related to projecting future business results, investors should exercise caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

The average inflation rate in 2021 should fall below 2% due to lower-cost food, weaker demand, and lower import prices. After a cumulative 200 bps cut in monetary policy rates in 2020, KB assumes that the Czech National Bank will maintain its policy interest rates stable at least until the last quarter of 2021, when the first hike may be implemented, based on the prospect of gradual vaccinations and a return of the economy to normal. In conjunction with the expansionary fiscal policy and a record supply of government bonds, a continued moderate growth in Czech government bond yields and market interest rates is expected.

The regulatory environment may see a reversal of some measures adopted in reaction to the coronavirus crisis. The Czech National Bank, in alignment with the other members of the European Systemic Risk Board, is expected to lift its prohibition on payment of dividends and buyback of shares. On the other hand, the CNB may return to stricter regulation of mortgage lending, which had been relaxed as part of counter-crisis measures in the first half of 2020. KB has already implemented the most important requirements from the EU's Regulation 2019/518 on certain charges on cross-border payments in the Union and currency conversion charges. In 2021, KB will begin gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive as the concept of Single Point of Entry is applied within the SG Group.

The banking market will be positively influenced by the recovering economy, but it will still reflect weakened confidence among consumers and businesses. Total lending on the market should increase at a mid-single-digit percentage rate. Housing loans will continue to expand, albeit at a slower pace than in 2020. Consumer credit should accelerate to a mid-single-digit pace as the pandemic subsides. Loans to corporations should start to rise only after companies gain more confidence and visibility into the future, probably around the middle of the year. Deposits of clients in banks should grow more slowly than in 2020, but still faster than lending, in both retail and corporate segments.

Komerční banka will continue implementing the changes in accordance with its KB Change 2025 programme that had been announced in November 2020. Building up of the new digital bank will be among the most important projects. As the Bank already announced in January 2021, KB will reduce the number of employees (recalculated to full-time equivalent number) by approximately 3.5% during the first half of 2021 in order to reinforce its operational efficiency and economic resilience. KB will also continue in digitalisation of its processes, transformation of IT infrastructure, and identification of new revenue opportunities.

In this context, KB management expects that the Group's loan portfolio will record an upper-mid-single-digit growth rate in 2021, in both retail and corporate lending. Growth in total deposit balances should reach a high-single-digit pace, except that there will be flattish development at Modrá pyramida, influenced by adjustment of deposit remuneration to the current market conditions.

KB Group's total net banking income for 2021 should reach a similar level as in 2020. Net interest income will be under pressure stemming from year-on-year lower market interest rates affecting reinvestment yields. Net fees and commissions should rebound by mid-single digits upon improved economic activity and cross-selling. The net profit from financial operations should improve by a high-single-digit figure on the back of recovery in long-term lending for investment projects and return of travel-related currency flows.

Operating expenditures will remain under tight control and continue more or less stable year on year. The number of employees will be lower year on year and the Bank has agreed with the trade unions to keep basic salaries stable in 2021. KB will book higher expenses related to digital transformation, which effect will be mitigated by the simplification and optimisation implemented at the headquarters and in the branch network. KB expects that increase in the mandatory contribution to the Resolution Fund prescribed by the CNB will in the end be smaller than was the jump announced in 2020.

Cost of risk will still be absorbing effects of the pandemic-related economic downturn on clients' repayment capacity. In the central scenario of modest economic recovery, however, the cost of risk in 2021 should decline in comparison with the level recorded in the previous year.

Among the key risks to the expectations described above is the potential for insufficient benefit from the vaccination programmes, leading to an unresolved pandemic situation in the Czech Republic and recurring lockdown of important parts of the economy. The open Czech economy would also be sensitive to a worsening external economic environment, such as, in particular, further recession in the eurozone. Given the significantly heightened role of government in the economy during the pandemic crisis, an abrupt change from the current expansionary fiscal policy or a withdrawal of the fiscal stimuli, or even a low transmission of the recent tax cuts to increasing household demand would negatively affect the economic outlook and thus demand for banking services, and particularly loans. A risk specific to the Czech banking sector includes a further marked decline in interest yields on Czech crown-denominated financial assets.

The management expects that KB's operations will remain profitable in 2021, and it intends to resume dividend payments during this year.

KB Group clients and their service

Business model

KB is a universal bank with a multi-channel distribution model. Komerční banka's business model is founded upon building long-term relationships with customers and offering relevant solutions for situations occurring during clients' lives. The business strategy focuses on reinforcing or achieving market-leading customer satisfaction status in the target client segments throughout each client's entire lifespan. KB will differentiate itself in the market by best-in-class advisory, a relevant and comprehensive product offer leveraging the global scale of the Komerční banka and Société Générale groups, and its ability to provide better service in a simple and efficient way with tailored financial solutions.

Komerční banka proactively seeks options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that may enrich KB's offer. The development of client and internal solutions is organised in cross-functional teams applying the agile@KB working method.

KB perceives its competitive advantage on the banking market as consisting in the value of partnerships with clients, the ability of its banking advisors to provide high-quality advisory, a wide range of relevant and advantageous financial products, and proximity to clients via the branch network and advanced, secure direct banking.

The service model in KB's branch network is focused on assisting clients by providing them professional advisory. In creating their recommendations to clients, the relationship managers refer to an analysis of each client's needs based on the Bank's data about that client. This enables the Bank to propose a solution most convenient for the client's circumstances. There are rapid service spots created in branches for addressing basic service requests, and the relationship managers assist clients so that they are able to execute simple transactions and administer their services bundles in their mobile banking application or internet banking.

Digital banking is an integral part of the multi-channel distribution model. The Bank aims to maintain its leadership position on the Czech market in mobile banking. KB's own distribution network is further complemented by the subsidiaries' distribution capacities (especially those of Modrá pyramida) and, in the cases of selected products, also by business partners' networks. Services and products of other KB Group companies are available within their own distribution networks, in the KB branch network, and potentially through the business partners.

KB is organised into arms, tribes, and separate independent departments. The arms are managed directly by the members of the Board of Directors or by executive directors, themselves reporting to the Chairman or members of the Board. The tribes, whose aim is to enable faster and better identification and fulfilment of client needs through implementing changes, are managed by tribe leaders. Executive directors and tribe leaders report to the Chairman or members of the Board.

Tribes are structured in such a way that they cover holistic, end-to-end views of specific customer journeys or segment needs, rather than focusing on features of individual products. Following initial implementation of the agile@KB method, people responsible for business implementation and IT development work together within the tribes. In a next phase, KB is developing the BizDevOps concept, where employees in charge of operations for specific IT applications are also included into the tribes alongside their business and IT development colleagues.

Komerční banka adheres strictly to regulatory requirements in all areas of its activities, and it is developing the "know your client" concept. In KB's view, knowing the client and the client's needs is an integral part of the business relationship with the customers and a process reflecting the respect, responsibility, and trust the Bank has with respect to its clients. Knowledge of its clients also provides a basis for the Bank to offer appropriate advisory services and services corresponding to clients' actual needs. In this sense, the concept is a selling activity directly influencing the customer experience. In this area, Komerční banka is dedicating increased attention to employee training and continuous updates of business processes so that they adequately serve to maximise business efficiency while ensuring compliance with evolving regulatory demands.

Komerční banka is developing a system for detailed segmentation of customer relationships. The highest-level segments in the Bank are the following:

- Individuals,
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
- Corporates and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporations (annual turnover greater than CZK 1.5 billion).

A set of sub-segments within these segments is elaborated.

Client satisfaction

The customer's interest comes first in everything that KB does. Services are designed to best serve customers in their daily lives and allow customers to form long-term partnerships with the KB Group. Customer satisfaction that is founded upon a professional approach and quality services is a prerequisite for sustainable growth of the Group.

Growth, helpfulness, and responsibility are the three value pillars of the KB brand and part of the new strategy for the months and years ahead. They express how the Bank wants to be perceived on the market and what values we profess. The pillars of the KB brand are its essence. Komerční banka wants to exist in clients' subconscious as a bank that, with its helpfulness, responsibility, and emphasis on sustainability, makes a significant contribution to their personal and business development.

Growth is a differentiating value of the brand. It means that KB is the financial partner of first choice for all clients who take their lives into their own hands. Komerční banka's clients have a vision and a plan, just like KB, and they want to grow because they think about the future – their own, as well as those of their businesses and loved ones.

Helpfulness means that KB treats clients as they would want to treat one another – fairly and with respect. KB employees' professional service and consulting are complemented by a personal approach. Speed and intuitiveness of services always come as a matter of course, as do their constant availability.

Responsibility is a key commitment that is intertwined with everything KB does. KB finances sustainable client projects, aims at carbon neutrality, advocates for increasing financial literacy in society, and takes the principle of responsibility into account when designing new products and services. The absolute priority, however, is the security of customers' finances and data. The Bank proactively seeks what is best for clients at a given time and stands by them always, not just in times of economic prosperity.

Komerční banka's goal is a satisfied customer, but measuring satisfaction is only the beginning of the process. Clients are regularly asked if everything works for them and whether they would be willing to recommend KB to others. If this is not the case, the responsible employee comes back to the client within 48 hours and tries to solve his or her problem. The Bank ascertains the opinions of all clients, and therefore they are approached during the year by random selection among everyone for whom this is possible for regulatory reasons (GDPR). In this way, KB also receives feedback from customers who do not regularly visit branches or are not otherwise active. Even these clients may need help with something, however, and do not always have the time or desire to actively contact KB. In addition to these randomly generated questionnaires, Komerční banka sends satisfaction questionnaires with newly acquired products or service channels used by the customer. Komerční banka systematically determines and measures the satisfaction of its customers. In 2020, questionnaires were addressed to more than 1.2 million clients. KB carries out all these measurements in co-operation with the renowned research agency Ipsos. Together with Ipsos, a new online application was developed in 2020 whereby completed questionnaires are made available to banking advisors, the Contact Centre, and Customer Experience staff. KB employees then record in the application how they resolved a situation with the client and whether the client was satisfied with the solution.

All data is then transferred to KB's databases and is available during further contacts of the Bank with the client. If the client comes to the branch again or calls the Contact Centre, he or she does not have to repeat his or her problem. On the contrary, the Bank can verify whether everything is already in order or offer a more suitable service.

Feedback is collected for all segments, including the very highest ones. Private banking clients are approached once every 3–4 years with a questionnaire about their satisfaction. The willingness of these clients to respond to research is 25%, which is a very high number. Clients in the Private Banking service show a strong willingness to further recommend KB, thanks to the professionalism, expertise, and helpfulness of the banking advisors. Compared to the competition, clients emphasise in particular the personal and individual approach, actions, and communication they receive at KB. Every year, KB inquires about the satisfaction of its largest corporate clients, whether they be local or international groups. These clients especially appreciate the care and individual approach of banking advisors and the transparent dealing on the part of Komerční banka.

KB also addresses potential customers even in developing products and services. KB co-operates with 200 clients of different banks, who answer various questions online or discuss distinct topics in online corporate forums and thus provide valuable feedback.

Price management is an important part of the customer experience. In order for clients to find out all changes on time and find everything in one place, the information on the KB website was made clearer. At the same time, clients are informed about possible price benefits in the form of marketing campaigns. According to a survey conducted by the Ipsos agency, clients identified Komerční banka together with one smaller bank as the banks best informing their clients about news during this period and at the same time participating most in projects that help to resolve the crisis. Furthermore, with effect from December 2020, the Bank amended its Price List to better reflect the impact of operations on the environment. Thus, instructions entered online and electronic statements were treated more advantageously over printed documents and instructions.

KB strives to convince clients from their personal experience that it is a friendly and responsible bank that understands them and helps them to develop. The development represents an emphasis on "life enrichment" for customers, comprehensive customer support and their preparation for the future, assistance in key life situations, and support for the development of new experience and knowledge. KB helps clients start out in business – from founding a company to invoicing and cash-flow management, they can simply arrange everything with us. The KB Rádce (Counsellor) website, which is a response to the current situation caused by the coronavirus pandemic, offers useful information, advice, tips, news, and other matters of interest from the world of finance and beneficial for life and business.

An example of client care is the project of Digital Angels who connect generations, in which students educate seniors in the operation of digital technologies. It started in the spring of 2020 physically at branches, and it moved to digital domain after the outbreak of the pandemic.

Of course, KB complies rigorously with the Code of Conduct of the Czech Banking Association and the Code of Mobility, which precisely defines the relationship between the Bank's employees and its clients.

Complaints and claims also serve as a source of inspiration for improving products and services. A complaint that is quickly resolved can help in maintaining the client relationship. Already in 2004, Komerční banka became the first bank in the Czech Republic to introduce the position of an independent ombudsman for the entire Group, and KB fully respects the ombudsman's decisions in resolving complaints.

Selected business indicators

Distribution network	31 December 2020	31 December 2019
KB branches (CZ)	242	342
Modrá pyramida points of sale	201	205
SGEF branches	9	9
ESSOX group – points of sale[1]	1,843	1,656
ATMs	809	796
out of which: deposit taking	429	389
contactless	304	241

[1] Number of partners with a valid contract

Number of clients	31 December 2020	31 December 2019
KB Group's clients[1]	2,293,000	2,365,000
Komerční banka	1,641,000	1,664,000
– individual clients	1,389,000	1,407,000
– internet banking clients	1,443,000	1,423,000
– mobile banking clients	932,000	786,000
Modrá pyramida	485,000	490,000
KB Penzijní společnost	525,000	532,000
ESSOX (incl. PSA FINANCE)[2]	151,000	202,000

[1] Calculation methodology updated during Q3-2020. Decline influenced by termination of non-active credit card relationships.
[2] Decline influenced by termination of non-active credit card relationships.

Cards and wallets	31 December 2020	31 December 2019
KB Payment cards - active	1,588,000	1,579,000
– debit cards	1,407,000	1,401,000
– credit cards	181,000	178,000
ESSOX credit cards – active	61,000	94,000
Number of cards virtualised into payment apps	283,000	178,000
KB Key – number of clients with active authentication app	812,000	477,000

Loans to clients – gross loans (CZK billion)[1]	31 December 2020	31 December 2019
KB Group	**691.4**	**654.0**
KB – total loan portfolio	599.6	573.1
– Loans to individuals	271.7	255.5
– Volume of KB's mortgages	245.5	229.4
– Volume of KB's consumer and other loans	26.2	26.1
– Loans to small businesses	39.8	36.7
– Loans to medium corporates and municipalities	110.2	100.8
– Loans to top corporates and other loans[2]	178.0	180.1
Modrá pyramida – total loan portfolio	63.9	56.2
ESSOX – total loan portfolio (including PSA FINANCE)	17.7	17.4
Factoring KB – total loan portfolio	8.3	9.4
SGEF – total loan portfolio	30.3	29.0
BASTION – total loan portfolio	2.5	2.6
Consolidation and other adjustments	(31.0)	(33.7)

[1] Excluding Other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.
[2] Including loans provided by KB Slovakia.

Amounts due to customers and assets under management (CZK billion)	31 December 2020	31 December 2019
KB Group deposits[1]	**893.0**	**816.3**
KB deposits	835.1	757.0
– individuals	322.0	285.8
– small business	218.9	196.2
– MEM corporates	190.9	163.9
– top corporates and other deposits[2]	103.3	111.0
Modrá pyramida – building savings	60.8	61.8
ESSOX	0.2	0.2
Factoring KB	0.8	1.0
Consolidation and other adjustments	(3.9)	(3.7)
Non-bank assets under management	**188.9**	**183.8**
Assets under management in mutual funds[3]	72.0	73.4
Clients' assets managed by KB Penzijní společnost	67.1	62.4
KP life insurance technical reserves[4]	49.8	48.0

[1] Excluding repo operations with clients.
[2] Including deposits in KB Slovakia.
[3] Assets of KB Group clients managed by third-party asset managers.
[4] Komerční pojišťovna is consolidated by the equity method.

New products and services

February 2020	In co-operation with European Investment Bank, KB offered financing with a subsidised interest rate to small and medium-sized companies through the Europremium programme. The total credit capacity of this programme is CZK 3 billion.
March2020	ESSOX launched a new ES-KLÍČ (ES-KEY) application for clients using its payment cards to protect and verify 3D Secure payments on the internet. ES-KLÍČ offers clients the possibility to verify payments via biometric data directly in the application on a mobile phone or by entering a 4-digit selected security UPIN code. Each user sets the code in the application.
	KB Mobile Banking enabled personalisation of the application, including setting up the main account, hiding products for a given installation, and disabling notifications for a hidden product.
April 2020	KB clients now have the opportunity to see Merlin insurance (payment card insurance) and payment insurance in their digital channels. Komerční banka thus completed an overview of all important services of the KB Group.
	KB clients can see conditions of their mortgage loan in internet and mobile banking together with detailed description on how to fulfil them thanks to digitalisation of mortgage loan conditions.
	Komerční banka launched a new service – Zaplaceno.cz. The first bank on the Czech market to do so, KB introduced this effective payment solution for e-shops using so-called indirect payment order (PISP) made possible by the European PSD2 directive. The solution was prepared in co-operation with the fintech company BudgetBakers.
May 2020	Clients now have the opportunity to arrange most types of insurance remotely with the support of a banking advisor or KB specialist but without the need to visit a branch. This includes also such more complex product types as property insurance or MojeJistota life insurance.
	COVID III – financing of operational needs with guarantee of Czech–Moravian Guarantee and Development Bank (ČMZRB) for legal entities and entrepreneurs (natural persons) from all over the Czech Republic with a maximum of 500 employees whose economic activities are limited due to coronavirus infection and related preventive measures.
June 2020	COVID Plus – bank loans intended for financing operational or investment purposes secured by a guarantee from the Export Guarantee and Insurance Corporation (EGAP). The goal of the programme is to help large employers affected by the coronavirus epidemic to maintain the necessary liquidity to maintain their operations and export activities.
July 2020	KB joined the new international digital platform we.trade, which works on modern blockchain technology and simplifies traditional bank products for trade finance. This platform brings more transparency and security for sellers and buyers. In co-operation with ČS and ČSOB, the platform can be used not only for international but also for domestic trade.
August 2020	The new Trivi online accounting service offers accounting processing using a web and mobile application in combination with a team of professional accounting and tax advisors, thus opening up unexpected possibilities for entrepreneurs. Among other things, it manages transfer of documents from many systems and e-shops, handles regular statutory obligations (e.g. control reports), and processes tax declarations and payroll.
	The Bank launched the requested KB eIDENTITY service, which allows verifying the identity of KB clients via a paid API. It is intended for companies that heretofore have verified the identity of their clients in person or by courier for the purpose of concluding contracts and that want to shift these activities to the digital world and 24/7 regime.
	KB Mobile banking and KB Mobile banking Business are now available also as applications for the MacOS operating system on Apple devices.
September 2020	KB's Mobilní banka app newly makes pension savings schemes available to clients from KB Penzijní fond.
	MůjPodpis (MySignature) is a tool for legally binding remote closing of contracts using the KB Key authentication app. The service is available even to non-clients of KB whose identities have been verified.
	In co-operation with Zakladači, KB began offering the new service Firma pro vás (Company for You). This service enables online establishment of a limited liability company, and KB will provide new entrepreneurs with a Profi account package, including a Komerční banka corporate payment card.
	Modrá pyramida started offering building savings online. With the newly improved MP Home mobile application, its clients can conveniently establish building savings online direct from their mobile phones.
October 2020	The Bank introduced a new edition of payment cards reflecting Komerční banka's pursuit of sustainability in all its activities. The new EKO card has a high proportion of recycled plastic (85.5%). The card is impressive not only for its material but also for its atypical, vertically oriented design.
	With the new service ESSOX Rent! it is easier and more convenient to get a car. ESSOX will rent a vehicle from the partner company Creditmall.cz, which will pay for the entire rental period and the customer will then repay the amount paid in instalments, thereby creating savings compared to the standard process.
	KB provides on the Android platform a comprehensive security overview of the device used in Mobilní banka and Mobilní banka Business.
	Penzijní společnost KB started to provide a new service for gradual investing suitable for one-time deposits of larger amounts. The service reduces the risk for inappropriate timing of participants' deposits. In Komerční banka's internet banking, it is now possible to arrange a corporate authorised debit.
	In communicating with clients, ESSOX began using a voice assistant called EMMA (ESSOX Money Management Assistant). It helps customers to navigate through their repayment options.

November 2020	Car users appreciate the Carolina mobile application, newly co-owned by ESSOX, which helps to make owning a car much easier and safer. Carolina is a mobile application that provides motorists with a complete overview of their car from its purchase, through operation, to the final sale and subsequent purchase of a new car.
	Komerční banka added to internet banking a search capability in the transactions list, providing a quick and easy way to find a specific payment, for example by amount, payment description, merchant name, or payee name.
December 2020	Komerční banka introduced the SWIFT GPI service. Foreign transactions via GPI (Global Payments Innovation) are faster and more transparent. One can find details about a payment, including its route, at all stages of processing from sending until crediting to the recipient.
	Optimalizujte zeleně (Optimise Green) is a programme to support companies and entrepreneurs in implementing energy saving measures in their operations. KB prepared it in co-operation with Czech–Moravian Guarantee and Development Bank (ČMZRB) and European Investment Bank (EIB). The programme consists of an interest-free loan, a commercial loan with an interest rate subsidy from ČMZRB and a discount from EIB, and a contribution from ČMZRB for preparation of an energy assessment.
	Mortgage loan without real estate allows clients to obtain a mortgage loan without having yet selected a property. The client will sign a loan agreement with a specific amount, maturity, interest rate, and other details. He or she then has the security of financing for a contractually agreed time in order to choose a suitable property.
	ESSOX broadened the digital signature solution (SMS signature) for its car financing business. The Slovak subsidiary ESSOX FINANCE had implemented the SMS signature in November 2020 (including the myESSOXFIN client portal and document management system).

Selected awards

January 2020	Global Finance magazine: – KB named country winner as Global Finance Best Financial Institution for Foreign Exchange 2020
March 2020	Global Finance magazine: – Best Treasury & Cash Management Bank
May 2020	Byzkids consulting company: 1st place for Mobilní banka in the ranking of Czech applications
	Banking Innovator award from Hospodářské noviny: Silver in payments by mobile phones and watches
	Salt Edge: KB received an award in the "Open-bank hero" category for its ability to conduct onboarding of external applications via the platform API in a quick and high-quality manner.
	Kentico Site of the Year: 1st place for Modrá pyramida in competition for best website in the field of financial services
June 2020	Lafferty 1000 International Rankings: - Komerční banka named as best bank in the Czech Republic and at the same time one of the 100 best banking institutions in the world
July 2020	Financial magazine PWM (Professional Wealth Management, part of the Financial Times media group): - 1st place in the Best Private Bank category for Digital Customer Service in Central and Eastern Europe within the prestigious Wealth Tech Awards 2020 competition
August 2020	Kentico site of the month August 2020: - Recognition for the newly created website for beginning entrepreneurs www.nastartujtese.cz
October 2020	Global Finance magazine's Safest Bank Rankings for 2020: - The Safest Bank in Central and Eastern Europe for 2020 - The Safest Bank in the Czech Republic for 2020
	Hospodářské noviny Best Insurer award: - 2nd place in the Best Life Insurance Company category (Komerční pojišťovna) - 3rd place in the category Client-friendly life insurance company (Komerční pojišťovna)
November 2020	An international jury appointed by renowned financial magazines The Banker and Professional Wealth Management, part of the Financial Times media group: - Highly Commended Private Bank In The Czech Republic 2020
December 2020	Global Banking & Finance Awards®: - Best factoring company in the Czech Republic 2020 (Factoring KB)
	Euromoney magazine: 1st place among banks in the Czech Republic for cash management services

Indicators of business performance

Total gross volume of lending to clients rose by 5.7% year on year to CZK 691.4 billion.[1] In lending to individuals, the overall volume of housing loans grew by 8.3% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.0% to CZK 245.5 billion. Modrá pyramida's loan portfolio grew by a strong 13.7% to CZK 63.9 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was down (1.2%), at CZK 38.8 billion.

The total volume of loans to businesses and other lending provided by KB Group climbed by 4.3% year on year to CZK 343.2 billion. Lending to small businesses grew by 8.5% to CZK 39.8 billion. The overall CZK volume of credit granted by KB, Factoring KB, and ESSOX to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2] increased by 3.7% year on year to CZK 273.1 billion. At CZK 30.3 billion, the total credit and leasing amounts outstanding at SGEF were 4.7% greater year over year. The growth rate of lending to businesses was influenced also by depreciation of the Czech crown during the pandemic (by 3.3% year over year vis-à-vis the euro as of 31 December) because a part of loans to businesses is provided in euro.

The volume of standard client deposits within KB Group rose by 9.4% year on year to CZK 893.0 billion.[3]

Deposits at Komerční banka from individual clients grew by 12.7% from the year earlier to CZK 322.0 billion. The deposit book at Modrá pyramida diminished by (1.7%) to CZK 60.8 billion. Total deposits from businesses and other corporations climbed by 9.1% to CZK 504.3 billion.

Client assets managed by KB Penzijní společnost were 7.5% greater, at CZK 67.1 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 3.9% year on year, at CZK 49.8 billion. The volumes in mutual funds held by KB Group clients decreased by (2.0%) to CZK 72.0 billion, as sales of mutual funds dropped during the period of emergency.

The Group's liquidity as measured by the ratio of net loans[4] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 76.1%. The Group's liquidity coverage ratio stood at 200%, well above the regulatory limit of 100%.

Retail banking

Retail banking is an operating segment of the Komerční banka Group that includes the provision of such products and services to individuals, small businesses, and entrepreneurs as current and savings accounts, term deposits, building savings, pension insurance, overdrafts, credit card loans, personal loans and mortgages, as well as private banking services. Retail banking services are provided primarily through direct banking channels, including contact centres, within a network of branches, or through partnerships with third-party independent sales agents.

Sustainable retail banking

In surveys among clients, most of Komerční banka's customers declared a degree of concern about sustainability when making purchase decisions. Sustainability is especially important for younger clients.

In 2020, in accordance with KB's overall strategy of responsible business, Komerční banka prepared a comprehensive plan to strengthen sustainability features in its range of products and services for retail clients. Implementation of the plan will include preparation of environmentally friendly products, development of advisory capacity dedicated to responsible living and housing, and improvement of the environmental efficiency of the retail network operation.

KB's green offer for clients will cover the areas of housing (e.g. advantageous financing of energy-efficient houses, renewable energy sources), consumer financing (e.g. support of electromobility), investments (e.g. mutual funds focused on ESG and crowdfunding offers for real estate meeting environmental standards), insurance (e.g. offering preferential rates for selected assets), and day-to-day banking (e.g. fully digital services).

Examples of offers for small businesses with a positive contribution to sustainability include the programme for the installation and financing of photovoltaic power plants, which KB is developing together with ČEZ ESCO and other partners, and the financing of other green technologies and electromobility. KB is also preparing preferential financing of projects with a positive impact on the environment and supported by guarantees or subsidies from the Czech Republic, the EU, or international institutions. In this context, KB is constantly strengthening its advisory skills.

Individuals

Komerční banka ranks among the three largest banks in the Czech Republic by number of individual clients.[5] KB acquired nearly 56,000 new clients in this segment, bringing the total number of individual clients to 1,389,000. The Bank also maintains a leading position in the segment for children and young people, with more than 398,000 accounts.

During 2020, KB continued its thorough review of the client portfolio in terms of obtaining all information about clients needed to prevent misuse of the Bank for illegal activities ("know your customer", KYC) in accordance with applicable regulations. Some clients were not able to meet the Bank's stricter requirements. As a consequence, the business relationships with such clients were terminated. At the same time, the Bank ended contractual relationships with some clients whose non-

[1] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients and held by KB. If reverse repo operations are included, gross lending increased by 5.3% to CZK 691.4 billion.

[2] Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

[3] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 10.3% to CZK 906.2 billion.

[4] Gross volume of loans reduced by the volume of allowences for loan losses.

[5] Source: Statements of individual Czech banks.

performing receivables were sold. KB will continue its activities to ensure a healthy client portfolio in 2021.

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According to an independent client satisfaction survey based upon a representative sample of the entire Czech population, the Net Promoter Score in the individuals segment achieved a good level of 32 in 2020. The survey detail showed clients to be very satisfied over the long term with KB's bank advisors at branches as well as at contact centres and with the mobile banking application (these categories recorded >8 on the 10-point scale). Komerční banka also is succeeding in maintaining high satisfaction with its services and products. Moreover, it is increasing clients' satisfaction with products offered in co-operation with its partners.

The year 2020 was exceptional. The Bank responded to the changing client needs in relation to the hygienic, epidemiological, and economic situation in developing its product and services offer. The implementation of remote service options has significantly accelerated, and KB is now ready to serve clients without a single branch visit for a majority of the most used products.

As part of helping clients, KB was among the first to offer its clients assistance in the area of financing. Even before approval of the law allowing for deferral of loan repayments, the Bank offered its clients solutions to their situations in this manner on its own initiative. In addition, KB has prepared a number of improvements and relief measures for its clients in other product areas. An example is travel insurance, which remained in force, but, in connection with limited travel options, the Bank made insurance premiums more favourable and expanded the services provided within the Czech Republic.

Throughout 2020, Komerční banka's employees also worked intensively with clients who had not yet been using the possibility of online access to their banking products at KB to increase their preparedness for using secure methods of digital access. By the end of 2020, more than 713,000 individual clients had acquired KB Klíč, which they will be able to use not only for secure access to the Bank but also for confirming 3DSecure payments on the internet and, from 2021, as a tool for identity authentication vis-à-vis third parties and state institutions.

Entrepreneurs and small businesses

Entrepreneurs and small businesses have been hit hard by the impacts and constraints of the Covid-19 pandemic. For the first time in many years, the number of newly established companies in the Czech market decreased and the number of entrepreneurs who terminated or suspended their business increased. A significant part of active entrepreneurs and companies faced business restrictions, declining sales, disruption of established processes and supplier–customer relationships, and other negative effects on their business activities. At the same time, however, the changed market situation brought new opportunities to a broad group of clients, and with these the Bank could actively address options to support their growth and expand the use of financial services, including financing for needed investments. The importance of financing both groups of clients, those growing and those dealing with decline in their activities, proved to be an important element that resulted in a significant year-on-year increase in new loans. To cover them, the new Covid guarantee programmes provided by Ceskomoravska zarucni a rozvojova banka (Bohemian–Moravian Guarantee and Development Bank) were used to a significant extent, together with additional European Investment Fund (EIF) guarantee programmes, which KB had already provided for its clients in previous years.

Even during the pandemic, KB's clients actively used the possibility of financing from other KB Group companies, factoring receivables from Factoring KB, and loans or leasing from SGEF and ESSOX. Just since November 2020, hundreds of clients from among smaller companies have shown interest in the Roger Platba service that improves cash flow by shortening the maturity of invoices. The service was introduced in co-operation with the fintech company Roger, in which KB acquired an ownership interest during 2020.

The economic restrictions in connection with the Covid-19 pandemic brought immediate need for a number of changes to support KB's broad client portfolio. In order to support clients already during the first wave of the coronavirus pandemic, a new, advantageous, and simplified offer of current accounts for start-up, smaller, and larger entrepreneurs was introduced in June. The new Profi Gold account includes an unlimited number of crown and euro payments. For companies that need to accept payments from customers with payment cards, KB offered as part of the Czechia Pay by Card campaign to provide a payment terminal for one year free of charge. This was used by almost 2,000 KB clients by the end of the year. In order to provide entrepreneurs with up-to-date information and suggestions, share the experiences of others, and provide economic forecasts, KB has prepared the KB Rádce (Counsellor) website with practical information for entrepreneurs and people generally.

In the first wave of the Covid-19 pandemic, there was a slight decline in client satisfaction as measured by the NPS indicator, mainly due to reduced availability of branches and cash services, including as a consequence of the decision to close several dozen smaller branches. With rapid implementation of alternative solutions, mainly the expansion of cash deposits through ATMs and wider use of deposits with closed packages, the overall satisfaction was again increased. Thanks to a positive assessment of the overall support provided during the pandemic, the NPS parameter reached 23 at the end of the year.

Despite the unfavourable economic situation, more than 11,000 entrepreneurs and small companies opened new business accounts at KB. Nevertheless, the total number of clients served diminished slightly to 240,000 (–1.9%).

KB expanded its offer for beginning entrepreneurs. Since June 2020, it has been offering entrepreneurs the opportunity to start their own businesses easily and digitally through a service called Company for You (Firma pro Vas) without additional costs to the entrepreneurs. In co-operation with VISA and CreativeDock, KB has developed the Digital Workshop service for online creation and debugging of a company website, as well as support in the preparation of a marketing campaign.

The Start up! grant programme (Nastartujte se!) has continued. Already in its eighth year, the grant programme, organised in co-operation with the Association of Small and Medium-Sized Enterprises and Self-Employed Persons of the Czech Republic and a number of other partners, was attended by 65 start-up entrepreneurs from various sectors.

Even during 2020, KB continued to develop its range of third-party services providing attractive and practical services for entrepreneurs both beginning and already active. Since the middle of the year, clients have been able to take advantage of TRIVI's discounted online accounting services, Webmium's simple online Paymium digital sales solution, and discounted access to Alza's and Shoptet's e-commerce solutions.

In 2021, the Bank will further develop its services for entrepreneurs and smaller companies. The priority will continue to be the reliability and easy accessibility of financial services, including financing, as well as the growing share of online communication and digital services. Significant simplification for customers will be provided by services utilising the benefits of digital banking identity, such as the new KB MůjPodpis (MySignature) service, which since mid-2020 has offered client entrepreneurs the opportunity to streamline and digitalise communication with business partners, customers, or employees.

Part of KB's standard offer for entrepreneurs will continue to be the professional advice of bank advisers and specialists provided on the level of its wide network of Corporate Centres and branches.

Client account balances of entrepreneurs and small businesses grew by 11.6% to CZK 218.9 billion. The total volume of financing provided by KB to small businesses increased by 8.5% year on year to CZK 39.8 billion.

Private Banking

Komerční banka offers comprehensive Private Banking services to clients with financial assets exceeding CZK 30 million at its branches in Prague, Brno, and Ostrava. Clients with assets in excess of CZK 3 million have access to selected Private Banking products at 37 regional branches.

The services provided include in particular private portfolio management, a comprehensive range of investment instruments, complete banking services, real estate and Lombard loans to finance clients' private needs, as well as investments into funds for qualified investors (real estate funds and private equity), investments in corporate bonds, assistance in selling companies, as well as services for trust funds and other instruments for intergenerational transfer of assets.

Investment products and underlying assets taking into account ESG (environmental, social, and governance) criteria are gaining in importance within Private Banking's offer. Thus, in 2020, our clients invested in certificates with a contribution to charity, whereby the Bank contributed from its margin to charitable purposes and the client's income was not affected in any way. The project "Help in the Time of Pandemic" of the organisation SOS Children's Villages was selected as the beneficiary of this investment, directing it in support of families with children who have found themselves in difficult life situations.

KB's Private Banking offered its full range of services during the Covid-19 pandemic. Intensive communication with clients during the state of emergency took place primarily via digital tools and technologies. Clients appreciated these services and the penetration of digital services increased significantly. In addition, the crisis showed the benefits of professional management of portfolios under a mandate, which is becoming a strategic priority of Private Banking. Private Banking gained many new clients during this time thanks to KB's good reputation. Managed assets continued to grow.

In September 2020, a new sales team was created through internal restructuring that is specialised in serving key clients with assets exceeding EUR 100 million. It provides exceptional, personalised, and specialised services built on trust and a comprehensive approach.

In October 2020, a satisfaction survey was conducted among clients of this segment. Clients recommend Komerční banka mainly thanks to the work of private bankers (94% of clients are satisfied with their private banker), and they also highly value our expertise, professionalism, and high quality products offer.

Komerční banka was again recognised as an excellent private bank in the Czech Republic. This award is regularly given by the renowned financial magazine The Banker, which is part of the Financial Times media group.

Priorities for 2021 include continuing to develop portfolio management and investment advisory services in an open architecture and further developing digital services. KB Private Banking will focus, too, on services to company owners selling their businesses, intergenerational structuring of assets, services for trustees, constructing portfolios of financial assets and deposits, and on structured financing for clients' private projects.

A key topic which KB Private Banking will develop in 2021 is sustainability and responsible investment. The forthcoming initiatives significantly exceed the new EU regulatory requirements. In addition to the publication of sustainability-related information, for example, the importance of ESG criteria in the investment process for portfolios managed under a mandate agreement will be strengthened and the range of products with underlying assets contributing to the UN sustainable development goals will be further expanded. Education initiatives to help clients better understand the importance of sustainable investing are also planned.

Corporate banking

Corporate banking is an operating segment of Komerční banka Group that includes the provision of such products and services to corporate customers (with turnover exceeding CZK 60 million), various types of public institutions, the non-profit sector, and government offices as current and savings accounts, term deposits, operating or investment loans, other types of loans, specialised foreign trade or investment banking services, cash circulation services, as well as other specialised services provided by KB itself or in co-operation with other partners or Société Générale. Corporate banking services are provided through direct banking channels, a network of Corporate Centres, and banking advisors from three corporate divisions (for clients with a turnover of more than CZK 1.5 billion and selected financial institutions).

Support to business clients affected by the Covid-19 pandemic

In 2020, Komerční banka was dedicated to supporting entrepreneurs and companies of all segments who were struggling with economic effects of the Covid-19 pandemic. In addition to an acceleration of digitalisation activities, there were two areas of support:

- Following the declaration of a state of emergency by the Government of the Czech Republic in connection with the demonstrated occurrence of Covid-19 on 12 March 2020 and the possible impact of the emergency measures on clients' incomes, Komerční banka decided to offer its KB clients a deferral of instalments for business loans by 3 or 5 months. Later, the Parliament of the Czech Republic approved a regulation deferring the repayment of business loans, introducing a so-called protection period during which it was possible to defer repayments from a client at the client's request until 31 October 2020.
  Deferral of these instalments was requested by 5,300 clients for 7,400 business loans. For 75% of deferrals based upon the law, a fully or partially automatic robotic process was used to process these requests.
- Komerční banka also has been actively involved in the distribution of state aid in the form of guaranteed loans. During 2020, it provided its clients loans covered by guarantees from ČMZRB covered by the following programmes: COVID II, COVID Prague, COVID III, and EGAP COVID Plus programmes. In total, at the end of 2020, Komerční banka registered more than 4,200 loan applications under COVID programmes totalling CZK 25 billion. The COVID III programme has the largest share in the number of applications and the volume of financing (1,700 signed contracts in the amount of 12 billion crowns).
  The Bank records the greatest interest in the wholesale and retail sector, followed by manufacturing, construction, accommodation, and catering. Clients from manufacturing, as well as from wholesale and retail trade, construction, professional and scientific activities showed the largest volume demand for funds. Komerční banka participated in the first syndicated loan within the COVID Plus programme in a total amount of EUR 45 million, which was provided to the Brno virtual global carrier Kiwi.com.

Sustainable corporate banking

In 2019, Société Générale became a signatory to the Principles of Responsible Banking, committing itself and its whole group to sustainable financing in all its activities, and adopted its own goals in support of the Paris Climate Agreement. At the same time, it committed to increase to EUR 120 billion the volume of investments supporting the transition to renewable energy sources between 2019 and 2023. In this context, and in order to build a long-term sustainable business and its own reputation, Komerční banka has implemented the ensuing principles into its activities.

KB's strategic ambition is to be a leader in sustainable investments on the Czech financial market and within the SG Group as well as to be perceived as a green bank in the Czech Republic. Consistent with this strategy, the main areas to which KB gives priority focus in corporate banking were defined as:

- decarbonisation of industry (transformation of the coal sector; energy savings in companies and the public sector; transition to renewable energy sources; clean mobility);
- circular economy;
- water savings in industry and water retention in the landscape.

In order to support the interest of companies and the public sector in the area of sustainable finance, the Bank has expanded the package of services supporting clients' sustainable investments. In addition to comprehensive financial and subsidy advisory, KB now offers clients:

- consultancy in the fields of energy and renewable sources, including the preparation of energy assessments, audits, and energy performance certification of buildings;
- consultancy in the field of economic and technical specifics of a project;
- preparation and implementation of tenders for private and public entities (including so-called sustainable and circular public procurement).

KB is continuously expanding these services to other priority areas. In order that the Bank is able to offer its clients the most up-to-date information from the viewpoint of future development and new technologies, it is establishing partnerships with relevant players on the Czech market. The goal is to support the sustainable growth of clients and Czech industry from the economic, environmental, and social points of view. In co-operation with some of these, KB is launching a new information website focused on sustainable investments. This internet portal provides relevant information and examples of good practices which are insufficient on the Czech market, especially with respect to new technologies and procedures.

A completely new product in the area of sustainable investments is the advantageous Optimise Green programme. This programme for the implementation of energy saving measures was created in co-operation with KB Advisory, the European Investment Bank (EIB), and the Czech–Moravian Guarantee and Development Bank (ČMZRB). It combines an interest-free loan from ČMZRB, a low-interest investment loan with interest support from EIB, and financial support for a mandatory energy assessment provided by KB Advisory.

Environmental, social, and climate risk assessment system in KB corporate banking

KB has participated in fulfilling Société Générale Group's ESG obligations concerning control of environmental and social risks of its clients' activities and projects that KB finances. At the beginning of 2020, KB introduced an environmental and social risk management system (ESRM) in corporate banking, which also takes into account requirements of the voluntary Equator Principles rules for assessing larger industrial and infrastructure projects and ensures compliance with SG Group sector policy requirements. In 2020, the Bank began evaluating the so-called Climate Vulnerability Indicators for larger corporate clients operating in sectors potentially generating climate risks (e.g. energy, transport, metallurgy, mining, oil and gas).

The assessment of environmental and social (E&S) aspects in KB's corporate banking has become part of the due diligence for all new transactions and in screening new clients as part of the KYC process. The assessment of E&S aspects includes checking against the list of excluded entities and the list of sensitive activities and projects, as well as checking against the exclusion criteria of E&S sector policies (e.g. non-financing of clients and transactions related to the coal mining and coal energy sector, non-financing of certain arms exports), and verification of reputational client risks related to E&S aspects. For clients in sectors with increased E&S risk, they and their transactions are assessed by a KB E&S risk expert. Through banking advisors, the Bank communicates its E&S standards to clients, especially in sensitive sectors, and seeks to support clients in complying with these rules. This relates mostly to energy transformation and the Bank's climate commitments. In 2020, 23% of actively funded clients in the Global Banking segment underwent a detailed E&S assessment.

In 2020, KB provided financing to three projects subject to assessment according to the Equator Principles rules. Among them was a project in Category A to build a highway bypass. KB has been actively involved in financing projects closely related to the fight against climate change. In 2020, for example, KB financed several projects for modernisation of municipal heating plants and their transition from coal to gas and biomass.

KB has set up a special advisory team within KB Advisory to provide consulting services in the areas of subsidies, energy, renewable resources, circular economics, and waste management.

Digital corporate banking

Many new offers for corporate clients were prepared in co-operation with fintech companies on the platform of KB's subsidiary KB Smart Solutions. KB was the first bank on the Czech market, together with Zaplaceno.cz, to introduce an effective payment solution for e-shops using the so-called indirect payment order (PISP) made possible by implementation of the European directive PSD2. KB is developing other innovative products in the field of electronic commerce together with the company Webmium (development of web presentations), Shoptet (for programming e-shops), and Alza.cz together with Expando (connection of e-shops with web marketplaces via API). Since July 2020, KB has been co-operating with the Czech fintech start-up upvest, which operates an online crowdfunding platform for financing real estate projects. Acquisition of an ownership stake in Roger has enabled KB clients since October 2020 to use digital factoring and supply chain financing, which was launched in co-operation with Factoring KB, a.s.

In December 2020, KB also signed a co-operation agreement with Direct Fidoo. Together, they will provide the Bank's clients with the Expense Manager service, which comprises fully digitalised and online processing of client's expenses.

KB has launched a new international digital platform we.trade on the Czech market. We.trade works on blockchain technology and simplifies traditional foreign trade banking products. This platform thus brings greater transparency and security to both sellers and buyers.

An impetus for rapid development of the possibility for electronic contact with clients, including mutual exchange of documents and their electronic signature, came with onset of the Covid-19 pandemic and the associated restriction of face-to-face meetings. Clients now have the opportunity to digitally sign and share with the Bank approximately 25 different types of documents, such as loan agreements or drawing requests. More than 20,000 documents were executed in this way during 2020, which is more than 10 times more than in 2019. Documents can be provided with one or more signatures on behalf of the client, all within the framework of internet banking.

KB provides its corporate clients a service for authenticating the identity of their clients having accounts with KB. With the help of this service, the identity of the client is remotely verified in the same way as at the branch, which means according to identity card.

The next step in using the clients' banking identity was the establishment of a joint venture between Komerční banka and two other major Czech banks, Česká spořitelna and Československá obchodní banka. The newly established company, Bankovní identita, a.s., will provide electronic authentication and electronic signature services in the Czech Republic based on digital identities of bank clients, which are used, for example, when logging in to internet banking or for remote communication with the Bank. As an open platform for all banks, Bankovní identita will offer its services to public institutions and private companies providing digital services for businesses and corporations.

In mid-2020, the MůjPodpis (MySignature) service was also launched. It serves clients for electronic signing of documents with their partners. It is then possible to sign, for example, a travel order for employees, an order to a supplier, or a contract with another natural or legal person. All forms of KB's electronic signature are used for signing, such as especially the KB Klíč application, a certificate on a chip card, or a security password and SMS.

Economic environment for Czech corporations

The Czech economy was significantly affected by the spring and autumn waves of the pandemic in 2020 and experienced the deepest decline in economic activity in the history of the independent Czech Republic. Corporate clients were significantly affected, especially in selected sectors.

The effects were partially mitigated by targeted government measures, in the distribution of which Komerční banka became the market leader. Although the growth in loans to non-financial corporations slowed, Komerční banka had a relatively stable year in the credit area and showed a year-on-year increase. Nevertheless, the government programmes did not provide sufficient incentive for credit expansion, and the uncertain outlook could lead to a slowing in clients' investment activity and an accumulation of deposits, which increased significantly year on year among corporate clients.

Corporate banking was affected also by the persistently low interest rate environment and heightened volatility on financial markets, especially in the spring. Thus, the economic downturn is generating a threat of growth in non-performing loans.

Corporates and Municipalities

Competition remained very intense during 2020. Nevertheless, KB maintained its leading position in the corporate banking market, with approximately 46% of SMEs using the Bank's services.[1] Komerční banka remains one of the two largest banks in public sector financing and with an upward sloping trend. KB now serves 52% of clients in this sector.[2] The number of clients in this segment increased by 3.1% year over year to 10,300, influenced also by growing business of some clients, who had been previously serviced in the small business network.

Deposits continued to strengthen significantly, expanding their volume year over year by 16.5% to CZK 190.9 billion. Despite the pandemic situation, the market for loans to business and corporates picked up. With its initiative and support for distributing state support in the form of guaranteed loans, KB grew faster than the market in this regard. The volume of financing provided by the Bank increased by 9.3% compared to the previous year to CZK 110.2 billion. The share of public sector financing wherein both national and EU structural funds contribute to infrastructure investment increased as well.

Client satisfaction as measured by Net Promoter Score was maintained at a very good level of 41 for corporates in this segment and for municipalities reached even 60 out of 100. Clients continue to appreciate the expertise and professionalism of the banking advisors and good availability of KB's staff. Komerční banka's digital banking and product offerings are additional pillars of good customer ratings.

KB utilises co-operation programmes with various European institutions to finance projects with positive impact on the needs of the population, the environment, or economic development of the regions:

[1] Sources: The Business Register of the Czech Statistical Office, KB's client database.

[2] Sources: reports of other Czech banks, KB's internal data.

EuroEnergy and EIB Climate Action: These programmes are run in co-operation with the European Investment Bank and serve to support energy saving projects and other projects with a positive climate impact. The goal of the initiative is to reduce greenhouse gas emissions, at least in part. Thus, clients can obtain financing for their projects at reduced interest rates and, in the case of EuroEnergy, also with eased collateral requirements. To date, KB has supported approximately 120 projects with subsidised loans totalling over CZK 2 billion.

Business support: The European Investment Fund has stepped up its support for entrepreneurs affected by the coronavirus pandemic. With availability freed up in the COSME, EuroInovace, and Microfinance programmes, KB provided in 2020 discounted loans with EIF guarantees to a record 3,000 entrepreneurs in a total amount of nearly CZK 4.5 billion.

- The COSME guarantee is a no-cost EIF guarantee for loans up to CZK 4 million provided to small and medium-sized enterprises.
- The Microfinance guarantee favours entrepreneurs with a social dimension. Entrepreneurs with fewer than 10 employees who started a part-time business, previously were unemployed, or had a low-paying job (up to 80% of the Czech average) can benefit. Those disadvantaged in the labour market can also qualify (e.g. people re-entering the labour market after parental leave, disabled people, people immigrating from another state or belonging to a national minority). Start-up entrepreneurs under the age of 30 or over 60 years of age can also benefit.
- Innovative companies can use the EuroInovace subsidised loan to finance their operations.

EuroPremium Young: This European Investment Bank programme provides a discount on the interest rate for a loan provided to small to medium-sized companies, especially those contributing to the employment of young people (either employing young people under 30 years of age or offering them internships and traineeships). In 2020, KB provided approximately 70 such preferential loans totalling about CZK 2.5 billion.

Support for municipal development projects: The EuroMuni programme provides support to municipalities in implementing their development projects in the form of a discount on the loan interest rate. Preferential interest rates are available through co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). The programme makes it possible to reduce costs in financing municipal development projects. During 2020, Komerční banka provided 30 loans in the total amount of more than CZK 1.5 billion.

Top Corporations[3]

Komerční banka maintains a strong position in serving and financing large corporations with turnover exceeding CZK 1.5 billion. Meanwhile, the portfolio and number of clients in the large corporation segment are relatively stable. About 55% of large

[3] This part covers servicing of clients in the Czech Republic. Activities of KB in Slovakia are discussed in the following part.

companies in the Czech Republic with turnover in excess of CZK 1.5 billion are clients of KB.[1)]

The Bank provides its clients in this segment with a full range of banking products and services, including those highly specialised in the areas of investment banking, as well as export, structured, and syndicated financing. It also provides solutions for unique transactions in the banking market, including in the areas of primary domestic bond issuance and consulting in the mergers and acquisitions area. The offer is complemented by the services of subsidiaries and sister companies providing leasing, factoring services, and supplementary pension insurance. Clients can rely on the professional approach and knowledge of KB's stable team of relationship managers, as well as experienced advisors with contacts in the Société Générale Group's network, particularly in the areas of trade and export finance, cross-border payments, international cash-pooling structures, and investment banking. Membership in a truly global banking group is a significant competitive advantage for KB in this segment, as the Bank is able to provide corporate clients with access to services of the world's major financial centres through SG.

The satisfaction of large corporate clients with KB remains high. In 2020, the NPS indicator for large corporate clients reached an excellent value of 49 . The best evaluations were for services and the breadth of their offer.

Deposits declined by (6.6%) year over year in 2020, reaching CZK 94.1 billion. The total volume of loans (excluding reverse repo operations) in the Top Corporations segment decreased slightly (1.0%) year over year (1.0%) to CZK 155.5 billion.

Komerční banka, a.s., pobočka zahraniční banky (KB SK)

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by CNB. KB SK is a trusted financial partner for top corporations within Slovakia, as well as for those corporate clients of the KB and SG groups operating there.

The year 2020 was extremely challenging for the small, open, and euro-denominated Slovak economy. The slump in GDP in 2Q was the largest in Slovakia's history. After the lifting of restrictive measures, the economy began swiftly to recover. Nevertheless, the second wave of the pandemic hit many sectors once again. As a result, economic confidence was shaken and a willingness to invest will return only gradually. After the drop in GDP during 4Q 2020, GDP growth is likely to turn positive again, but a strong rebound cannot be expected sooner than in 2Q 2021.

The performance of KB SK in 2020 reflects the situation on the Slovak market under the influence of the global Covid-19 pandemic. KB SK has experienced a narrowing of spreads for standard client financing for some years already, although the negative impact of this trend on KB SK's profit was softened by its deeper penetration into structured transactions. After reaching a historical record loans volume in 2019, during 2020 there was a decrease in this category driven by scheduled loan amortisation and a conservative approach towards new transactions from both the clients' and Bank's sides. Disciplined management of operating expenditures remained essential and reconfirmed an excellent cost-to-income ratio relative to other banks operating in Slovakia. The cost of risk during 2020 was affected by the pandemic as well as by cyclicality of certain sectors. A decrease in year-on-year terms reflects allowances created in the last quarter of 2019 due to cyclical sector developments, the effect of which exceeded the pandemic-triggered provisioning in 2020. Even though clients of KB SK went through a very challenging year, the branch experienced very good payment discipline in its portfolio, thereby confirming the prudence of KB SK's internal approval processes and very close relationship with its clients. KB SK has delivered lower profitability as a result of a high base from the previous year created by revenues from one-off transactions.

KB SK's team remained stable, and its professionals delivered KB SK's services to clients at a high quality standard even within the very different environment created by the Covid-19 pandemic. What clients appreciated the most was the service of KB SK teams and they gave it the highest NPS score to date of 70 (compared to 46 in 2019). By way of these valuable objective channels KB SK collects feedback from clients to be evaluated, prioritized, and implemented into its tailor-made client solutions. Clients' satisfaction and the effort to exceed their expectations remain KB SK's central consideration. It is truly an honour to know that clients appreciate the professionalism and expertise of the staff and identify these as an important differentiating factor.

Throughout 2020, KB SK invested into its systems and processes to stay compliant with rigorous regulatory requirements as well as group internal standards in order to remain a secure financial partner to its clients. In line with 2020 challenges, KB SK increased the mobility of its staff and implemented measures necessary for the safety of its employees while providing uninterrupted service for the Banks' clients.

In 2021, KB SK will continue to keep clients at the centre of its focus, with efficiency, prudence in lending, and compliance with regulatory requirements completing a proven recipe for creating stakeholders' value.

Investment banking

Like the economy as a whole, the financial markets were strongly impacted by the Covid-19 pandemic in 2020. During the spring months, there was a massive loosening of monetary and fiscal policy across continents in response to the closure of economies in an effort to counter the pandemic. Investors had already reacted in advance by fleeing to safe havens and raising the risk premium for emerging economies. This was reflected in a sharp weakening of the crown against the euro and the US dollar and a strong rise in government bond yields. Nevertheless, the CNB's actions and a weaker-than-expected impact of the pandemic on the domestic economy led to a relatively rapid cooling of the financial markets during the summer months. A large supply of government bonds combined with a drop in their prices attracted historically record demand, which led to a decrease in yield to levels not seen since 2017. The crown erased most of its previous losses, but the second wave of the pandemic prevented it from strengthening further. In the second half of 2020 after a sharp drop, long-term interest rates started to rise gradually in

[1)] Sources: The Business Register of the Czech Statistical Office, KB's client database.

anticipation of potential CNB interest rates hikes in 2021 and economic development better than was originally expected. However, the renewed deterioration of the pandemic situation in the Czech Republic and abroad during the winter months once again blurred the outlook for 2021.

The stock market was particularly affected by the Covid-19 pandemic. At the turn of February and March, stock markets fell by about 35%. Nevertheless, the main US S&P 500 Index not only eliminated the loss, but also gradually exceeded its maximum levels and closed the year at an historical all-time high, gaining 16.3% (total return, including dividends 18.4%). The European market as measured by the STOXX Europe 600 index declined by 4.0% (total return –1.4%). The Prague Stock Exchange lagged even further, losing 7.9% in 2020. The total return, including dividends, was –4.9%. The PSE thus did not repeat the performance of 2019 (when it gained 13.1% and 18.3%, respectively). The total volume of stock trades last year increased by 15.2% to CZK 25.3 billion. Positive news on the Prague Stock Exchange was the IPO of Česká zbrojovka. Komerční banka acted as a global coordinator in this transaction and thus successfully delivered the first IPO in its history as global coordinator. On the other hand, the media group CME left the Prague Stock Exchange in 2020. The best performance last year was recorded by Stock Spirits (25.8%), followed by Avast (11.1%), while the shares of Erste Group Bank (–23.0%) performed the most poorly.

Despite the extremely difficult economic and financial market conditions, KB's investment banking achieved a very solid business performance in 2020. The Czech and Slovak corporate sales desks posted their best performances ever, supported by clients' very strong FX and IR hedging activity at the onset of the Covid-19 crisis, which was significantly supported by several FX and IR client campaigns with a focus on value-added products (mainly FX forwards and tailor-made option strategies). Particularly strong results were achieved in the SME and Retail Sales segments.

The Financial Institutions Sales Desk executed several corporate bond issues and one IPO on the Prague Stock Exchange, as well as recording solid results on flow FX business. Trading activities delivered a very strong result compared to 2019, mainly driven by increased volatility of the markets in the first half of 2020 that enhanced profitability on FX instruments, good management of IR derivatives positioning, and a strong market-making position in Czech government bonds.

Despite being affected by significant reserves creation for counterparty risk (CVA), reflecting mainly the increase of credit spreads in the global markets, the investment banking arm succeeded to deliver a net profit slightly above budget and modestly higher than in 2019.

The year 2020 confirmed the growing importance of digital channels, as was demonstrated by the increased traffic and popularity among KB clients of the KB eTrading platform. In 2020, the monthly average number of active clients reached its highest number since launch of the platform. The number of active clients has more than doubled over the past 5 years. The financial performance of eTrading continued on its historically positive trend, and the revenues increased by 10% in 2020 despite the significant drop in revenues from deposits placed through eTrading in the context of low market interest rates. Going forward, investment banking will continue actively to promote the eTrading solution to a wider circle of clients and in extending the products and services offering through digital channels.

Transaction and payment services

Cash payment operations

From the viewpoint of cash payments, 2020 was an unprecedented year as behaviour of the Bank's clients was fundamentally influenced by the Covid-10 pandemic and the measures adopted to counter its spread. Although it has not been confirmed that cash is dangerous from the viewpoint of spreading the disease, due to the government's measures, and especially the obligation to close businesses, the activities of some segments where cash payments are more preferred, such as food services, sports, culture, and small businesses, accounted in part for the decrease in cash operations. Small retail business was moved partly to online shops.

Despite that Czech National Bank statistics prove a steady rise in the volume of currency in circulation (an increase of CZK 67.5 billion in 2020 to CZK 711.9 billion as of 31 December 2020), the volumes of KB's cash operations did not reach the previous year's level and dropped by 20%. That was precisely due to the fall in merchants' cash sales. This confirms that the behaviour of most economic entities in times of economic crisis is to increase the level of their savings and of free funds held in cash.

KB's originally planned steps under the KB Change 2025 strategy, aimed at further and gradually increasing the automation of cash payments and at the same time optimising the branch network, were accelerated in the spring by a decision of the Bank's management. At the end of the year, a total of 240 branches were in operation (from more than 340 branches at the beginning of 2020), 140 of which have cash and currency exchange services and another 60 of which are cashless branches authorised to accept cash deposits through closed packages (clients' sales proceeds). This confirmed the correctness of the decision from 2019 to introduce the receipt of cash deposits through closed packages while crediting the amount of a deposit to the client's account immediately upon taking over the closed package at almost 200 selected KB branches.

KB is compensating for the reduction in the number cash desks by expanding the ATM network, which included a total of 809 operating ATMs at the end of last year. Compared to other banks, KB continues to hold the position of bank with the largest number of deposit ATMs. At the end of 2020, KB operated a total of 429 deposit ATMs (40 more than in 2019, a 10% increase), of which 220 were equipped with banknote recycling function (i.e. 20% more than in 2019). It is now standard that all newly installed ATMs are with recycling function and contactless reading of payment cards. The use of mobile phones with NFC technology or so-called smart watches instead of the classic payment card is already possible at more than 300 ATMs. The average deposit size made through an ATM increased year on year and was almost CZK 26,000. The number of deposit transactions at the end of the year exceeded the monthly average of 240,000, which means a year-on-year increase of approximately 8% by count and 17% by volume. KB is thus continuing its strategic goal to gradually increase the level of automation also in cash payments. KB likewise continues in the successful concept of drive-up ATMs installed at Benzina petrol stations and expanded with another installation in Pilsen. Use of drive-up ATMs was minimally affected by the pandemic situation during 2020. Unlike standard ATMs, clients can safely conduct their cash deposits and withdrawals directly from their cars.

Despite the unexpected and unusual developments in 2020, the provision of foreign exchange activities was important, even though the volumes of transactions were smaller in comparison with previous years, when travel and tourism were active. Clients took advantage of exchange rate fluctuations, especially in the spring, as an opportunity to conveniently exchange their currencies at KB counters. This was supported by the legislation change from the spring of 2019 and the related decrease in competition offering exchange services (i.e. certain banks and non-banking exchange offices), especially in small towns.

Non-cash payment operations

The Bank recorded a modest 0.8% year-on-year increase in the number of domestic payments and more significant 4.9% growth in SEPA payments. In contrast, other foreign payments decreased by 9.1%. The share of SEPA payments in euro within the total number of foreign payments increased to 87% last year.

In the area of domestic payments, KB now informs clients about incoming payments from other domestic banks immediately after the payment has been credited to the account. The Bank also clarified all types of email notifications on the execution or non-execution of domestic, SEPA, or foreign payments.

MojeBanka internet banking newly notifies clients of making a duplicate payment when verifying whether the client has not recently sent the same payment at the time of entering a domestic payment. MojeBanka notifies clients even if such a payment has recently been made, but also if the same payment or standing order is still waiting to be processed (e.g. due to lack of funds).

To ensure the best possible transparency about fees paid, Komerční banka has introduced a display of the amount of fees for domestic conversion, foreign currency, foreign, or SEPA payments when entering a payment on forms and in mobile as well as internet banking.

Since June, payment processing has been accelerated for sending SEPA payments and, since November, also for the sending of foreign exchange payments in the major currencies: euro, US dollar, Czech crown, British pound, Danish krone, Swiss franc, Norwegian kroner, Swedish krona, and Canadian dollar. Payments entered by the client on working days before 11 am are processed and credited to the beneficiary's bank account on the same day if there are sufficient funds in the account.

Komerční banka has also been fully involved in the SWIFT Global Payment Initiative (GPI) project. The GPI service enables the tracking of payment routes, makes interchange fees more transparent, and ensures that messages for recipients cannot be interchanged. For the client, this means that KB can always tell the client immediately in which bank the payment is currently located, whether the payment has already been credited to the recipient, what amount was credited to the recipient's account, and how high were the fees paid for this payment to individual intermediary banks. Compliance with the rules is supervised by SWIFT Observer. KB can be proud that it has fully satisfied the SLA Observer's obligations.

In the area of payments and open banking, Komerční banka worked on further developing the platform within the framework of the EU Payment Services Directive (PSD2). One of the main functionalities implemented is in the area of standing orders. In using the PSD2 interface, KB enables the client not only to obtain information about active standing orders but also to create a new standing order. Last year, Komerční banka received the global fintech Salt Edge award for the ability and speed it has demonstrated in third-party on-boarding, and thus it became one of two banks in the Czech Republic to be recognised with the title "Open Banking Hero". In 2020, Komerční banka actively provided PSD2 services through a total of 24 licensed entities (including 3 British third parties, which did not provide a valid PSD2 license for 2021 due to Brexit, 13 payment institutions [fintech companies] and 11 banks). In 2020, KB processed 8.5 million requests sent via the PSD2 API interface and processed payments in a total value exceeding CZK 20 million.

As part of its transformation and digitalisation, Komerční banka is preparing for central processing of payments in the Payment Hub centre, to which the processing of individual types of payments is gradually being moved. In 2020, the Payment Hub prepared the basis for processing one-off domestic payments and domestic standing orders, which will be used by Komerční banka's new digital channels. At the same time, some technical errors in the processing of domestic instant payments were eliminated.

In the Cash Management product area, Komerční banka enabled its corporate clients to use the latest version (4.0) of the Multicash application. This new version brings users, among other benefits, a modern look, increased control intuitiveness, and a higher form of file transfer security.

In the area of interbank co-operation on the market, Komerční banka, together with other banks under the auspices of the Czech Banking Association, continued to define a new "Mobile Payment" national service, which the Czech National Bank should begin providing in pilot operation by the end of 2021.

Payment cards

As a consequence of the Covid-19 pandemic, card transactions carried out in online stores grew significantly in 2020 – by more than 30% year on year in both number and volume terms. By contrast, the number and volume of transactions with KB cards in brick-and-mortar shops increased only in single digits (by 7% and 3%, respectively). That was primarily due to a 20% year-on-year decline in foreign transactions. By contrast, domestic transactions with merchants grew by 14%. Despite the difficult conditions, the Bank ensured smooth execution of the increased number of transactions and their correct processing even during the toughest restrictions resulting from anti-epidemic measures.

Also in 2020, the share of mobile payments via telephones and smart watches increased, with every fifth transaction at a merchant point of sale being conducted utilising the aforementioned devices. Apple Pay (more than two-thirds) and Google Pay (not quite one-third) account for the largest share.

During 2020, KB introduced unique limited editions of designer payment cards. It began to make greater use of existing long-term partnerships to create unique card designs with its partners at the Prague Zoo, the National Gallery in Prague, PKF - Prague Philharmonia, and the Rock for People festival. A special edition for the 40th birthday of the cult game PACMAN was also offered to clients.

The new 4U credit card with a revolutionary low interest rate met sales expectations despite the crisis, among other reasons due to the fact that its parameters meet the needs of clients in difficult times and it remains completely unique on the credit card market in the Czech Republic even a year after its introduction.

In the area of payment card acceptance, the business alliance with Worldline continues in its successful development under the KB SmartPay brand. With completion of the payment company GoPay acquisition and the project “Czechia Pays by Card” (in co-operation with the Ministry of Industry and Trade of the Czech Republic), the alliance achieved 6% year-on-year growth in the number of processed card transactions in retail sales. The biggest driver during 2020 was the development of acquiring in the field of e-commerce, with a 58% year-on-year rise in the number of transactions and a 51% increase in card turnover.

Trade finance and cash management

In the last quarter of 2020, the Bank implemented the we.trade client portal based on blockchain technology, which brings clients completely new digital trade finance products. These include, for example, automatic settlement of a trade based on smart contracts, guaranteed payment of a BPU (bank payment undertaking), and the financing of receivables under a BPU.

Despite the unfavourable external environment, the Bank kept the level of revenues from trade finance transactions stable year on year, mainly due to a slightly growing exposure to issued bank guarantees. The volume of new sales of guarantees in the SME segment was up more than 10% year on year. The year 2020 confirmed the growth trend of sales also in the retail segment.

In the area of cash management, the Bank improved the range of services for corporate clients by deepening integration of the SG Group’s product range. This included, for example, implementation of electronic tools through which the Bank enabled foreign clients of the SG Group who also have activities in the Czech Republic to centralise operations on accounts using remote access from abroad. A new innovation intended for multinational clients is a service for daily liquidity optimisation within the treasury operations of international groups having almost no geographical restrictions.

For the second year in a row, Komerční banka ranked first among banks in the field of cash management within the Czech Republic in the comparative survey made by the prestigious Euromoney magazine, receiving the title of Euromoney Market Leader. It also succeeded in the annual evaluation of the magazine Global Finance, with KB also winning in the field of cash management in the Czech Republic.

Selected indicators on payment services

Komerční banka (Bank only)	2020	2019	Year-on-year change
Number of payment cards in circulation	**1,588,000**	**1,579,000**	**0.6%**
– debit cards	1,407,000	1,401,000	0.5%
– credit cards	181,000	178,000	1.7%
Volume of payments using KB cards (CZKm)	136,000	126,000	7.9%
Number of payments using KB cards	193,682,000	175,896,000	10.1%
Volume of cash withdrawals (CZKm)	**199,000**	**231,000**	**(14.2%)**
– via ATM	126,000	139,000	(9.1%)
– via non-ATM	72,000	93,000	(21.8%)
Volume of cash deposits (CZKm)	**204,000**	**252,000**	**(19.2%)**
– via ATM	75,000	64,000	17.2%
– via non-ATM	129,000	188,000	(31.6%)
Number of cash withdrawals	**20,584,000**	**26,585,000**	**(22.6%)**
– via ATM	19,907,000	25,472,000	(21.8%)
– via non-ATM	677,000	1,113,000	(39.2%)
Number of cash deposits	**4,697,000**	**5,844,000**	**(19.6%)**
– via ATM	2,934,000	2,728,000	7.6%
– via non-ATM	1,763,000	3,116,000	(43.4%)

Komerční banka Group

As of 31 December 2020, Komerční banka had 11 subsidiaries, where KB had majority shareholdings, and two associates where it held minority interests: (i) Komerční pojišťovna (49% share) and (ii) Bankovní identita (33.33% share). KB considers the subsidiaires and Komerční pojišťovna as part of the Group. In addition to these ownership interests, KB held strategic interests in Czech Banking Credit Bureau, a.s. (20%) and in Worldline Czech Republic, s.r.o. (1%).

With the aim of maximising all potential synergy effects, KB Group deepened mutual business co-operation within the Group during 2020 and also with other members of Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas, as well as in distribution, procurement, IT, and other supporting services. The result should be optimal, comprehensive, and effective satisfaction of clients' financial needs.

In 2020, KB Group acquired ownership interests in startup fintech companies. Through KB's subsidiary KB SmartSolutions, s.r.o., the Group acquired shares in the following companies: (i) upvest s.r.o. (18.9%), (ii) MonkeyData s.r.o. (11%), and (iii) Platební instituce Roger a.s. (24.83%). Also in 2020, Komerční banka incorporated together with Česká spořitelna and ČSOB the company Bankovní identita, a.s. As of 31 December 2020, Komerční banka held a 33.33% share in that company.

Information on values and changes in equity investments is provided in the Separate Financial Statements according to IFRS, Note 24 *'Investments in subsidiaries and associates'*.

Summary of the results of major companies in Komerční banka Group

(CZK million, IFRS)	Group Holding (%)*	Total assets		Shareholders' equity		Net profit		Consolidation method
		2020	2019	2020	2019	2020	2019	
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100.00	89,284	83,988	6,228	5,900	327	712	Full
Komerční pojišťovna, a.s.	49.00	56,667	52,938	3,048	2,487	510	622	Equity
KB Penzijní společnost, a.s.	100.00	2,865	2,625	2,343	2,093	249	230	Full
SG Equipment Finance Czech Republic s.r.o.	50.10	32,518	30,917	2,919	2,827	91	255	Full
ESSOX s.r.o.	50.93	16,745	16,474	3,638	3,451	186	285	Full
Factoring KB, a.s.	100.00	9,206	10,226	1,671	1,581	70	61	Full
Protos, uzavřený investiční fond, a.s.	100.00	6,270	6,214	6,269	6,159	90	125	Full
VN 42, s.r.o.	100.00	1,867	1,839	1,828	1,809	19	(2)	Full
KB Real Estate, s.r.o.	100.00	896	912	530	516	15	11	Full
STD2, s.r.o.	100.00	561	574	217	201	16	15	Full
KB SmartSolutions, s.r.o.	100.00	129	47	125	45	(48)	(3)	Full
My Smart Living, s.r.o.	100.00	2	24	26	18	(24)	(15)	Not consolidated**
KB Advisory, s.r.o.	100.00	1	1	2	1	(1)	-	Not consolidated**
Platební instituce Roger, a.s.	24.83	80	n.a.	56	n.a.	(3)	n.a.	Not consolidated**
Foreign participations								
BASTION EUROPEAN INVESTMENT S.A.	99.98	3,130	3,157	626	607	0	(1)	Full
ESSOX FINANCE, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	2,245	2,523	261	240	13	7	Full

* KB direct and indirect holding.
** My Smart Living, s.r.o., KB Advisory, s.r.o., and Platební instituce Roger, a.s. are currently not consolidated due to insignificant impact on the financial statements.

KB Group companies conduct their business in the Czech Republic, except for ESSOX FINANCE, which operates in the Slovak Republic, and BASTION, which is financing an EU project in Belgium. Komerční banka is also active in Slovakia through a branch. SGEF operates in Czechia as well as Slovakia. Detailed information on the activities of KB Group companies is provided in the following text of this chapter.

Basic information on Komerční banka Group's major companies

Komerční banka, a.s., pobočka zahraničnej banky

In Slovakia, Komerční banka serves corporate clients through its branch, Komerční banka, a.s., pobočka zahraničnej banky (KB SK). KB's branch in the Slovak Republic serves large and medium-sized enterprises with turnover of EUR 40 million or more. The position of KB SK in its market niche is a strong one, underpinned by know-how of the parent KB and utilising the synergies of the KB and SG groups to provide its clients with comprehensive financial solutions. KB SK offers standard banking services, including cash management, direct banking, payment cards, financing, and investment banking products, as well as trade finance solutions.

Financial summary

(IFRS, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	30,163,621	28,972,436
Shareholder's equity	151,315	162,332
Loans to clients (gross)	22,594,756	23,378,549
Volume of deposits	4,180,152	4,251,203
Net operating income	451,455	461,900
Tax	(69,254)	(73,791)
Net profit	145,828	158,703
Average number of FTEs	42	42
Number of points of sale	1	1
State support	0	0

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Modrá pyramida stavební spořitelna, a.s.

Modrá pyramida is a fully owned subsidiary of KB. This second-largest building savings bank in the Czech Republic as measured by loan volume has a 21% market share.[1)] Main products offered by Modrá pyramida include state-subsidised savings accounts, bridging loans, and building savings loans. With its 618 advisors, Modrá pyramida's distribution network provides such additional products of KB Group as mortgages and KB bank services, supplementary pension saving, mutual funds, as well as life and non-life insurance.

Financial summary

(IFRS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	89,311,435	84,023,044
Shareholder's equity	6,256,374	5,932,378
Loans to clients (gross)	64,371,840	56,289,070
Volume of deposits	60,718,392	61,806,774
Net operating income	1,161,474	1,371,214
Tax	(13,235)	(44,470)
Net profit	323,238	707,534
Average number of FTEs	327	328
Number of points of sale	201	205
State support	0	0

* Not audited.

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1) Source: comparison of internal data with reporting of other building societies and CNB ARAD statistics at https://www.cnb.cz/docs/ARADY/HTML/index_en.htm

KB Penzijní společnost, a.s.

A fully owned subsidiary of Komerční banka, KB Penzijní společnost's core business is to collect contributions and manage them in pension funds pursuant to the Supplementary Pension Savings Act and as supplementary pension insurance in the Transformed Fund.

By number of participants, this pension company has a 13% share in the supplementary pension savings market (3rd pillar) and an 11% share in the pension insurance market (Transformed Fund).[2)]

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Assets under management**	68,551,091	63,773,595
of which		
in Transformed Fund	58,856,537	56,324,780
Shareholder's equity	2,128,243	1,840,115
Net operating income	436,660	414,624
Tax	(58,391)	(54,935)
Net profit	249,545	230,336
Average number of FTEs	47	48
State support	0	0

* CAS: Czech Accounting Standards, not audited.
** Total volume on client accounts.

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2) Source: Association of Pension Funds of the Czech Republic, https://www.apfcr.cz/ctvrtletni-vysledky-2020/

SOCIETE GENERALE Equipment Finance

SG Equipment Finance Czech Republic s.r.o.

SGEF is owned by Komerční banka (50.1%) and SGEF SA (49.9%). Through KB and its own network of seven branches in the Czech Republic and two in Slovakia, this company provides financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-technology, real estate, and special projects by leasing and lending.

SGEF has an 11% market share in the non-bank financing market in the Czech Republic as measured by the financed amount (excluding consumer loans).[1)]

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	33,459,590	31,924,310
Shareholders' equity	2,879,221	2,863,261
Volume of new financing	12,413,392	13,375,989
Net operating income	144,798	427,418
Tax	-19,660	-80,574
Net profit	15,960	299,939
Average number of FTEs	142	140
State support	0	0

* CAS: Czech Accounting Standards, preliminary results, not audited.

Contact:
SG Equipment Finance
Czech Republic s.r.o.
náměstí Junkových 2772/1,
155 00 Prague 5
ID: 61061344
Phone: +420 955 526 700
E-mail: info@sgef.cz
Internet: https://equipmentfinance.societegenerale.cz/

[1)] Source: Czech Leasing and Finance Association, data as of 31 December 2020. https://www.clfa.cz/data/dokumenty/1167-rok-2020produktykomodity.xls

ESSOX

ESSOX s.r.o.

Owned by Komerční banka (50.93%) and SG FINANCIAL SERVICES HOLDING (49.07%), ESSOX is a non-bank provider of consumer loans and financial leasing for consumers and performs activities of payment institutions within the scope of payment services under a licence from CNB.

ESSOX has a 19% market share in consumer lending provided to households by companies associated in the Czech Leasing and Finance Association.[2)] Main products include financing of consumer goods and automobiles, general purpose loans, and revolving credit (credit cards).

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	16,580,213	16,333,596
Shareholders' equity	3,497,535	3,310,782
Amounts due from clients (gross)	15,476,280	14,934,532
Net operating income	885,311	948,579
Tax	(53,107)	(59,391)
Net profit	185,545	280,844
Average number of FTEs	359	363
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
ESSOX s.r.o.
F. A. Gerstnera 52
370 01 České Budějovice
ID: 267 64 652
Phone: +420 389 010 111
E-mail: essox@essox.cz
Internet: www.essox.cz

[2)] Source: Czech Leasing and Finance Association, data as of 31 December 2020. https://www.clfa.cz/data/dokumenty/1167-rok-2020produktykomodity.xls

ESSOX Finance

ESSOX FINANCE s.r.o.

ESSOX FINANCE (formerly PSA FINANCE SLOVAKIA, s.r.o.), a fully owned subsidiary of ESSOX, providing its services through the Peugeot and Citroën brands. Financial and insurance services include financial leasing, consumer credit, accident insurance for motor vehicles, liability insurance for motor vehicles, loss insurance, and operational leasing (the last of which is outsourced). The company also provides inventory financing to authorised dealers selling new Peugeot and Citroën cars.

Financial summary

(SAS*, EUR thousand)	31 Dec 2020	31 Dec 2019
Total assets	85,280	99,033
Shareholder's equity	9,757	9,402
Amounts due from clients (gross)	84,234	97,585
Net operating income	3,349	3,235
Tax	(69)	(157)
Net profit	312	171
Average number of FTEs	32	30
State support	0	0

* SAS: Slovak Accounting Standards, not audited.

Contact:
ESSOX FINANCE, s.r.o.
Karadžičova 16
821 08 Bratislava, Slovakia
ID: 35846968
Phone: +421 5348 37 50
Internet: http://www.essoxfin.sk

KB Factoring

Factoring KB, a.s.

Factoring KB is a fully owned subsidiary of Komerční banka and is the largest factoring company in the Czech Republic. It has a 27% share on the Czech factoring market according to the volume of receivables transferred.[1)]

Through its own and KB's networks, the company provides the following products: domestic factoring, export factoring, import factoring, modified factoring, and receivables management.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	15,022,150	16,411,331
Shareholder's equity	1,671,510	1,581,849
Factoring turnover	49,849,164	54,019,832
Amounts due from clients (gross)	14,141,255	15,564,488
Net operating income	153,064	171,078
Tax	(17,819)	(17,513)
Net profit	70,623	61,633
Average number of FTEs	42	44
State support	932	0

* CAS: Czech Accounting Standards, not audited.

Contact:
Factoring KB, a.s.
náměstí Junkových 2772/1
155 00 Prague 5
ID: 25148290
Phone: +420 955 526 906
E-mail: info@factoringkb.cz
Internet: www.factoringkb.cz

1) Source: Czech Leasing and Finance Association, data as of 31 December 2020, https://www.clfa.cz/data/dokumenty/1169-statistika-afscr-1-12-20201-form.xlsx

KB Pojišťovna

Komerční pojišťovna a.s.

The shareholders of Komerční pojišťovna are SOGECAP (51%) and Komerční banka (49%). This insurance company has a 3% share in the life insurance market (according to methodology of the Czech Insurers Association, measured by premiums written).[2)]

Main products include: savings life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans and non-life insurance for residential real estate and households.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	53,867,941	49,663,044
Shareholders' equity	3,279,419	2,233,950
Technical reserves (gross)	51,065,226	48,899,752
Gross premium written	7,500,425	8,310,265
Tax	(90,030)	(133,443)
Net profit	392,693	580,677
Average number of FTEs	232	222
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
Komerční pojišťovna a.s.
Karolinská 1/650
186 00 Prague 8
ID: 63998017
Phone: +420 222 095 999
E-mail: servis@komercpoj.cz
Internet: www.kb-pojistovna.cz/

2) Source: Czech Insurance Association, https://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/final_na_v%C3%BDm%C4%9Bnu_STAT-2020Q4-CAP-CS-2021-02-04-WEB.pdf

BASTION EUROPEAN INVESTMENTS S.A.

The ownership share of Komerční banka a.s. in BASTION was 99.98% as of 31 December 2020. BASTION is a special purpose vehicle, based in Belgium, intended for financing a long-term transaction of the European Union. Given the long-term profile of this transaction, BASTION was financed by both a long-term loan and KB's own capital. This transaction helps to diversify the KB portfolio by adding a financial asset with a very low-risk profile.

Financial summary

(IFRS*, EUR thousand)	31 Dec 2020	31 Dec 2019
Total assets	119,273	124,243
Shareholders' equity	23,887	23,874
Loans to clients (gross)	95,385	100,362
Volume of deposits	0	0
Net operating income	34	(9)
Tax	(4)	26
Net profit	13	(36)
Average number of FTEs	0	0
State support	0	0

* Not audited.

Contact:
BASTION EUROPEAN INVESTMENTS S.A.
Rue des Colonies 11
1000 Brussels
Belgium
ID: BE 0877.881.474
E-mail: operations@bastion-ei.be

VN 42 s.r.o.

VN 42 s.r.o. was fully owned by Komerční banka as of 31 December 2020.

VN 42 s.r.o. was established in 2013 to provide administration and maintenance for real property and real estate services. In 2013, KB placed into this company KB's headquarters at Wenceslas Square 42, which VN 42 s.r.o. subsequently leased to Komerční banka.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	1,867,068	1,838,763
Shareholder's equity	1,828,239	1,809,158
Net operating income	185,046	180,717
Tax	(22,794)	(17,841)
Net profit	19,081	(2,305)
Average number of FTEs	0	0
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
VN 42 s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 02022818

KB Real Estate s.r.o.

KB Real Estate s.r.o was fully owned by Komerční banka as of 31 December 2020.

KB Real Estate s.r.o. was established in 2011 to provide administration and maintenance of real property and real estate services. In 2012, KB Real Estate acquired the office building in Stodůlky, which was subsequently leased to KB.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	896,400	911,995
Shareholder's equity	530,370	515,552
Net operating income	67,662	65,252
Tax	(3,476)	(2,605)
Net profit	14,817	11,107
Average number of FTEs	0	0
State support	0	0

* CAS: Czech Accounting Standards, not audited..

Contact:
KB Real Estate s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 24794015

STD2 s.r.o.

STD2 s.r.o. was fully owned by Komerční banka as of 31 December 2020.

The company STD2 s.r.o. (originally named Office Center Stodůlky a.s.) was purchased in 2017 and owns the office building in Stodůlky, whose construction was completed in 2018. The company STD2 s.r.o. rents office space to KB.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	561,397	573,550
Shareholder's equity	216,866	200,870
Net operating income	43,444	42,914
Tax	(3,752)	(3,540)
Net profit	15,996	15,082
Average number of FTEs	0	0
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
STD2 s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 27629317

Protos, uzavřený investiční fond a.s.

Komerční banka's ownership share in Protos as of 31 December 2020 was 83.65% and that of Factoring KB was 16.35%.

Protos, uzavřený investiční fond a.s. (a closed-end investment fund) was established in 2007 as a fund for qualified investors. The company invests predominantly in primary issues of government bonds and other receivables issued or guaranteed by governments of European Union member states. The company's long-term intention is to provide a regular and equitable dividend that follows the principle of accrued revenues and costs in the company's accounts. For this reason, the company prefers to minimise purchases and sales into and from the asset portfolio in such a way that trading gains and losses do not create additional dividend volatility.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	6,303,972	6,240,911
Shareholders' equity	6,301,405	6,184,964
Net operating income	95,456	132,314
Tax	(4,736)	(6,570)
Net profit	89,987	124,825
Average number of FTEs	0	0
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
Protos, uzavřený investiční fond a.s.
Rohanské nábřeží 693/10,
Prague 8, 186 00 Karlín
ID: 27919871

KB SmartSolutions, s.r.o.

As of 31 December 2020, Komerční banka fully owned KB SmartSolutions, s.r.o.

On 7 January 2019, KB SmartSolutions, s.r.o. was established to facilitate the preparation of some new KB Group services. The company focuses on supporting the financing and development of external start-up companies, but it also provides support to and for internal innovative solutions.

Financial summary

(CAS*, CZK thousand)	31 Dec 2020	31 Dec 2019
Total assets	131,540	47,209
Shareholder's equity	127,447	45,174
Net operating income	9,580	3,366
Tax	0	0
Net profit	(45,727)	(2,926)
Average number of FTEs	6	4
State support	0	0

* CAS: Czech Accounting Standards, not audited.

Contact:
KB SmartSolutions, s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 02021161
Phone: +420 605 204 618
Internet: https://www.kbsmart.cz/

My Smart Living, s.r.o.

KB SmartSolutions fully owned My Smart Living, s.r.o. as of 31 December 2020.

At the beginning of July 2020, it was decided to discontinue further financing of the Cincink real estate portal, which is operated by My Smart Living, s.r.o. The Bank will use the experience which it has gained within its Housing tribe.

Contact:
My Smart Living, s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 02021161
Phone: +420 211 155 154
E-mail: cink@cincink.cz
internet: https://www.cincink.cz

KB Advisory, s. r. o.

KB SmartSolutions fully owned the company KB Advisory as of 31 December 2020.

KB Advisory, s. r. o. was established on 16 September 2019 as a consultancy for small and medium-sized enterprises and municipalities.

Contact:
KB Advisory, s. r. o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 02021161

upvest s.r.o.

KB SmartSolutions owned an 18.90% share in upvest s.r.o. as of 31 December 2020.

KB SmartSolutions invested in upvest, s.r.o. in July 2020. Upvest s.r.o. is a fintech company that provides real estate crowdfunding investments in the form of participation in debt financing of development projects. Upvest s.r.o. fully owns four subsidiaries: (i) upvest equity s.r.o., (ii) upvest equity I s.r.o., (iii) upvest equity II s.r.o., and (iv) upvest equity III s.r.o.

Contact:
upvest s.r.o.
Purkyňova 648/125
612 00 Brno-Medlánky
ID: 05835526
Phone: +420 773 633 925
E-mail: info@upvest.cz
Internet: www.upvest.cz

MonkeyData s.r.o.

KB SmartSolutions owned an 11% share in MonkeyData s.r.o. as of 31 December 2020.

KB SmartSolutions invested in MonkeyData s.r.o. in October 2020. MonkeyData s.r.o. fully owns a subsidiary, Lemonero, s.r.o., which provides financing to e-shops utilising an AI-powered scoring model.

Contact:
MonkeyData s.r.o.
Hladnovská 1255/23,
710 00 Ostrava – Slezská Ostrava
ID: 02731452
E-mail: support@monkeydata.com
Internet: www.monkeydata.com

Lemonero s.r.o.
Hladnovská 1255/23,
710 00 Ostrava – Slezská Ostrava
ID: 08795860
Phone: +420 732 560 130
E-mail: info@lemonero.cz
Internet: www.lemonero.cz

Platební instituce Roger a.s.

KB SmartSolutions, s.r.o. owned a 24.83% share in Platební instituce Roger a.s. as of 31 December 2020.

KB SmartSolutions invested in Platební instituce Roger a.s. in December 2020. Platební instituce Roger a.s. fully owns two subsidiaries: (i) Invoice Financing s.r.o. and (ii) Roger Finance s.r.o. Platební instituce Roger a.s. connects investors with companies which seek fast financing of their long due date receivables. It also provides a supply chain financing platform for large customers.

Contact:
Platební instituce Roger a.s.
Kopečná 940/14,
602 00 Brno – Staré Brno
ID: 01729462
Phone: +420 545 217 434
E-mail: info@roger.cz
Internet: www.roger.cz

Bankovní identita, a.s.

Komerční banka owned a 33.33% share in Bankovní identita, a.s. as of 31 December 2020.

Established on 15 September 2020, the goal of Bankovní identita, a.s. was to make usage of client banking identification available to other online service providers in the Czech Republic. The company was established by the three largest Czech banks, namely Česká spořitelna, ČSOB, and Komerční banka.

Contact:
Bankovní identita, a.s.
Smrčkova 2485/4,
180 00 Prague 8 – Libeň
ID: 09513817
E-mail: info@bankovni-identita.cz
Internet: www.bankovni-identita.cz

Corporate governance

(A separate part of the annual report pursuant to § 118 (4) (c), (d), (e), (j), (l) and (5) (a)–(k) and (6) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

Komerční banka acceded to and upholds all the principal standards of the Corporate Governance Code of the Czech Republic (2018) issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular, G20 / OECD Principles of Corporate Governance from 2015). Its full text in Czech is available at https://www.mfcr.cz/cs/o-ministerstvu/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812 (hereinafter referred to as the “Code”).

Komerční banka’s Board of Directors applies and develops the aforementioned principles of corporate governance in a spirit of transparency, accountability, and long-term prospects, and it translates these best practices into its internal procedures and regulations.

Compliance with the Code is maintained through the Bank’s open approach to disclosing information on material matters of the Bank, in particular concerning its financial position, dividend policy, performance, ownership, corporate governance, and company management. The financial reports provide a true and fair view of the Bank’s accounting and financial position. Shareholders are informed in a timely manner as to the date, location, and agenda of the General Meeting, the proposals of the individual resolutions and their rationale, including information on the proposal for paying out the share in profit and the method of this payment. Shareholders are informed of their rights relating to their participation in the General Meeting, including a description of how to participate in the General Meeting, whether in person or on the basis of a power of attorney, and have at their disposal in advance materials concerning the agenda of the General Meeting. The invitation to the General Meeting also explains the rules and voting procedures governing the General Meeting. Since 2019, shareholders have been able to vote on motions for resolutions before the general meeting is held via the electronic platform for remote communication. All this information is available on the Bank’s website and in the press, and press releases are issued regularly.

Furthermore, the Code is fulfilled by the chosen management system. The Bank has a two-tier management system that entails a separation of the executive and control functions. The Board of Directors performs all key functions of the Bank’s management. Operational management is divided among the individual members of the Board, and each member of the Board has competence over a certain area of the Bank’s activities (functional division). The Board of Directors nevertheless decides collectively at its meetings, which are held regularly at two-week intervals. Under the Bank’s Articles of Association, members of the Board are subject to rules and regulations over conflicts of interest even stricter than as defined by Act No. 90/2012 Coll., on Business Corporations. They are obliged to inform the Board of Directors and Supervisory Board of any existing or even potential conflicts of interest relating to functions they perform in any other legal entity and are obliged to abstain from voting on all matters concerning the Bank’s relationship to any such legal entity. The Bank’s governance and management system provides members of the Board of Directors and Supervisory Board with timely and relevant information important for the performance of their functions. The Board of Directors and Supervisory Board apply proper and effective procedures relating to their conduct, while keeping and retaining records of the decisions taken.

The Supervisory Board is a control body supervising the activities of the Board of Directors and of the entire Bank. Two of the Supervisory Board’s nine members are independent and three are employee representatives. The Supervisory Board is to establish Audit, Risk, Nominations, and Remunerations committees. Members of the Audit Committee are appointed by the General Meeting. The majority of members of the Audit Committee, including the Chairperson, are independent and professionally qualified. The Audit Committee plays an important role in supervising the Bank’s proper management, the independence and objectivity of the external auditor, the auditor’s conduct of the mandatory audit, effectiveness of the risk management systems (together with the Risk Committee), and mechanisms of internal management and control. The Risk Committee monitors the Bank’s approach to risk, its strategy in the risk area, acceptable levels of risk, and risk management.

The Bank applies a policy of diversity. The Supervisory Board endeavours within the scope of its competence to ensure that the Board of Directors and Supervisory Board consist of persons with appropriate professional, time-related, and other requirements for the performance of their duties, that both bodies are balanced in terms of professional competence and experience, and that the composition of the Board of Directors and the Supervisory Board as a whole is diverse by taking into account the requirements of the Bank for the specifics of its business. For this purpose, the Nominations Committee of the Supervisory Board of Komerční banka has adopted the Principles of Suitability for the Supervisory Board and the Board of Directors. These principles reflect the tenets of corporate governance, EBA guidelines for assessing suitability of senior management and key management personnel, requirements of the Act on Business Corporations, the Banking Act, CNB Decree No. 163/2014 Coll., and Stock Exchange Standards. The Bank has also implemented tools to assess the collective and individual suitability of the members of both bodies. In nominating candidates for open positions on the Supervisory Board and Board of Directors, the Nominations Committee follows the stated principles and instructions and assesses first the balance of professional competence and experience and the diversity of the Supervisory Board's and Board of Directors' composition as a whole (diversity is assessed in terms of experience, education, qualifications, profession, social position, gender, nationality, and age), the profile of the current members of the Supervisory Board and Board of Directors and their specific knowledge, the candidate's professional competence, experience, professional achievements, understanding of the Bank's activities and its main risks on the candidate's side and, last but not least, his or her moral profile and integrity. The age of a candidate for membership of the Supervisory Board should not exceed 70 years and a member of the Supervisory Board should not be a member of the supervisory board of the same company for more than 12 years. The Nominations Committee also considers the target representation of the less represented gender according to the accepted principles and the candidate's time availability considering the time requirements of the obligations connected with performing the membership function. In nominating candidates, if candidate profiles are equal, the less represented sex will be preferred. The Bank takes diversity into account when selecting new members in accordance with EBA / GL / 2017/12.

Currently, three out of nine members of the Supervisory Board are women. The gender representation of the Supervisory Board complies with the accepted principles of suitability. The composition of the Board of Directors is gradually being fulfilled. In 2020, a woman was elected a member of the six-member Board of Directors on the basis of a proposal from the Nomination Committee. Candidates undergo assessment and evaluation as to their fulfilling the credibility, knowledge, experience, management, and independence requirements and respond to questions prepared for evaluating their suitability for the Bank's bodies. They submit a professional CV, an extract from the criminal record, and references. Once a year, the Nominations Committee evaluates the trustworthiness, professional competence, and experience of the individual members of the Supervisory Board and the Board of Directors and of the two bodies as a whole and submits reports on this evaluation to the Supervisory Board. These evaluations form the basis for seeking candidates for open positions and for ensuring that the two Boards as a whole as well as their members have suitable professional, time-related, and other requirements for performing their activities. In terms of diversity, the members of the two bodies differ with regard to, for example, their age, gender, geographical origin, education and professional experience, thus allowing for various views within the governing body and thus meet the requirements of the EBA Guidelines.

Since 14 January 2019, one-third of the Supervisory Board's members have consisted of employees' representatives, thus ensuring the proper and effective exercise of the Bank's employees' rights to elect one-third of the Supervisory Board members and the possibility to be elected as a Supervisory Board member. Two members of the Supervisory Board are independent. Information as to which members are independent is provided in this annual report. Independent members sign a solemn declaration confirming their independence. The assessment of independence is based on the profile of independent members of the Supervisory Board set out in Commission Recommendation 2005/162 / EC of 15 February 2005, in particular in Annex II. EBA's requirements for independence of the members of the Supervisory Board are implemented in KB.

The Board of Directors and Supervisory Board co-ordinate with each other the main strategies and changes in the management direction of the Bank. The Board of Directors shall periodically provide the Supervisory Board with information on the state of implementing these changes and all relevant facts concerning the Bank and its controlled companies.

There were no fundamental changes during 2020 that would adversely influence the aforementioned standards for the Bank's corporate governance. Komerční banka will continue to respect the principles of corporate governance, inasmuch as these best correspond to the Bank's business model as well as the interests of the Bank and its shareholders and employees.

Shareholders and the General Meeting

Komerční banka's share capital totals CZK 19,004,926,000 and is divided into 190,049,260 ordinary listed shares admitted to trading on the European regulated market, each with a nominal value of CZK 100. All the Bank's shares carry the same rights.

Major shareholders of Komerční banka owning more than 1% of the share capital as of 31 December 2020
(per the extract from the issuers register taken from the Central Securities Depository)

Shareholder	Proportion of share capital
Société Générale S.A.	60.353%
Nortrust Nominees Limited	4.264%
Chase Nominees Limited	4.114%
CLEARSTREAM BANKING, s.a.	2.206%
GIC PRIVATE LIMITED	1.361%
STATE STREET BANK AND TRUST COMPANY	1.076%
Other shareholders	26.626%

Shareholder structure of Komerční banka as of 31 December 2020
(per the extract from the issuers register taken from the Central Securities Depository)

		Number of shareholders	Proportion in number of shareholders	Proportion of share capital
Number of shareholders		**57,001**	**100 %**	**100%**
of which:	legal entities	725	1.27%	91.99%
	private individuals	56,276	98.73%	8.01%
Legal entities		**725**	**1.27%**	**91.99%**
of which:	from the Czech Republic	294	0.52%	1.95%
	from other countries	431	0.75%	90.04%
Private individuals		**56,276**	**98.73%**	**8.01%**
of which:	from the Czech Republic	51,444	90.25%	7.67%
	from other countries	4,832	8.48%	0.34%

The Bank has no requirements for ownership of the Bank's shares by members of the Board of Directors.

The General Meeting is the supreme body of the Bank. The Regular General Meeting is convened at least once per year, and in no case later than four months from the last day of each accounting period. A quorum of the General Meeting shall be constituted if the attending shareholders hold shares the total nominal value of which exceeds 30% of the Bank's registered capital and are entitled to vote. The quorum is confirmed at the time of convening the General Meeting and always before each vote. The General Meeting shall approve resolutions by a majority of votes of the attending shareholders unless legal regulations or the Articles of Association require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the invitation to the General Meeting, which contains proposed resolutions and their justification and further information about the conditions of shareholders' participation, execution of shareholder rights, and the main information from the financial statements. At least 30 days prior to the General Meeting, the General Meeting shall be convened by means of a public notice calling the General Meeting, which shall be posted on the Bank's website www.kb.cz and on the notice board in the Bank's registered office, as well as published in the Mladá Fronta DNES daily newspaper. All documents relating to corporate governance are published on the Bank's website. Issues not included in the proposed agenda for the General Meeting are decided upon only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board of Directors or a person designated by the Board of Directors. This member of the Board of Directors shall also conduct the General Meeting until a Chairperson of the General Meeting is elected.

Unless otherwise stipulated by law or the Articles of Association, all persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out using an electronic voting system. Each CZK 100 of nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted upon first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted upon in the sequence in which they have been presented. Should such a proposal or counter-proposal be approved in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

The Articles of Association allow the possibility of correspondent voting before the general meeting if the Bank's Board of Directors so decides and while thus voting under the conditions specified in the invitation to the General Meeting.

The General Meeting has within its powers to:

a) decide upon changes to the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the authorised Board of Directors or a change made on the basis of other legal circumstances;
b) decide upon a change in the amount of the registered capital, except that, unless it is reduced to cover a loss, the registered capital may be reduced only upon prior approval of the Czech National Bank;
c) elect and remove two-thirds of members of the Supervisory Board; elect and remove members of the Audit Committee;
d) approve the Board of Directors' reports regarding the Bank's business activities and the state of its property, at least once per accounting period;
e) decide upon the possibility of setting off a monetary claim of the Bank against a claim to be used for payment of the issue price, including the draft of the relevant contract for set-off;
f) decide upon a change in the class or type of the shares;
g) decide to issue convertible or priority bonds of the Bank;
h) decide to modify the rights attached to individual classes of the shares;
i) approve the regular financial statements, extraordinary financial statements, consolidated financial statements, and, as established by law, interim financial statements;
j) decide upon distribution of profit or other funds of the Bank or coverage of a loss;
k) approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide on transformation of the Bank, unless the act regulating transformations of companies and co-operatives establishes otherwise, provided that prior consent of the Czech National Bank has been given where so required by law;
m) decide to wind up the Bank with the prior consent of the Czech National Bank;
n) approve proposed distribution of the liquidation balance of the Bank's assets;
o) decide to file for admitting the participation securities of the Bank to trading in the European regulated market or for excluding these securities from trading in the European regulated market;
p) approve the transfer or pledging of an enterprise or such part thereof entailing a substantial change to the existing structure of the enterprise or a substantial change to the business activities of the Bank;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified by law;
r) decide to acquire the Bank's shares into treasury in accordance with the applicable provisions of the Act on Business Corporations;
s) decide upon elimination or restriction of the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Act on Business Corporations;
t) approve the acquisition or disposal of assets, when the law so requires;
u) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
v) convey principles and instructions to the Board of Directors of the Bank (with the exception of instructions regarding the business management of the Bank unless provided to the

Board of Directors upon its request); and approve principles and convey instructions to the Supervisory Board (with the exception of instructions regarding the statutory duty to check the competence of the Board of Directors);

w) provide its consent regarding a contract for settlement of a loss caused by a breach of the duty of due care on the part of a member of a body of the Bank;

x) decide upon suspending the service of a member of a body of the Bank who declares a conflict of interest under the Act on Business Corporations, or prohibit a member of a body of the Bank from entering into a contract which is not in the Bank's interest;

y) decide that the amount of variable remuneration for persons whose work activities have a material impact on the risk profile of the bank may be higher than the fixed remuneration component but not more than twice the fixed component of the remuneration;

z) decide upon other matters which according to the generally binding legal regulations or the Articles of Association are a part of the powers of the General Meeting.

The results and information from the General Meeting are available on Komerční banka's website www.kb.cz.

In 2020, due to the Covid-19 epidemic, Komerční banka proceeded to decide "per rollam" on the General Meeting instead of holding an attended General Meeting on the basis of Lex Covid (i.e. Act No. 191/2020 Coll., on certain measures to mitigate the effects of the SARS CoV-2 coronavirus epidemic on persons participating in court proceedings, aggrieved parties, victims of crime, and legal persons, and on amendments to the Insolvency Act and the Enforcement Code). Lex Covid temporarily allows the Bank's shareholders to make decisions in writing outside the General Meeting, i.e. to make decisions per rollam, even if the Bank's articles of association do not allow it.

Principle resolutions of Komerční banka's Annual General Meeting held in 2020

When voting per rollam, the legal rule "who is silent, disagrees" was applied. The quorum for voting is calculated from the votes of all shareholders.

The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2019 as well as the annual financial statements and consolidated financial statements of Komerční banka for the year 2019, and decided on the profit distribution by keeping the entire profit in the total amount of CZK 14,816,452,741.94 in retained earnings of previous years. The Annual General Meeting also:

- elected Mrs Maylis Coupet as a member of the Supervisory Board
- approved the Remuneration Policy
- appointed the company Deloitte Audit s.r.o., with its registered office at Italská 2581/67, Vinohrady, 120 00 Praque 2, registration No. 49620592, as the external auditor of Komerční banka for 2020 and the company Deloitte Audit s.r.o. with its registered office at Digital Park II, Einsteinova 23, Bratislava 851 01 as the auditor of KB's foreign branch in Slovakia.

Additional information in accordance with § 118 (5), (i), (j), and (k) of the Act on Capital Market Undertakings

Komerční banka is not aware of any contracts made between its shareholders as a result of which the transferability of shares or of voting rights would become more complicated. The Bank has entered into no significant contracts which take effect, are altered, or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. The Bank has not established any programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities, or other rights under preferential conditions.

Information about special rules on the revision of the Bank's Articles of Association

According to the Bank's Articles of Association, decisions on amendments to the Articles of Association are within the powers of the General Meeting. Proposed resolutions for amendments to the Articles of Association and their justification are provided in the invitation to the General Meeting. Proposed changes in the Articles of Association are available for shareholders' inspection at no charge at the Bank's headquarters and on its website for the period established for convening of the General Meeting. The Bank shall notify its shareholders of these rights in the invitation to the General Meeting.

If a shareholder wishes to raise counter-proposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obliged to deliver the written wording of such proposal or counter-proposal to the Bank no later than five business days prior to the day of the General Meeting. The Board of Directors shall notify its shareholders of the wording of the counter-proposal along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting.

Decisions on changes in the Articles of Association are made by the General Meeting and carried by two-thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board, or of one or more shareholders in accordance with the Act on Business Corporations and the Articles of Association. Decisions on changes in the Articles of Association must be recorded by notarial deed containing the approved text of the wording of changes in the Articles of Association. Komerční banka is obliged to report to the Czech National Bank its intention to make changes in the Articles of Association relating to those particulars which must be stated in the Articles of Association based on a requirement set forth by law.

Board of Directors

The Board of Directors is the corporate body which manages the Bank's activities. The Board of Directors is charged with business management, including to ensure the proper keeping of the Bank's accounting records, integration of the accounting system and financial reporting, reliability of financial and operating control, smooth conduct of activities and the Bank's operations on the financial market in compliance with the object and plan of its activities. The Board ensures consistent and effective implementation of the risk management, compliance, and internal audit functions. The Board of Directors further ensures the creation of a comprehensive and adequate management and control system, ensures its compliance with legal regulations, and is responsible for its continuous functioning and effectiveness. The Board of Directors ensures establishment and maintenance of the management and control system so as to ensure the adequacy of information and communication in conducting the Bank's operations.

The Board of Directors shall decide upon all matters concerning the Bank unless assigned to the competence of the General Meeting, the Supervisory Board, or the Audit Committee by law or by the Articles of Association. The Board of Directors consists of six members, natural persons, who satisfy the conditions established in legal regulations for serving as a member of the Bank's Board of Directors and who are elected for four-year terms by an absolute majority of all Supervisory Board members at the recommendation of the Nominations Committee. The Nominations Committee ensures the trustworthiness, adequate professional qualifications, and experience of the members of the Board of Directors, and that the expertise of the members of the Board of Directors encompasses the requirements demanded of the Board of Directors as a whole for managing the Bank's activities. The professional qualifications, trustworthiness, and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations, or other sanctions have been brought against them by any regulatory body. No bankruptcy, receivership, or liquidation has been declared in relation to the stated persons during the past 5 years.

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Didier Colin has concluded an employment contract with Société Générale S.A., and he was delegated to serve as a director of the Bank.

Method of performing acts in law on the Bank's behalf

The Board of Directors, as the Bank's authorised body, shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.

Composition of the Board of Directors in 2020

Jan Juchelka
Chairman of the Board of Directors (since 3 August 2017, previously a member of the Board of Directors from 1 July 2006, re-elected on 2 July 2010, membership terminated as of 31 July 2012)

Didier Colin
Member of the Board of Directors (since 1 October 2017, previously a member of the Board of Directors from 9 October 2004, re-elected on 10 October 2008, membership terminated as of 31 December 2010)

David Formánek
Member of the Board of Directors (since 1 August 2018)

Jitka Haubová
Member of the Board of Directors (since 4 June 2020)

Miroslav Hiršl
Member of the Board of Directors (since 1 August 2018)

Vladimír Jeřábek
Member of the Board of Directors (since 1 June 2008, membership terminated on 3 June 2020)

Margus Simson
Member of the Board of Directors (since 14 January 2019)

Jan Juchelka
A graduate of the Silesian University in Opava, he worked in the National Property Fund of the Czech Republic from 1995, and during 2002 to 2005 he was Chairman of its Executive Committee. From 1999 to 2006, he was a member of the Supervisory Board of Komerční banka. He joined Komerční banka in 2006, first as head of Prague's Corporate Banking Business Division and later that year he became a member of the Board of Directors responsible for managing Top Corporations and Investment Banking. From 2012, he worked in the Société Générale headquarters in Corporate and Investment Banking as Managing Director, Head of Coverage with responsibility for corporate clients in the Central and Eastern European Region, Middle East, and Africa. He also worked as Senior Banker for the Central and Eastern European Region. Since April 2020, Mr. Juchelka has been a member of the National Economic Council of the Government (NERV). KB's Board of Directors elected Mr Juchelka as Chairman of the Board of Directors and Chief Executive Office of Komerční banka with effect from 3 August 2017.

Didier Luc Marie Colin
A graduate in finance from Dauphine University in Paris and also City University of New York (MBA), he has many years' experience within Société Générale Group, where he started working during the early 1990s in the Inspection arm. In 2000, he was promoted to Deputy Country Manager and subsequently to Country Manager for Canada. From this position, he moved into Komerční banka in 2004 as Member of the Board of Directors responsible for Risk Management. In 2011, he became Director for the European Region; as part of this function, he supervised Société Générale's activities in the Central and Eastern European Region. From 2013, he was deputy to the CEO of BRD Romania

responsible for managing the bank's risk management. With effect from 1 October 2017, he was elected by the Supervisory Board as a member of the Board of Directors of Komerční banka in charge of Risk Management.

David Formánek
A graduate of the University of Economics in Prague in the field of foreign trade economics. From 1993 to 2001, he worked within the branch of Deutsche Bank AG in Prague. Between 2001 and 2014, he worked at Komerční banka, first as Deputy Director and subsequently as Director of the Prague Business Division, then as Deputy Director for Human Resources and Executive Director for Human Resources. Between 2014 and 2018, he worked as CEO and Chairman of the Board of Directors of Modrá pyramida. Since August 2018, he has been a member of the Board of Directors of Komerční banka.

Jitka Haubová
She graduated from the University of Economics in Prague, majoring in finance and accounting, graduated in Financial Management from Galilee College in Israel, obtained a Certificate of Structural Funds Specialist from the European Commission and is a certified international auditor for quality processes. At the beginning of her professional career, she joined the government agency CzechTrade, where she also held the position of CEO. For several years she co-owned a family cafe and restaurant. Jitka Haubová joined KB in 2006 in the Trade Finance Department. Since 2012, she has held various managerial roles in Corporate and Municipal Banking, which she has managed for the last four years. Today, she is responsible for operations of the Bank, support services, and the payment system.

Miroslav Hiršl
A graduate from the University of Economics in Prague with a focus on foreign trade and banking and postgraduate studies at the Graduate School of Banking in Boulder, Colorado, United States of America. From 1996 to 2006, he worked in various positions within Komerční banka, first at a branch and a regional branch in Hradec Králové, then at a regional branch and at headquarters in Prague. From 2006 to 2014, he worked for Modrá pyramida, first as a director for business synergy, as a member of the Board of Directors, Deputy Chief Executive Officer, Executive Director of Sales and Marketing and finally as Deputy Chairman of the Board of Directors, First Deputy CEO, and Executive Director of Sales and Marketing. Between 2014 and 2018, he served as CEO and member of the Board of Directors of Société Générale Montenegro Bank, a.d. in Montenegro. Since August 2018, he has been a member of the Board of Directors of Komerční banka.

Margus Simson
An economics graduate of Tallinn University of Technology. From 2000 to 2006, he worked as a director of the Web Environment Department at SEB. From 2006 to 2009, he served as Director of Electronic Channels at Swedbank. From 2009 to 2013, he held various IT positions within Eesti Energia, the largest energy producer and supplier in Estonia. In 2014, he was Deputy Director of the Estonian Information Systems Authority Riigi infosüsteem Amet. From 2009 to 2017, he worked as a digital strategy expert and CEO at Ziraff, the largest digital services company in Estonia. From 2017 to 2019, he held the position of CDO and Digitalization Director at Luminor Bank. Effective from 14 January 2019, he was elected a member of the Board of Directors of Komerční banka by the Supervisory Board.

Concurrent membership of Board of Directors members

Members	Position	Company
Jan JUCHELKA	Chairman of the Supervisory Board	ESSOX
	Chairman of the Supervisory Board	ESSOX FINANCE (Slovensko)
	Chairman of the Supervisory Board	KB SmartSolutions
	Chairman of the Supervisory Board	Modrá pyramida stavební spořitelna
	Member of the Supervisory Board	ALD Automotive
	Member of the Supervisory Board	ALD Automotive Slovakia
	Member of the Supervisory Board	Komerční pojišťovna
	Member of the Supervisory Board	SG Equipment Finance Czech Republic
	1st vice-president	Czech Banking Association
Didier COLIN	Member of the Supervisory Board	ESSOX
	Member of the Supervisory Board	SG Equipment Finance Czech Republic
David FORMÁNEK	Member of the Supervisory Board	Modrá pyramida stavební spořitelna
Jitka HAUBOVÁ	Member of the Supervisory Board	Factoring KB
Miroslav HIRŠL	Vice-chairman of the Supervisory Board	Modrá pyramida stavební spořitelna
	Member of the Supervisory Board	Amundi Czech Republic Asset Management
	Member of the Supervisory Board	Amundi Czech Republic, Investiční společnost
	Member of the Supervisory Board	ESSOX
	Member of the Supervisory Board	KB Penzijní společnost
	Member of the Supervisory Board	KB SmartSolutions
	Member of the Supervisory Board	Komerční pojišťovna
Margus SIMSON	Member of the Supervisory Board	Bankovní identita
	Member of the Supervisory Board	Teeme Ära SA

Activity report of the Board of Directors

The Board of Directors convenes at its regular, periodic meetings, usually once every two weeks. Meetings are convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

In 2020, the Board of Directors met at 23 regular and 1 extraordinary meeting and held 15 remote votes in accordance with the Bank's Articles of Association. The average attendance rate at the meetings of the Board of Directors was 97%.
A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors.

In 2020, the Board of Directors discussed the annual financial results of KB Group for the year 2019, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2019 prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. The Board of Directors discussed and subsequently, in connection with the Covid-19 pandemic, revised, in accordance with the CNB's recommendation, a proposal for the distribution of profit for 2019, which it then submitted to the Supervisory Board for review.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, the proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. Moreover, it approved the Bank's Annual Report for 2019 and Half-yearly Report for 2020. It also was presented a contract with an external auditor and documents on the providing of non-audit services.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. It continuously evaluated the Bank's capital adequacy and approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions, and investment firms, as amended. In this context, the CNB also approved an ICAAP 2020 half-yearly report, which was also submitted to the CNB, as requested by the CNB. It approved the dividend policy in relation to the profit for the year 2020. Moreover, the Board of Directors discussed reports on the market situation, the development of structural risks for each quarter of the year, as well as the KB Group budget for 2020.

As part of its activities, the Board of Directors regularly assessed all of the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it discussed limits on market risks, and, within its competence, discussed loans to economically connected groups above a specified limit and the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department. Moreover, it approved competences in providing loans and the document on the level of so-called risk appetite. In the operational risks area, the Board of Directors discussed the regular quarterly reports. The Board dealt with IT areas and measures to ensure the IT stability of its operations, including the management of information security issues.

Compliance risks were evaluated both in the yearly report for 2019 and in quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2019 annual evaluation report on KB's system against money laundering and the financing of terrorism. It was informed on new regulations impacting the Bank and needing to be implemented as well as their expected development in the next year. It regularly discussed issues related to the Lafayette program (summary of the group regulatory activities implementing the highest standards in the area of fighting against corruption and financing of terrorism) and issues related to the so-called "know-your-customer" policy and at the same time approved inclusion of the Compliance Department under the Bank's Risk Management. The Board of Directors also addressed the issue of remedial measures (in accordance with Directive No. 2014/59/EU). The Board of Directors updated the list of those employees whose professional activities have a material impact on the Bank's risk profile.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It discussed reports on the status of corrective measures as of the end of each quarter of 2020 and was regularly informed of all actions carried out by Internal Audit. Management of corrective measures and their proper implementation were fully addressed. The Board of Directors discussed the audit plan of the KB Group for 2020 It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2021 and a strategic plan for the period 2021–2025 were established and approved. It discussed, too, measures (and status of their implementation) taken in accordance with the findings presented in the Constructive Service Letter which had been prepared and presented to the Board of Directors by the external auditor Deloitte Audit, s.r.o.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system. That system is functional and effective, although there are certain areas for improvement covered by appropriate action plans. Furthermore, the Board of Directors discussed the Bank's strategic direction for the next year and took appropriate steps to implement the KB Change programme. The Supervisory Board and Czech National Bank were informed about all these steps. The Board of Directors evaluated the overall organisational structure and organisational changes adopted during 2019 and subsequent periods. It concluded that the organisational set-up is functional and effective, meeting the requirements for the division of incompatible functions and the prevention of potential conflicts of interest.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters. In the course of 2020, the Board of Directors was involved in establishing a joint venture of banks, namely the company Bankovní identita a.s., which will be used to provide electronic identification, authentication, and trust-building services.

The Board of Directors, acting as founder, also discussed the directions of Komerční banka's Jistota Foundation, which will be more oriented towards sustainable development, and it was informed of the Foundation's activities. The Board of Directors approved a financial contribution for the Foundation's activities, and a contribution was further provided to the budget of the Debt Advisory Centre.

Great attention was given to the topics of sustainable development, as well as respect for environmental and social principles The Board of Directors also approved the distribution of competences among individual members. It further discussed the setting and evaluation of Key Performance Indicators for Members of the Board, executive officers, and tribe leaders. The Board of Directors dealt with matters related to the National Development Fund. It was kept continuously informed as to the state of collective bargaining, and two amendments to the collective agreement were concluded during the year. It was informed about matters under discussion within the Czech Banking Association. On an ongoing basis, the Board of Directors dealt very intensively with the effects on KB of the Covid-19 pandemic KB and joined in the government's programme to support the Czech economy.

Committees established by the Board of Directors

The Board of Directors establishes specialised committees to which it delegates authority for making decisions in the various activity areas assigned to them. It authorises them to co-ordinate selected activities and to exchange information and opinions. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

Strategy and Executive Committee of the Board of Directors (SEC)

The Committee defines, decides, and monitors KB's business strategy and business activities, including pricing within business segments, except for Investment Banking. The Committee also decides on the Bank's transformation and future direction; expresses its opinions on the content of changes, their compliance with KB's strategy, and their interdependencies; and approves the amounts of financial and non-financial resources required for their implementation, including subsequent regular monitoring. Decisions are taken by consensus of all participants. If an agreement fails to be reached, each member has one vote and decisions are adopted by the absolute majority; if the votes are evenly divided, the chairman shall cast the deciding vote.

Members	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Jitka HAUBOVÁ	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Margus SIMSON	Member of the Board, Senior Executive Director and Chief Digital Officer
Ctirad LOLEK	Executive Director, Human Resources
Hana KOVÁŘOVÁ	Executive Director, Brand Strategy and Communication
Jiří ŠPERL	Executive Director, Strategy and Finance
Secretary of the Committee: Jakub ONDRUŠKA	
Average meeting length 3 hours	

Watch Provision List Committee (WPLC)

The Watch Provision List Committee makes and proposes decisions regarding provisions. The Committee is responsible for clients' inclusion into or removal from the Watch Provision List used for rating clients according to the IFRS Stage system and for determining the appropriate amount of provisions. The Committee decides on three levels. Each member of the WPLC expresses an opinion on proposals regarding each case discussed. A consensus of all regular members at the respective level is sought so that the final decision assumed by that level reflects the joint position of the risk management and business units. If a consensus is not reached (i.e. at least one of the regular members does not concur), then the case is moved up to the next WPLC level. If within WPLC Level 3 a consensus is not reached, then the final decision is made by the Chief Executive Officer. A higher level WPLC is entitled to review and change any decision of a lower level WPLC.

Members - LEVEL 3	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Secretary of the Committee: Pavel FIKAR	
Average meeting length 1 hour	

Members - LEVEL 2	Position
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Jiří ČABRADA	Credit Risk Assessment Manager
Jitka HAUBOVÁ	Member of the Board, Senior Executive Director and Chief Operations Officer (COO)
Lukáš HORÁČEK	Head of Loan Consulting
Radek TRACHTA	Executive Director, Global Banking
Secretary of the Committee: Pavel FIKAR	
Average meeting length 1 hour	

Members - LEVEL 1 Pilsen	Position
Alena VACÍKOVÁ	Manager of Regional Credit Risk Assessment
Martin ČERNÝ	Head of Loan Portfolio Management – Corporate
Petr PARUŽEK	Head of Loan Portfolio Management – Corporate
Dana HNOJSKÁ	Head of Loan Portfolio Management – Retail
Average meeting length 1 hour	

Members - LEVEL 1 Hradec Králové	Position
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Vladislav BAREŠ	Head of Loan Portfolio Management – Corporate
Alena SLÍPKOVÁ	Head of Loan Portfolio Management – Corporate
Lenka KALINOVÁ	Head of Loan Portfolio Management – Retail
Average meeting length 1 hour	

Members - LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Head of Loan Portfolio Management – Corporate
Milena VESELÁ	Head of Loan Portfolio Management – Corporate
Renata TOBIÁŠOVÁ	Head of Loan Portfolio Management – Retail
Average meeting length 1.5 hours	

Members - LEVEL 1 Brno	Position
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Head of Loan Portfolio Management – Corporate
Vladimír MINICH	Head of Loan Portfolio Management – Corporate
Ilona JARŮŠKOVÁ	Head of Loan Portfolio Management – Retail
Average meeting length 1 hour	

Members - LEVEL 1 Prague	Position
Petr PLAŠIL	Regional Credit Risk Assessment Manager
Stanislav CHALUPA	Head of Loan Portfolio Management – Corporate
Kateřina MIKULÍKOVÁ	Head of Loan Portfolio Management – Corporate
Vlastimil DVOŘÁK	Head of Loan Portfolio Management – Retail
Average meeting length 1 hour	

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding asset and liability management in KB. Each member of the committee has one vote. If a consensus is not reached, the committee acts based upon a simple majority of those members present.

Members	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Tomáš HOCHMEISTER	Executive Director, Investment Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Marek DOTLAČIL	ALM Manager
Tomáš FUCHS	Manager of Treasury
Tomáš KROUTIL	Markets and Structural Risk Manager
Dalimil VYŠKOVSKÝ	Trading Manager
Secretary of the Committee: Marek DOTLAČIL	
Average meeting length 2 hours	

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation. A decision may be taken if at least 50% of all members are present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Milan ŽIARAN	Chief Operating Officer, Risk Management
Tomáš DOLEŽAL	Operational Risk Manager
Petr TROJEK	Supervision and Measurement Manager
Secretary of the Committee: Milada ČERNÁ	
Average meeting length 1.5 hours	

Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products, depository services, custody, and investment products for private banking. In accordance with its statutes, its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products, and monitoring that these conditions are fulfilled. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Board of Directors.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Ida BALUSKOVÁ	Manager of Accounting and Reporting
Jiří ČABRADA	Manager of Credit Risk Assessment
Tomáš DOLEŽAL	Operational Risk Manager
Jakub DOSTÁLEK	Manager of Tax
Tomáš FUCHS	Manager of Treasury
Tomáš HORA	Head of Legal – Investment Products
Martin HRDÝ	Software Development Manager
Tomáš CHOUTKA	Manager of Compliance
Tomáš KROUTIL	Manager of Markets and Structural Risks
Ivana OPOVÁ	Head of Steering and Quality
Secretary of the Committee: Anna VYMĚTALOVÁ	
Average meeting length 1 hour	

Corporate and Retail Banking New Product Committee (CRB NPC)

The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products, and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
Jitka HAUBOVÁ	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Marek VOSÁTKA	Executive Director, Retail Banking
Jan KUBÁLEK	Retail Segment Tribe leader
Blanka SVOBODOVÁ	Corporate Segment Tribe leader
Martin BERDYCH	Legal Services Manager
Tomáš DOLEŽAL	Operational Risk Manager
Tomáš CHOUTKA	Compliance Manager
Thomas JARSAILLON	Management Accounting Manager
Pavel POLÁK	Head of Security Center of Expertise, CISO
Jiří OBRUČA	Enterprise Architect
Petr TROJEK	Supervision and Measurement Manager
Ivana OPOVÁ	Head of Steering and Quality
Michal VERNER	Data Engineer
Secretary of the Committee: Marcela KRÁLOVÁ	
Average meeting length 1 hour	

Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety. For a decision to be taken, at least 50% of all members must be present. A decision must be adopted by a majority of votes of those members present.

If a consensus is not reached, the decision is adopted at the Board of Directors level.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, CRO & COO
Martin BERDYCH	Manager of Legal Services
Roman DOLANSKÝ	Manager of Support Services and Facility Management
Tomáš DOLEŽAL	Operational Risk Manager
Tomáš CHOUTKA	Manager of Compliance
Thomas JARSAILLON	Management Accounting Manager
Pavel POLÁK	Information Security Manager, CISO
Petr TROJEK	Supervision and Measurement Manager
Alan Johan COQ	Head of Business Management Office – Investment Banking
Jan KRATOCHVÍL	Head Auditor
Secretary of the Committee: Dušan PAMĚTICKÝ	
Average meeting length 1.5 hours	

Information about special rules for the election and recall of members of the Board of Directors

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Nominations Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to terms of four years. Only persons fulfilling the conditions for serving as a member of a Board of Directors as specified by the Civil Code, Act on Business Corporations, and Banking Act may become members of the Board of Directors. The Nominations Committee ensures the trustworthiness, adequate professional qualifications, and experience of the members of the Board of Directors. The Nominations Committee also assesses the balance of competences and experience as well as diversity in the Board's overall composition. The professional qualifications, trustworthiness, and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. Such decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal from the Supervisory Board's Nominations Committee.

Information about special competences of the Board of Directors under the law regulating legal relations of corporations and co-operatives

The Board of Directors of Komerční banka is the corporate body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board.

It is within the Board of Directors' exclusive competences to:

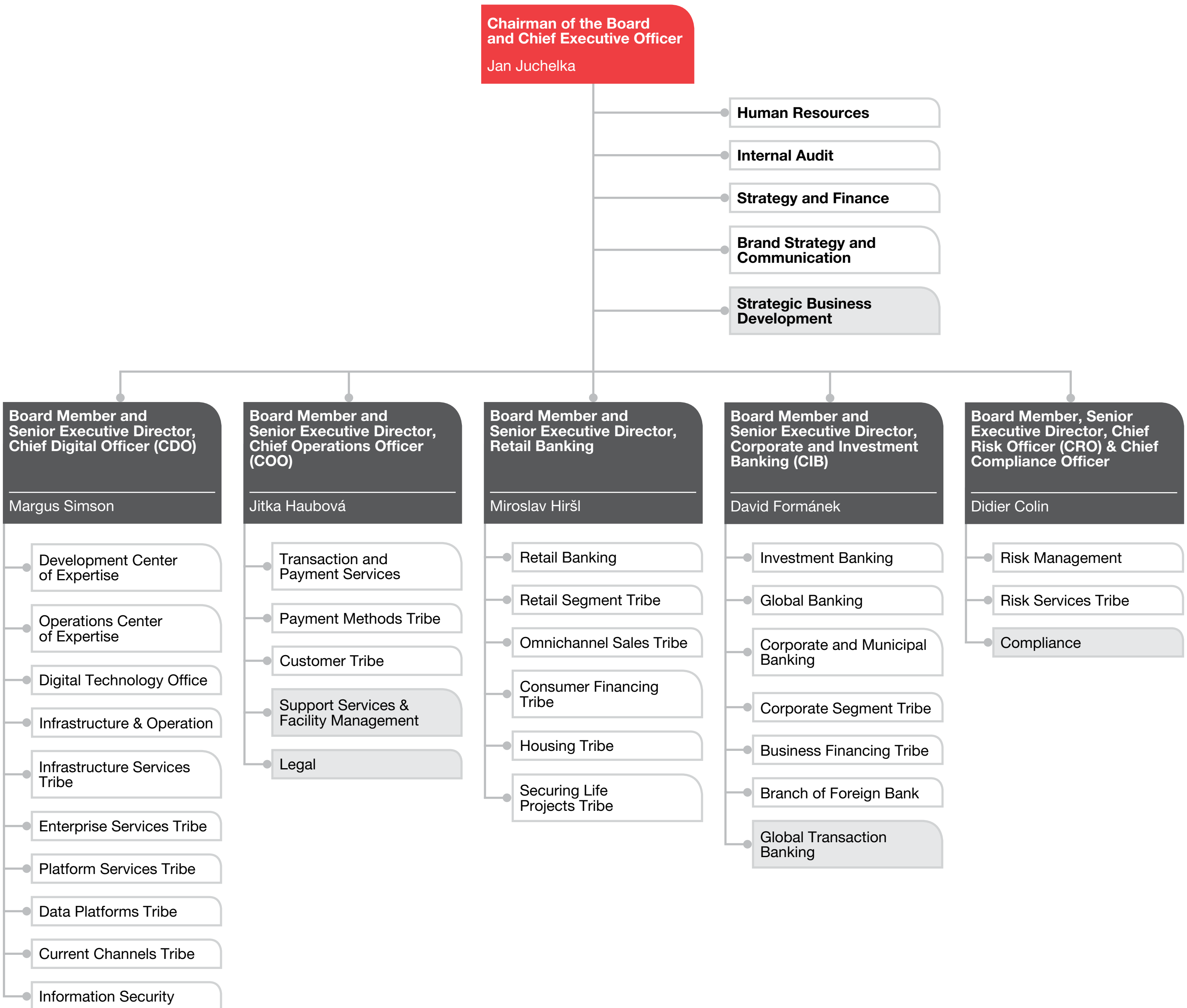
a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the annual, extraordinary, and consolidated financial statements and the interim financial statements along with a proposal for the distribution of profit (which must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for coverage of a loss;
c) submit to the General Meeting proposals for amendments to and changes of the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and on the state of the Bank's property at least once for each accounting period, as well as the annual report;
e) decide upon granting and revoking powers of procuration;
f) decide upon the appointment, removal, and remuneration of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for the Bank's claims whose price exceeded CZK 100,000,000 as of the date of a claim's origin if the presumed realisation price thereof is lower than 50% of the security instrument's price ascertained upon entering into the loan agreement;
h) submit to the Supervisory Board for its information quarterly and half-yearly financial statements;
i) decide upon acts which are beyond the scope of the Bank's usual business relationships;
j) define and periodically evaluate the Bank's overall strategy, including the setting of the principles and targets for its fulfilment and ensuring the continued and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets;
l) enter into a contract with an auditor for performing the statutory audit or, as the case may be, for the provision of additional services;
m) inform the Supervisory Board of the General Meeting date no later than within the period specified by the Act on Business Corporations for the General Meeting to be convened;
n) decide upon the issue of bonds of the Bank with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide upon an increase in the registered capital if so authorised by the General Meeting;
p) enter into collective agreements;
q) decide upon providing loans or securing debts to persons or entities having a special relationship to the Bank pursuant to the Banking Act;
r) approve the charter and subject of the risk management functions, compliance functions, and internal audit functions, as well as the strategic and periodic plan of internal audit;
s) decide about paying out a share in profit based upon fulfilment of conditions established by generally binding legal regulations;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds and the rules governing the creation and usage thereof;
v) prepare the report on relations among related entities pursuant to the Act on Business Corporations;
w) approve and regularly evaluate the Bank's organisational structure so that it is functional and efficient, including segregation of duties and preventing potential conflicts of interest;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least once annually;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital ratios, the strategy for the information and communication system's development, and the strategy for human resources management;
aa) approve and regularly evaluate the principles of the internal control system, including principles aiming to prevent the occurrence of any possible conflict of interest and principles related to compliance and internal audit and security policies;
bb) discuss the audit report with the auditor;
cc) after discussing with the trade unions operating in the Bank, to approve the Bank's voting rules governing the manner and rules for the election and dismissal of members of the Supervisory Board elected by employees of the Bank; and
dd) declare and organise elections and recall of members of the Supervisory Board elected by employees of the Bank and inform the Supervisory Board of the results of these elections.

In addition to the aforementioned, the Board of Directors shall in particular:

a) manage the activities of the Bank and conduct its business affairs;
b) ensure proper conduct of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect to the Bank's property interests flowing from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 in value as a single case or as a total of related cases; and
f) approve the business continuity plan.

The Board of Directors was not instructed to make a decision on increasing registered capital. Based on the consent of the General Meeting held on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Acquisition of Treasury Shares chapter of this annual report.

Organisational chart of Komerční banka
(as of 31 December 2020)



Selected departments on the third management level

Supervisory Board

The Supervisory Board is the supervisory authority of the Bank. It oversees exercise of the Board of Directors' powers, the Bank's activities, and the effectiveness and efficiency of the Bank's management and control system as a whole.

The Supervisory Board consists of nine members, who are individuals meeting the statutory requirements for becoming a member of the Bank's Supervisory Board. Two-thirds of the Supervisory Board members are elected and removed by the General Meeting, one-third of the Supervisory Board members are elected and removed by the Bank's employees. A member of the Supervisory Board's term of office is 4 years.

In accordance with Czech National Bank requirements, Komerční banka declares that the members of its Supervisory Board have not in the past 5 years been convicted of any criminal offence and that no charges, accusations, or other sanctions have been filed against them by any regulatory authority. No bankruptcy, receivership, or liquidation was declared in relation to these individuals in the past 5 years.

Composition of the Supervisory Board

Jean-Luc André Joseph Parer
Chairman of the Supervisory Board (appointed as a substitute member of the Supervisory Board from 27 September 2012 until 24 April 2013 and thereafter elected by the General Meeting since 25 April 2013; elected Chairman as from 1 May 2013 and re-elected from 2 May 2017)

Giovanni Luca Soma
Vice-Chairman of the Supervisory Board (since 1 May 2013 and re-elected from 2 May 2017)

Cécile Camilli
Member of the Supervisory Board (appointed as a substitute member from 15 January 2019; elected since 25 April 2019)

Maylis Marie Suzanne Coupet
Member of the Supervisory Board (appointed as a substitute member since 4 December 2019, elected since 29 June 2020)

Petr Dvořák
Independent member of the Supervisory Board (since 2 June 2017)

Ondřej Kudrna
Member of the Supervisory Board, employee representative (elected from 14 January 2019)

Sylva Kynychová
Member of the Supervisory Board, employee representative (elected since 14 January 2019)

Vojtěch Šmajer
Member of the Supervisory Board, employee representative (elected from 14 January 2019)

Petra Wendelová
Independent member of the Supervisory Board (since 25 April 2019)

Jean-Luc André Joseph Parer
A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at Société Générale in 1981 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Division. From 2001 to 2003, he participated in the development of the Debt Finance Department, and from 2003 to 2005 he was responsible for supervising activities in the debt capital markets. In 2005, he became Deputy Director of Debt Finance, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance. In 2012, he became a member of the Executive Committee of the Société Générale Group, serving as head of the International Banking Division, and, since 2013, head of the International Banking, Financial Services and Insurance Industry Division. From 2017, he had been an advisor to SG executive management. He is currently retired.

Giovanni Luca Soma
An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. From 1984 to 1989, he was the manager of Arthur Young Consulting in Rome, Italy. From 1989 to 1994, he worked with Deloitte & Touche Consulting in Milan, Italy. During 1994–1997, he served as Sales and International Services Director of Hyperion Software Inc. Between 1997 and 1998, he served as managing director of GE Capital Insurance and subsequently, during 1998–1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). During 2000–2005, he served as CEO of ALD Automotive Italy; 2005–2007 as Chairman of ANIASA, the Italian Association of Automotive Leasing and Services Providers; 2006–2008 as Group Regional Director and Deputy CEO of ALD International Paris; and 2008–2011 as CEO of ALD International Paris in France. In these positions he also gained knowledge in the field of risk management. Between December 2012 and September 2013, he was Deputy Head of the International Retail Banking Department and became a member of the Group Management Committee of Société Générale. He served as CEO of SG Consumer Finance, France (from 2010) and Deputy Head of IBFS, International Banking and Financial Services (from December 2012). Since October 2017, he has been a manager of the Business Unit Europe within SG International Retail Banking.

Cécile Camilli
A graduate of Paris IX-Dauphine, where she earned a bachelor's degree in business management, and City University of New York, where she earned an MA in business administration in finance. From 1998 to 1999, she worked for the Bondholder Communication Group in New York. Since 1999, she has held various positions within Société Générale (Global Banking & Investor Solutions). Between 1999 and 2001, she worked as an associate banker for a group of European and Asian companies in New York. Between 2002 and 2004, she served as Vice President of Credit Sales in Paris. From 2005 to 2007, she worked as Director of the Credit Syndicate for Central and Eastern Europe, the Middle East and Africa (CEEMEA) in Paris. From 2007 to 2010, she was Director of Loan Sales for Corporate and Structured Finance in London. Between 2010 and 2013, she was Head of Debt Capital Markets for CEEMEA in London. From 2013 to 2019, she was Executive Director and Head of Debt Capital Markets for CEEMEA in London / Paris.

Maylis Marie Suzanne Coupet
A graduate of the Ecole Normale Supérieure de Cachan, France, in the field of social sciences and the Ecole Nationale de la Statistique et de l'Administration Economique. During 2005–2007, she worked as Deputy Director of the Growth Policy Division of the French Ministry of Finance and during 2007–2008 as Deputy Director of the Insurance Division of the French Ministry of Finance. During 2009–2010, she worked as a financial inspector within Inspection Générale des Finances. During 2011–2014, she was Director of the Financial Markets Division of the French Ministry of Finance. During 2014–2017, she worked as a director of the Société Générale Inspection Department. Since 2017, she has been a senior banker within the Société Générale Retail Banking Department (BDDF).

Petr Dvořák
A graduate of the University of Economics in Prague (VŠE), where he completed his PhD in 2003 and was named associate professor of finance in 2005. He has been active at VŠE throughout his entire professional career, in 1984–1990 within the Finance and Credit Department, and from 1990 to the present within the Banking and Insurance Department, which he headed during 1994–1998. From 2006–2014, he was also Dean of the Faculty of Finance and Accounting, and, since 2014, he has been Vice Rector for Academic Affairs. He is a member of several scientific and editorial boards and an author of numerous publications.

Ondřej Kudrna
A graduate of the Business Academy Lobkovice, branch of economics and accounting. After graduating from secondary school and completing military service, he joined Komerční banka in 2000 as a processing specialist, then a trader, and bank advisor for Small Business. In these positions, he learned all activities and skills in the area of communication with customers and products of Komerční banka. In May 2006, he accepted the offer of the director of the Roztoky branch, where he was responsible for the training and development of new colleagues, including the promotion of a new business location. In May 2007, he accepted another challenge and became director of the Neratovice branch, where he is responsible for development of subordinates, business and financial results of the entrusted team, and compliance with the procedures of the cash and sales department. He currently holds the position in Komerční banka, of Branch Director. He has been a member of the Trade Union of Komerční banka since joining KB.

Sylva Kynychová
A graduate of the Banking Institute College of Banking, majoring in Banking Management. She joined KB in 1990 at the Wenceslas Square branch, where she worked in various sales and managerial positions. In 2004, she moved to CKB, where she dealt with both project and operational–administrative activities in the area of product and service implementation into banking systems. Since 2012, she has held senior positions in TPS - Operations Services, where she first specialised in KBI (core banking system), and since 2015 also in support of payments and prevention of payment fraud. Since April 2018, she has been involved in the administration of products and systems and in the agenda of mortgage bond coverage. She has been a member of the trade union since joining KB, and from April 2018 she has been partially released from her employment duties to serve as chairwoman of the Trade Union KB Union Committee, chairwoman of the basic trade union CKB Prague, and member of the Committee and Board of the Trade Union of Financial and Insurance Workers.

Vojtěch Šmajer
A graduate of the Faculty of Law and the Faculty of Economics and Administration of Masaryk University in Brno (majoring in Finance). Before joining Komerční banka, he worked in sales positions at Sberbank CZ, a.s. and in BNP Paribas Personal Finance, S.A. Since 2015, he has been working at Komerční banka, first as an investment specialist and since 1 August 2018 as a bank advisor for very wealthy clientele at a branch in Brno. Since 2018, he is also chairman of the basic organisation Brno-venkov and a member of the group for collective bargaining with the employer.

Petra Wendelová
She graduated from the University of Economics in Prague, where she earned the title Ing. in economic statistics and a CSc. in economic sciences. From 1984 to 1990, she worked as an internal candidate and assistant professor at the Department of Statistics of the University of Economics in Prague. From 1990 to 1992, she was a member of the Board of Directors and Vice President of HC&C (privatization fund administration). From 1992 to 1994, she worked as a member of the Board of Directors and President of HBS, a. s. (an investment firm). From 1995 to 2000, she served as Vice President of Credit Suisse First Boston, where she also dealt with the area of risk management. From 1996 to 2001, she was a member of the Prague Stock Exchange Chamber. From 2001 to 2005, she was a member of the Supervisory Board of the Prague Stock Exchange. From 2002 to 2005, she worked as a member of the Supervisory Board of UNIVYC (Central Securities Register). Between 2000 and 2014, she was a partner at Ernst & Young (Ernst & Young s.r.o., EY Valuations s.r.o., expert institute), as well as managing director and a leading partner in the area of mergers and acquisitions.

Membership of members of the Supervisory Board in bodies

Members		Company
Jean-Luc PARER	Member of the Board Directors	PJSC ROSBANK, Russia
	Member of the Board Directors	Société Générale de Banques Côte d'Ivoire, Côte d'Ivoire
	Member of the Supervisory Board	Société Générale Marocaine de Banques, Morocco
Petr DVOŘÁK	Chairman of the Supervisory Board	Unie studentů Vysoké školy ekonomické v Praze, z.s
	Member of the Management Board	Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s.
	Member of the Audit Committee	Modrá pyramida stavební spořitelna
Sylva KYNYCHOVÁ	Member of the Supervisory Board	Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví
Giovanni Luca SOMA	Chairman of the Board Directors	BRD – Groupe Société Générale SA, Romania
	Chairman of the Board Directors	COMPAGNIE GENERALE DE LOCATION D'EQUIPEMENTS
	Chairman of the Board Directors	Fiditalia S.P.A, Italy
	Chairman of the Board Directors	PJSC ROSBANK, Russia
	Chairman of the Supervisory Board	Hanseatic Bank GmbH & Co KG, Germany
	Member of the Board Directors	ALD AUTOMOTIVE ITALIA, Italy
Petra WENDELOVÁ	Vice-chairman of the Supervisory Board	LINET Group SE, the Netherlands
	Member of the Supervisory Board	Nadace Národní galerie v Praze

Activity report of the Supervisory Board

Regular meetings of the Supervisory Board shall be held once per calendar quarter and with the possibility of remote voting. A quorum of the Supervisory Board shall be constituted if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all its members.

In 2020, the Supervisory Board held four regular meetings and one remote vote in accordance with the Bank's Articles of Association. The average attendance rate at the meetings of the Supervisory Board was 100%. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2019 prepared under International Financial Reporting Standards (IFRS) and recommended that the General Meeting approve both sets of financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2019 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2019 compiled in accordance with the provisions of § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Act on Business Corporations) and stated that, based on the presented documents, Komerční banka did not incur during the accounting period from 1 January 2019 to 31 December 2019 any damages resulting from any concluded contract, agreement, other legal action taken or received by the Bank, or from any other influence imposed by Société Générale. At the same time, upon the recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve Deloitte Audit s.r.o. as the external auditor of the Bank for the year 2020.

During 2020, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective, although there are certain areas for improvement that are covered by appropriate action plans. Moreover, it examined the 2019 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance risk management report. KB Group's budget for 2020 was submitted for discussion to the Supervisory Board. The Supervisory Board discussed the principles of remuneration, stating that these principles are in line with the principles of banking regulation applied in the area of remuneration. The Supervisory Board discussed remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses. Based on the proposal of the Remuneration Committee, the Supervisory Board approved the remuneration policy and approved its submission to the General Meeting. It discussed the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. Based on the proposal of the Nominations Committee, the Supervisory Board elected one new member of the Board of Directors and approved a contract for the performance of her duties. The Supervisory Board has been regularly informed by the Chairman of the Board of Directors of all steps taken under the KB Change Transformation Program.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to developments in the macroeconomic environment. Furthermore, it discussed the actions of Internal Audit and their results in individual periods of the year, as well as the internal audit plan for 2021 and the strategic plan for 2021–2025. It also discussed the Internal Audit Strategy and the Internal Audit Quality Assurance and Improvement Program. In the course of its activities, it also dealt with the Bank's obligations in the area of significant transactions with related parties, stating that the Bank respects the Directive of the European Parliament and of the Council (EU) on long-term shareholder involvement and enters into transactions in the ordinary course of business. The Supervisory Board continued to rely on the opinion of its Audit, Risk, Remuneration, and Nominations committees and was informed of the issues discussed by these committees. The Supervisory Board continuously discussed the effects of the Covid-19 pandemic on Komerční banka and further discussed updating the Bank's strategy until 2025.

The Supervisory Board's committees

The Supervisory Board established within its competences the Audit Committee, the Risk Committee, the Nominations Committee, and the Remuneration Committee as its advisory and initiative bodies. Committees of the Supervisory Board provide the Supervisory Board with regular reports on their activities and, within the areas entrusted to their jurisdiction, submit to the Supervisory Board recommendations directed to preparing resolutions for adoption by the Supervisory Board.

Audit Committee

The Audit Committee is a committee of the Supervisory Board and was established in accordance with Act No. 93/2009 Coll., on Auditors, as amended. Its powers are stipulated by that act and the statutes of the committee.

The Audit Committee consists of three individual members who meet the requirements for performing duties of a member of an audit committee set forth by legal regulations and by the statutes of the committee. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for terms of four years. The major members of the Audit Committee, including its Chairman, are independent and professionally qualified.

Composition of the Audit Committee

Petra Wendelová
Chairperson and Independent member of the Audit Committee (since 25 April 2019)

Giovanni Luca Soma
Member of the Audit Committee (since 25 April 2013, re-elected on 26 April 2017), Vice Chairman of the Audit Committee (since 3 May 2016)

Petr Dvořák
Independent member of the Audit Committee (since 26 April 2018)

The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. A quorum of the Audit Committee shall be constituted if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of the Chairman or Vice-Chairman of the Audit Committee.

The Audit Committee held seven regular meetings in 2020 and three remote votes. The committee performed its monitoring activities and worked closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, and also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2019, the consolidated and separate financial statements and notes thereto as of 31 December 2019 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2019. In this context, it discussed the scope, strategy, and the main areas of external audit of financial statements for 2019, prepared by Deloitte Audit, s.r.o., and in this context it also monitored the integrity of the financial information. It further evaluated the independence of the external auditor and recommended that the Supervisory Board submit to the General Meeting for approval a proposal to appoint Deloitte Audit, s.r.o. as the Bank's external auditor for 2020. KB Group's budget for 2020 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's reports on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The committee discussed the Constructive Service Letter prepared by the external auditor, Deloitte Audit, s.r.o. It monitored the external audit process and was informed about the external auditor's plan in compiling the financial statements for 2020. It was also presented with the contract for an external audit with Deloitte Audit, s.r.o. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2021, and the strategic plan for 2021–2025.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Attention was also devoted to the capital adequacy of the Bank and Group. In this context, the committee discussed the Bank's capital management strategy, particularly with respect to new regulatory requirements regarding capital base. It also discussed the dividend policy in relation to the profit for 2019 and its subsequent revision in connection with the Covid-19 pandemic. The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks that it evaluated. The committee also considered the report on its activities for 2019, which was submitted to the Public Audit Board.

Risk Committee

The Risk Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members. Consensus should be reached in the event of disagreement by the independent member of the Committee.

Composition of the Risk Committee

Petra Wendelová
Independent Member and Chairperson of the Risk Committee (member from 25 April 2019, Chairperson from 18 September 2019)

Jean-Luc Parer
Member of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018)

Giovanni Luca Soma
Member of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018)

The committee held two regular meetings in 2020. The committee discussed all issues of the Bank's risk management system and its efficiency (including the Bank's credit risk profile and remuneration principles). It considered the acceptable risk appetite and the Bank's strategy in the risk area.

Remuneration Committee

The Remuneration Committee has four members, one of whom is independent and one is an employee representative. The committee meets according to need, but usually twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members. Consensus should be reached in the event of disagreement by the independent member of the Committee.

Composition of the Remuneration Committee

Petr Dvořák
Independent Member and Chairman of the Remuneration Committee (Member from 15 March 2019, Chairman from 24 April 2019)

Sylva Kynychová
Member of the Remuneration Committee,
employee representative (from 15 March 2019)

Jean-Luc Parer
Member of the Remuneration Committee
(from 25 September 2014, re-elected from 3 October 2018, Chairman until 23 April 2019)

Giovanni Luca Soma
Member of the Remuneration Committee
(from 25 September 2014, re-elected from 3 October 2018

The committee held one regular meeting in 2020 and one remote vote. The Committee discussed and approved the Remuneration Policy for Members of the KB Board of Directors and Supervisory Board, the KB Remuneration Principles for 2020, the KPIs of KB Members and the Executive Director of KB's Internal Audit and gave its recommendations to the Supervisory Board. The Committee was informed about the results of the ACR process and 2019 bonuses, including deferred bonuses, the evaluation of remuneration principles by the internal audit, and the results of collective bargaining.

Nominations Committee

The Nominations Committee has four members, one of whom is independent and one of whom is an employee representative. The committee meets according to need, but usually twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members. Consensus should be reached in the event of disagreement by the independent member of the Committee.

Composition of the Nominations Committee

Petr Dvořák
Chairman of the Nominations Committee and independent Member (Member from 15 March 2019, Chairman from 24 April 2019)

Jean-Luc Parer
Member of the Nominations Committee (from 25 September 2014, re-elected from 3 October 2018, Chairman until 23 April 2019)

Sylva Kynychová
Member of the Nominations Committee,
employee representative (from 15 March 2019)

Giovanni Luca Soma
Member of the Nominations Committee
(from 25 September 2014, re-elected from 3 October 2018)

In 2020, the Committee held one regular meeting to discuss the appointment of a new member of the Bank's Board of Directors. The Nomination Committee assessed its suitability for membership in the Board of Directors in terms of credibility, professional competence and experience, and at the same time assessed the collective suitability of members of the Board of Directors and Supervisory Board in terms of their contribution to the functioning of these bodies as a whole. It concluded that all members of the institutions and the institutions as a whole meet the regulatory criteria of appropriateness, function effectively, are adequately composed, and all members contribute to their proper functioning.

Employee relationships

Key data on employees

Average recalculated number of employees	2020	2019	2018
KB Group	8,061	8,167	8,413
Komerční banka	7,104	7,210	7,458
– of which in Slovakia	42	42	42
– of which in Czech Republic	7,062	7,168	7,416
– of which at headquarters*	4,173	4,050	3,993
– of which in distribution network	2,889	3,118	3,423
Age structure of employees (KB, Czechia, year end (%))			
≤30	18	17	17
31–40	24	26	26
41–50	33	33	33
51+	25	25	24
Employees by type of employment (%)			
– Full–time	94	94	94
– Part–time	6	6	6
Employees by contract type (%)			
– Permanent employment	81	81	86
– Other employment	19	19	14
Employees' qualifications (%)			
– University	45	45	44
– Secondary school	52	52	53
– Other education	3	3	3
Proportions of men and women (%)			
– Men	36	36	35
– Women	64	64	65
Share of women in management positions (%)			
– In all management positions	46	48	51
– In top management positions (maximum two levels below Board)	26	26	N/A
Number of employees on maternal and parental leave	**706**	**733**	**724**
Number of employees with disabilities	**135**	**146**	**151**
Illness rate (%)	**3.4**	**2.9**	**3.0**
Employee turnover rate (%)			
– total	15.1	15.8	15.9
– voluntary[1]	6.4	7.8	9.8
– involuntary[2]	5.1	4.6	2.5
– directed[3]	2.0	1.9	2.0
– natural[4]	1.6	1.5	1.6

Note: Due to rounding, some totals may not correspond with the sum of the separate figures.

* The increase in the number of employees at the headquarters is influenced by an organisational change in retail banking, when certain specialists previously located in the sales network have been newly organised within the headquarters.

1) Employee termination.

2) KB termination.

3) For example, fixed term contract expiration, switches within KB group.

4) For example, retirement, health issues, or death of employee.

HR vision, corporate culture and values

KB's strategic vision in managing human resources is to build professional relationships with employees based on trust, respect, mutual communication, equal opportunities, and the offer of interesting professional and career growth. KB strives to create an inspiring and supportive environment where people want to work, succeed, and become ambassadors of the KB brand. Mutual co-operation between employees is then based on four basic values or principles of behaviour, which are team spirit, innovation, commitment, and responsibility. Together, these form the basis of the corporate culture upon which KB is building its future. Values are also integral to KB's mission, which expresses the meaning of the Bank's existence and how it wants to be perceived on the market.

Team spirit

KB's clients want a bank that will be their responsible, trustworthy, and accommodating partner. KB's employees meet the needs of their clients as a team. This is supported by a willing approach as well as by their expertise. KB is and wants to be a client-focused bank. It is important for everyone at KB to listen to other viewpoints, make a joint effort, appreciate mutual benefits, and experience individual successes and failures together.

Innovation

Employees are constantly striving to improve the customer experience. Together, they adapt to future requirements, mainly through the use of technological innovations. They maintain entrepreneurial thinking and at the same time can change in the ways they work. KB employees support the sharing of ideas, experimentation, and non-traditional thinking. At the same time, they learn from their successes as well as from failures.

Commitment

KB employees are committed to pursuing clients' satisfaction, which they associate with pride in their profession and the Group. Together, they strive every day to contribute to the success of the Bank's clients' projects and their own. They care for relationships based on trust and mutual respect, both inside and outside the Bank.

Responsibility

Our bankers contribute to the economic, social, and sustainable environmental development of the two countries and economies where Komerční banka operates. We want to help clients fulfill the potential of their projects and at the same time we are attentive to risks in all their forms. Meeting the needs of our clients as well as acting in the long-term interest of all investors, strictly in accordance with the rules of our profession, is a duty of the employees and a part of the Code of Conduct. No one at the Bank should hesitate to take responsibility for his or her actions and decisions and to express one's opinions unambiguously. The Bank shall devote the same attention to the results, as well as to the process through which those results are achieved.

Legal framework for doing business

KB Group companies are subject to the standard employment regulations applicable in the Czech Republic as a member state of the European Union. Certain specific regulations, such as in relation to employee education and remuneration, are imposed by the Czech National Bank as regulatory body for the financial services industry. KB also accedes to certain rules of Société Générale and international standards. Compliance with all applicable regulations is subject to regular or random checks, and failure to uphold these standards can be sanctioned in accordance with the applicable regulations.

Komerční banka upholds the Czech Republic's laws and regulations, including binding regulations of the European Union as well as all international agreements ratified by the Czech Republic that are a part of the Czech Republic's legal order. These include, in particular, the conventions of the International Labour Organisation. In case of overlap into international employment, it follows in particular Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I).

Work safety and working conditions

To the full extent of its legal obligations, KB ensures its employees' occupational safety as well as health and fire protection against possible risks that would endanger their lives and health when performing their work. The Bank provides its employees with sufficient and adequate information and instructions on safety standards and on providing first aid. The Bank also ensures respect for the prohibition of smoking and consumption of alcoholic beverages in the workplace. Managers at all levels are responsible that the employer's obligations in this area be honoured. These tasks are an equal and integral part of their work obligations.

As an employer, KB provides work-related medical services through TeamPrevent-Santé, s.r.o. It also provides regular employee training in safety, health, and fire protection standards. The Bank regularly organises checks and employee training in these areas while documenting and recording the results. Komerční banka has identified the health risks associated with each job position and assigns employees to the first or second category of work conditions classification. Moreover, Salubra s.r.o. regularly reviews all the Bank's workplaces to ensure that they comply with health and hygiene standards. Every year, selected workplaces are inspected by an independent body, namely the Union of Banking and Insurance Workers. An official record reporting conclusions of the inspection along with written recommendations is made from each inspection. In the past five years the trade union has found no major shortcomings that could not be remedied within a short time.

While modernising the environment within its branches, Komerční banka respects both safety and health requirements. It aims also to improve the social environment and effectively introduce state-of-the-art technologies.

Komerční banka stipulates working hours, breaks for food and rest, overtime work, and other mandatory requirements in the Collective Agreement and the Rules of Procedure. All parameters are in accordance with Czech law. Compliance with all duties is supervised by the managers of the individual teams. In order to make better use of working hours and to balance work with employees' personal needs, the employer allows flexible working hours to be applied in departments where operating conditions allow, doing so after consultation with the trade unions. Furthermore, if the operating conditions so permit, employees can choose to work from home.

Overtime work can be required only in exceptional cases, if there are serious operational reasons for doing so, always in agreement with the employee, in compliance with applicable regulations, and properly documented. KB's management receives a regular report on overtime work and the entire process is regularly inspected and the findings duly recorded.

In accordance with applicable laws, and with the Labour Code in particular, the employer has stipulated internal rules of work as well as procedures and sanctions in the case of their violation. For certain professions, there are additional or more detailed rules prescribed in specific internal regulations, and particularly in the Code of Ethics and the Rules of Procedure. The aggregate of legal rules and internal regulations provides a framework for their possible enforcement and, in cases of breaches of employees' obligations as ensue from labour relations law, a process for their resolution and recording.

In the Collective Agreement, KB declares the amount of the minimum wage in excess of the established legal minimum.

Right to information and to social negotiation

The right of KB employees to social bargaining is exercised through the KB Trade Unions Organisation. Management of KB maintains a regular dialogue with representatives of the trade unions organisation, and collective bargaining is conducted yearly.

In accordance with the Labour Code and the Collective Agreement, KB allows all employees to be unionised. In 2020, there were 32 basic units of the Trade Union Organisation of Komerční banka. Relations between a trade union and an employer are governed, inter alia, by the Charter of Fundamental Rights and Freedoms, the Citizens' Associations Act, the Collective Bargaining Act, and International Labour Organisation conventions (the Trade Union Freedom Convention, the Trade Union and Collective Bargaining Convention, the Convention on Human Rights and Freedoms).

The right to information is based in the Collective Agreement. That agreement has been concluded for the period 2017–2021. The results of negotiations between KB and the trade union are fully available to all employees, including the full text of the Collective Agreement. The benefits of the Collective Agreement are valid for all employees, including those not organised into unions.

Information designated for employees is shared openly in numerous and various ways. For each employee, the main source of information is his or her superior. The KB intranet site has an Employee section dedicated to providing relevant employment-related information. Furthermore, employees can call the Moje HR (My HR) telephone line, submit inquiries by e-mail, or contact HR Business Partners and consultants. Chatbot KUBA answers questions from employees who have joined the Bank just recently.

Employee satisfaction survey

Employee welfare is a priority in human resources management and for KB's top managers. The Bank regularly determines employees' opinions, satisfaction, and engagement, and it enacts corresponding measures. Using satisfaction surveys, KB monitors employee engagement in two ways. First, SG Employee Barometer is used to monitor overall employee engagement at SG Group level. In this independent survey, engagement is monitored by 10 indicators covering satisfaction, motivation, recommendations, trust, and strategy, including SG Group's overall direction. Second, KB's own Puls survey monitors opinions for the areas of effective teamwork, meaning and importance, motivation, recognition, and leadership.

The whole SG Group conducted a series of short surveys in 2020 monitoring primarily the perception concerning impacts of the epidemic situation and quarantine measures related to Covid-19. Employees had the opportunity to comment on their current mood, whether they had enough information, if they felt sufficiently supported by both colleagues and management, and what was their perception of work from home from the viewpoints of both work organisation and their personal lives. Despite this being a very demanding period, all these indicators reached above-average values for the Czech Republic, which was reflected also in an increase in the total engagement score as measured at both SG and KB levels.

The engagement score of the group-wide SG Corporate Pulse survey (10 questions), which in 2020 replaced the SG Employee Barometer due to the global pandemic situation, reached 72%. The goals of the KB Change transformation programme until 2020 included an increase in employee engagement as expressed by an increase in the composite index monitored in the KB Puls survey (5 questions) from 72% to 80%. This goal was achieved in 2020. More than half of the employees took part in both surveys in 2020.

Employee health and well-being

Komerční banka has been systematically attentive to the health of its employees, but in 2020 the implementation of related activities was also affected by the pandemic. Most such activities needed to be accommodated to a digital environment during the year.

At the beginning of the year, the Bank opened a new gym in its building at Prague – Stodůlky, where employees could take group yoga or TRX lessons. As part of the Mojevitalita.cz programme, which supports a healthy lifestyle, new e-learning courses on the topics of a smart office, home office, and the coronavirus situation have been published. Throughout the year, a number of online professional workshops and webinars on healthy eating and mindedness took place. Through a contribution in the benefit system provided to employees, KB supported the sports activities of its employees or the purchase of products for a healthy lifestyle. The Bank has also introduced a new Counselling Programme that provides psychological, legal, and Covid-related counselling to employees.

KB respects all its employees' human and social rights. It long has been accommodating in relation to its employees who find themselves in difficult life situations. This support is effected in various ways, and it considers the life situation a given employee is facing (for example, through flexibly adjusting work time, reducing working hours, home office, financial support, unpaid time off). Every situation is assessed and resolved individually. Support of employees in difficult life situations is based on the Collective Agreement and corresponding implementation rules. Any drawing of financial aid is recorded by the employer.

Measures to support employees during the pandemic

During the pandemic, KB took measures to protect the health of its employees to the maximum extent possible, and especially the most vulnerable ones, such as the chronically ill, pregnant women, single parents, or employees over the age of 60.

The Bank supported its employees with the following measures:

- distribution of face masks and respirators within the entire Bank, and especially in the branch network;
- equipping all workplaces with disinfectants and branches with additional protective Plexiglass;
- regular and thorough disinfection of the premises where an infected employee and/or client was present;
- safety measures in canteens, meeting rooms, and lifts (rotation system, spacing, limiting number of people);
- unification and shortening of branch opening hours;
- regular and transparent communication between the Board of Directors and the Executive Director for Human Resources;
- expanding the employee information phone line with topics related to Covid issues;
- introduction of the Counselling Programme, which includes a specialised counselling centre focused directly on Covid-19-related issues;
- introduction of rotations in workplaces;
- introduction of work from home wherever operating conditions allow, including the provision of related technical equipment for employees;
- supporting vulnerable groups of employees (chronically ill patients, pregnant women, single parents, and employees over 60) by allowing them to remain safely at home with full wage compensation;
- launching the online portal Studovna (Studyroom) 24/7, which offers webinars and online training focused on working from home;
- converting all training courses into an online environment; and
- launching antigen testing for employees directly on the Bank's premises.

Diversity and inclusion

KB supports diversity in its teams, because it perceives diversity as a positive value and a strength of each individual. KB employs experts from various fields, expatriate colleagues from SG Group countries, students who are gaining their first work experience at KB, as well as those who have been working here as satisfied and experienced employees for many years. Diversity is one of Société Générale's strategic priorities.

By nurturing the principles of diversity and inclusion, KB strives to develop a corporate culture in which every employee feels well and comfortable, regardless of age, disability, ethnic origin, nationality, gender, sexual orientation, political opinion, religion, trade union membership, minority membership, or any other characteristic or element of a nature that could be subject to discrimination.

In September 2020, KB became a signatory to the European Charter for Diversity, a project launched by the European Commission in 2010. The four key concepts that resonate from the Charter are diversity, inclusion, flexibility, and solidarity.

Signatories of the Charter regard the long-term success of entrepreneurship as depending upon people, and especially upon their abilities and competencies. Therefore, they strive to create work environments in which everyone can achieve self-realisation and development, regardless of one's gender, race, skin colour, ethnicity, nationality, religion, age, sexual orientation, health, or world view. In signing the Diversity Charter, KB became a member of a strong group of companies that actively acknowledge and contribute to the solution of societal issues while at the same time committing themselves to the consistent application of its principles.

KB is committed to the principle of equal opportunities and prohibition of all forms of discrimination. Employees are hired based on their experience and competencies, and the same approach applies to internal mobility. Therefore, it is crucial that the expectations from a job position and the scope of work are in line with the knowledge, competencies, and expectations of each individual candidate. The principles of equal treatment are elaborated in such fundamental KB documents as the Code of Ethics, Rules of Employment, and Principles of Remuneration.

KB applies a diversified approach to individual groups of employees based on their needs and current situations. This approach is reflected also in the offer of specific educational programmes for certain groups, such as newcomers, graduates, managers, salespeople, and specialists.

In 2020, more than 7,000 people worked at KB, 64% of whom were women and 36% were men. From the viewpoint of individual work position types, women predominated in administrative positions and in the sales network. In the area of creative work and management, the ratio was more balanced. The percentage difference between the number of women and men in managerial positions increased in favour of men, but by a mere 2%. The reasons mainly related to organisational changes in the branch network and the consolidation of agile elements of management, when competencies of individuals are deepened rather than employees being formally and hierarchically promoted. KB considers the appointment of Jitka Haubová as the first woman ever to serve on its Board of Directors to mark a significant shift during 2020 in the area of diversity.

KB gives special attention to employees on maternity and parental leave. Co-operation may continue during that leave if both parties are interested. The employees regularly receive the internal KB Journal to keep abreast of news at KB. After returning from maternity or parental leave, KB helps these employees to reintegrate into the work process, for example through shorter and/or flexible working hours and/or the possibility of working from home if the type of operation and nature of the work so permit. Parents returning earlier from parental/maternity leave are provided with a financial contribution in excess of the legal requirement.

Komerční banka also remains in contact with retiring employees. KB values their many years of knowledge and experience and, if a need arises, turns to these former employees with the possibility of occasional work in order to meet temporarily increased need for capacity of some professional activities or to train newcomers and junior colleagues.

KB also pays special attention to handicapped colleagues. In 2020, the Bank employed 135 people with disabilities. The most common positions held at KB include Transaction Processing Specialist, Banking Advisor, Commercial Worker, Mortgage Loan Advisor, Cash Processing Specialist, and Client Services Specialist. HR colleagues are regularly trained in the areas of recruiting and integrating disabled people, and there is also a monthly monitoring of this area.

Prevention and punishment of all forms of undesirable behaviour

KB has long strived to prevent and counter any behaviour that would be in conflict with KB's values or principles contained in its Code of Ethics, internationally applicable standards of the SG Group, and local regulations. As part of this effort, KB implemented into its internal rules the SG Group policy on prevention and punishment of unwanted behaviour in all its forms, including psychological and sexual harassment, as well as sexist, racist, or homophobic behaviour.

In the event that an employee witnesses or experiences any undesirable behaviour, he or she may report this to his or her line manager, human resources consultants, or the compliance department. One also can use a secure web application for whistleblowing that is available across the whole SG Group. In accordance with global SG Group rules, KB provides whistle-blowers with protection against sanctions of any nature, termination of employment, or discrimination. It also ensures the anonymity of whistle-blowers. Together with others in SG Group, KB has reinforced processes for notification of improper behaviour. To this end, it has set up an international group of experts that is available to employees anywhere in the world. This group consists of employees in human resources and business departments, including from KB, who are specially trained to handle alerts of unwanted behaviour. The members of this group adhere to strict principles of impartiality and confidentiality. All these initiatives aim to apply a zero-tolerance policy and to ensure that no employees are exposed to inappropriate behaviour.

Talent search and acquisition

Komerční banka consistently searches for young as well as more experienced talents, and it directs recruitment activities towards selected target groups. Due to the pandemic, offline activities were significantly limited in 2020, and most of these were shifted to the online environment. Despite these limitations, Komerční banka succeeded in maintaining some of the most important activities to strengthen KB's brand as an employer. As traditionally, the Bank engaged in co-operation with colleges, universities, and student organisations, including related sponsorship activities, as well as in professional support activities across the Czech Republic. In the past year, this was mainly online. Also, programmes aimed at the talent community in information technologies were carried out online.

At the beginning of the year, the Bank participated in the job fair at the Czech University of Life Sciences in Prague and organised a Meetup with the Elastic organisation. The Bank also participated in the Data Festival and the Banking Profession Day at the University of Economics in Prague, had its representatives at TechnicDays organised by the Association of Students and Alumni (ASA), and also presented a lecture with the Prague Banking Club.

In order to support the recruitment of talents, KB produced a series of podcasts wherein experts explain the features of new banking products, services, and technologies. The Bank launched a new annual trainee programme for university students in 2020. Almost 30 students took part in its first year, and they have found employment in the risk management, testing, data management, user experience, and investment banking teams.

The Bank also regularly participates in the TOP Employer of the Year competition to verify how students and graduates perceive the Bank as an employer. Even in 2020, the KB ranked among the most sought after employers and affirmed its first place in the Banking and Investments category.

Employee education and career development
Komerční banka prepares a broad range of training activities for own and the Group's employees and programmes, provides space for their education, and, at the same time, strongly emphasises individual responsibility for career development.

In 2020, due to the pandemic situation, the Bank focused mainly on the development of digital skills and remote working across all parts of the Bank, including the branch network. As in previous years, development continued for employees in direct contact with clients in the branch network (including obtaining mandatory certifications) and through the management training programme, which involves long-term, individualised skills development in the areas of human resources development, responsibility, innovation, and a pro-client approach. Most of the educational activities were adapted to the ongoing situation and took place online. The Bank also upgraded its training platform in order to provide employees with educational content in a clear and appealing form using modern digital tools.

Komerční banka co-operates on development programmes with Société Générale. Thus, KB employees have an opportunity to develop their skills and capabilities in an international environment.

<u>Total time of studies (sum for all employees):</u>
- digital training 58,393 h
- attendance training 52,244.5 h
- mandatory digital + attendance training
  34,672 + 32,266.8 = 66,938.8 h
- voluntary digital + attendance training
  23,721 + 20,077.8 = 43,798.8 h

<u>Average time of studies/employee in hours</u>
- digital 6.68 h
- attendance 19.81 h
- mandatory digital + attendance training 7.04 h
- voluntary digital + attendance training 5.66 h

The offer of education in the Bank was newly structured into thematic modules. In co-operation with internal experts overseeing individual topics, specific content was prepared for different positions or roles in the Bank. Within the individual modules, the prepared content is available at multiple levels of difficulty.

In the retail part of the Bank, the training focused mainly on changes in the product offer to clients and the efficiency of processing. The entire branch network underwent a series of training courses devoted to major changes in banking applications, remote client service, facilitating the processing of consumer loans, and deepening knowledge of regular investments. In the area of automating everyday banking in order to free more time for client service, robots were used for the first time for opening, migrating, as well as closing accounts.

Change in corporate culture was an important topic in 2020. It was supported by the launch of two special development programmes: the SPIRIT talent programme for young employees and the Agile Leadership programme for leaders in the agile perimeter of the Bank.

Performance evaluation and feedback
Annual performance evaluation and feedback comprise a regular part of communication with employees. This process was modified in the agile perimeter of the Bank so that it better supports the new way of working. The standard evaluation as to the fulfilment of goals and competence requirements was supplemented throughout the company by the process of evaluating the potential of employees. The outputs are to be further used for succession planning, identification of senior talents or talent programmes, and to establish development plans for individual employees. Other tools used for feedback were, for example, 360° evaluation, skills assessment, or personality and talent tests.

Remuneration in KB
Remuneration strategy in KB aims to:
- Support the general strategy and business targets;
- Prevent inappropriate risk-taking and improvident behaviour;
- Take into account the rights and interests of clients; and
- Boost the value of the Bank in terms of its employees, shareholders, and clients.

Remuneration strategy is an integral part of KB's human resources strategy and its overall business strategy.

The remuneration system in KB is based on the following principles that support the Bank's strategy, objectives, values, and long-term interests:

- ***Internal justice*** is a principle ensuring that the same remuneration is paid for the same work and same performance under the same transparent circumstances. That remuneration must not be affected by gender, age, religion, membership in trade unions or political parties, or other personal characteristics of an employee that are not directly related to his or her work performance or competencies.

- ***External competitiveness*** is ensured through regular market surveys, taking into account the intended market position and significant differences in the remuneration market. These surveys then lead to determination of the aforementioned basic wages.

- ***Individual contribution*** is taken into account in the wage and bonus. Wages may reasonably differ from the target level to take into account all aspects such as individual contribution or potential. A bonus is determined, inter alia, based upon an assessment of goals achievement and performance. A long-term incentive programme (LTI) is designed for employees and strategic talents with extraordinary value to the Group. The programme includes the acquisition of Société Générale shares under the SG Performance Share Plan. Subject to the terms of the programme, those employees rewarded become owners of the relevant number of SG shares after three years.

- ***Risk-taking.*** In KB, remuneration is aligned with sound and effective risk management and supports such management; remuneration does not encourage the taking of risks going beyond the risk tolerance of the Bank.

The structure of remuneration is based on three basic pillars:

1. Basic wage for work performed (fixed component)
Wages of all employees are determined in accordance with the sophistication of their positions, particularly in terms of the required knowledge, experience and skills, and the resulting responsibilities. During the regular annual review of KB's wages, an equitable approach in the implementation of wage increases is observed. In 2020, for example, the average percentage of wage increase was the same for men and women.

2. Flexible performance-dependent remuneration component
In addition to the basic wage, employees have a variable remuneration scheme for the quality of meeting corporate, team, and individual goals. The amount of the variable component is expressed as a percentage of the annual basic wage and is different for different groups of employees. The maximum level of the moving component is set in the collective agreement, and for legal reasons it cannot exceed 200% of the basic wage.

The setting as well as evaluation of objectives and performance is subject to the regulatory principles of remuneration risk management as described in the following section. Part of the evaluation of employee goals is a behaviour and compliance assessment, which examines whether an employee knows and complies with internal regulations, rules, and processes related to the performance of his or her function; has completed mandatory training programmes; and has engaged in other activities necessary to maintain the required level of knowledge and skills. The evaluation focuses on risk management, quality of services, and actions in the interest of the client. This evaluation has a direct impact on the variable component of the employee's remuneration that is paid. The entire variable component may be withheld in the event of an employee's misconduct or behaviour that does not comply with the rules of behaviour and compliance (malus).

Remuneration principles take into account the interest of shareholders in the value of KB by linking the amount of the variable component of employees' remuneration with KB's economic results and the fulfilment of strategic priorities. A new strategic programme was launched in 2020. Its priorities, described in the "Strategy and results" chapter of this annual report, have been implemented in the employee incentive system for 2021. Related activities were also taken into account in the evaluation of objectives and performance in 2020.

3. Employee benefits and advantages supporting employees' loyalty within Komerční banka Group

The cost-effective structure of benefits reflects the Bank's targets to be a responsible employer while providing employees with choices. The structure and level of benefits are subject to collective bargaining agreements each year. For the year 2020, the structure agreed was as follows:
a) Daily meal vouchers worth CZK 100 without the employee's financial participation;
b) CZK 6,720/employee/year for recreation, sports, health, culture, and personal development provided via the Cafeteria system;
c) CZK 5,000/year for disabled employees and CZK 600/year for employees 55 years of age and older via the Cafeteria system;
d) Contribution to supplementary pension insurance and supplementary pension savings at 3% of the wage. The employer's minimum contribution is 1,100 CZK/month;
e) Allowance for parents returning earlier from parental/maternity leave;
f) Premium conditions for retail banking products and services provided by Komerční banka to employees;
g) Financial support during long-term illness;
h) Two working days off with wage compensation and 1 additional working day off with wage compensation for employees who work for Komerční banka for a continuous period of 5 years and longer;
i) 1 day off with wage compensation for corporate volunteering in areas supported by KB and the Jistota Foundation;
j) Career sabbatical;
k) Risk life insurance;
l) Extraordinary social assistance; and
m) 24/7 counselling programme for help and consultation in various life situations (e.g. in the field of family and civil law, in the field of healthy lifestyle, and also for consultation with a psychologist). It includes crisis financial advice for resolving distraints or personal bankruptcy, as well as advice related to the Covid-19 pandemic.

Regulatory risk management principles in remuneration
Taking into account risks is part of the basic remuneration principles. It includes in particular the following measures:
i. The overall system of flexible performance-dependent components is set up in a way not to limit the Bank's ability to strengthen its capital. Payment of the flexible performance-dependent component of the remuneration is based on the Bank's performance. Therefore, the size of the flexible performance-dependent component is in no way guaranteed, even when the individual employee achieves his or her individual goals. The criteria used in calculating the aggregate amount of flexible performance-dependent component to be paid include corrections for both current and future risk. The same criteria will be used when setting the flexible performance-dependent remuneration budget in order to take into account any current and future risks.
ii. It is not the Bank's policy to provide any reward from previous employment. If necessary, such a component would always be a variable remuneration according to these Remuneration Principles.
iii. In the case of an employee's termination of employment, "golden parachute" bonuses are forbidden.
iv. On condition of full compliance with applicable laws and contracts, KB will at all times make every effort in its power to recover all flexible performance-dependent remuneration

that has been paid but the payout of which has been found to be unjustified. The entire variable remuneration can also be clawed back for employees who have significant impact on the risk profile of the Bank (Identified staff). Claw-back may be exercised for the entire vesting and retention periods. The claw-back principle applies in particular when an Identified employee has contributed significantly to the Bank's negative financial performance, in cases of fraud or serious negligence, thus resulting in significant losses. Claw-back applies for up to six years from award of the variable component.

v. Employees with significant influence on the Bank's risk profile (hereinafter referred to as Identified staff [IS]) are identified in accordance with the relevant regulation and their list is regularly reviewed. The variable remuneration of SG expatriates identified as IS is assessed in accordance with the Bank's rules.
vi. In order to restrict taking on of inappropriate risk, the variable remuneration component for an IS always is performance-linked and risk-adjusted. Non-financial criteria (such as employee ethics, complaints, and mistakes) are taken into account when assessing employee performance. Compliance with regulatory requirements is also taken into account in the evaluation. At the same time, some ISs are independently rated from a Risk and Compliance perspective.
vii. For the IS group, which most strongly affects the Bank's risk profile, specific rules are adopted: the KB Deferred Bonus Scheme. These rules consist in postponing payment of part of the variable component, the use of non-cash instruments (phantom shares of KB), and the Remuneration Committee's approval regime.
viii. The decision on remuneration of the members of the Board of Directors is taken by the Supervisory Board in view of any findings of control functions (Risk Management, Compliance, and Internal Audit).
ix. Appraisals of internal control staff (in particular Risk Management, Compliance, and Internal Audit) are tied to achieving the goals associated with their functions, independently of the performance of those areas of activity of the Bank they control.
x. The principles of remuneration of employees who have a significant impact on the Bank's risk profile are reviewed and evaluated annually by the Internal Audit staff. Through the Remuneration Committee, KB's Supervisory Board oversees, evaluates, and controls compliance with remuneration policies and procedures whose activities have a material impact on the Bank's overall risk profile.
xi. Remuneration policy and practice must be evidenced and reviewable for at least 5 years.

Risk management

Risk governance

Main principles of risk management in KB Group

Risk management at Komerční banka is based upon an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies.

Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions, as well as from the internal audit function.

The credit risk, market risk, and operational risks management activities are carried out under the Risk Management organisational structure, which also

- includes the production of risk software and data solutions in close co-ordination with the Information Technology organisational structure of the Bank, and
- ensures supervision of risk management activities of KB's subsidiaries.

Compliance risk management activities are managed within a dedicated organisational structure under the ultimate responsibility of the KB Chief Risk Officer.

The structural risk management activities (interest rate risk and liquidity risk, including funding risk and foreign exchange risk in KB's banking book) are managed within the Strategy and Finance organisational structure. The second line of defence (LoD2) function covering structural risk (including validation of reports, limits, and methodology; review of the Risk Appetite Statement, contingency funding plan, Internal Liquidity Adequacy Assessment process, etc.) is carried out within the Risk Management organisational structure.

Legal risk management activities are managed within an organisational structure that is the responsibility of the Chief Operating Officer.

Overall risk management strategy

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed. At the same time, it aims to support the development of the Group's business activities, including sustainable growth of its lending activities and reinforcing the Group's market positions.

The objective is to ensure profitable credit and market activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical tools, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

A general target of Komerční banka's risk management is to harmonise risk management processes and tools throughout the Group. The Group enables shared access to selected tools within the credit risk system for designated subsidiaries, thereby providing a unified credit risk view and harmonising the credit risk approach.

Risk appetite

KB Group risk appetite is outlined in the KB Group Risk Appetite Statement, which since 2015 has been prepared in compliance with Financial Stability Board recommendations. It defines at an aggregated level all risks that KB Group is ready to accept or intends to avoid and defines a prudent and balanced approach to them.

The KB Group Risk Appetite Statement is elaborated with the aim of ensuring consistency among risk-taking capacity, capital adequacy, and the business and financial targets. The level of the Group's risk appetite and its risk management strategy are fully aligned and within the boundaries of SG Group Strategy & Risk Appetite.

The Risk Appetite Statement is revised annually or, according to need, more frequently.

The 2020 revision of the KB Group Risk Appetite Statement included an assessment and integration of Covid-19 impacts, as well as setting of risk appetite at the level of main business lines and all subsidiaries bearing credit or market risk.

Stress testing

Stress-testing exercises provide a forward-looking simulation of bank results and key characteristics in various adverse scenarios that may occur in the economic or business environment. Projected macroeconomic variables are translated to the development of risk parameters and relevant exposures and/or positions and impacts on profit or loss, own funding requirements (capital adequacy), and other variables.

During 2020, Komerční banka performed regular stress-testing activities: semi-annual Internal Capital Adequacy Assessment Process (ICAAP) and annual Internal Liquidity Adequacy Assessment Process (ILAAP). The Covid-19 impacts were assessed within the autumn run of the ICAAP.

In all stress tests, Komerční banka proved itself solidly resilient to unfavourable conditions of the economic and business environment. KB Group has a strong capital base consisting mostly of the highest quality common equity Tier 1 capital. KB Group is able to maintain its capital adequacy ratio above the Overall Capital Requirement.

Impact of Covid-19 on risk management activities

The outbreak of Covid-19 has a significant impact on risk management activities and risk appetite.

- The main impacted area is **credit risk** (see details in chapter Credit Risk below).
- The Covid-19 outbreak had a significant impact on capital markets in March 2020. Due to its prudent approach to **market risk**, the impact within KB has been limited (see details in chapter Market Risk below).
- No material impact of Covid-19 on **structural risk** is observed due to the following:
  - Liquidity and funding risk – No stress behaviour has been identified within the client deposits and loan portfolios. Loan repayment delays caused by payment moratoria have an immaterial effect on liquidity. KB is not dependent on market funding.
  - Interest rate risk in the banking book – KB has only a limited open interest rate position, and therefore it is not affected by yield curve changes to any material extent. Net interest margin is affected by the usual cyclical effects as seen in the low interest rate environment.
  - FX risk in the banking book – Because KB has only an immaterial open FX position it is not affected by CZK weakening or other currency movements caused by the Covid-19 situation.
- The impact on **operational risk** is limited, but from an operational viewpoint the areas of cyber security and business continuity present real challenges in the Covid-19 environment (see details in chapter Operational Risk below).
- No material impact of Covid-19 on other types of risks (compliance, reputation, etc.) has been observed.

The business risk related to the Covid-19 situation is being evaluated by the Strategy and Finance arm and is taken into account in the context of financial planning.

Credit risk

Credit risk management tools

Credit risk assessment and monitoring

Client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative viewpoints using advanced scoring and rating models along with individual approval by competent risk or business managers. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until internal credit limits for the client and transaction have been first duly established.

The Bank has a strong monitoring process for clients financed and exposures granted that allows for triggering corrective actions in case deterioration is evidenced.

All KB scoring, rating, and Basel (e.g. Loss Given Default, Probability of Default, and Credit Conversion Factor) models are back-tested at least annually and adjusted whenever needed.

Credit fraud prevention

Komerční banka uses an automated system for detecting credit frauds and for co-ordinated reactions to credit fraud attacks. The system is fully integrated into KB's main applications. Anti-fraud tools and processes are continuously adjusted according to the market situation.

Staging

Komerční banka allocates its receivables arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 comprises default (non-performing) receivables. The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge).

Model Risk Management

Due to the growing dependency on models, Komerční Banka established in 2018 an expert team (Model Risk Management). The team is focused on risks originating from model usage (providing an independent review of model design, checking for correct model usage and implementation, and controlling appropriate lifecycle governance). It provides not only a mandatory regulatory review of Basel models but also covers KB scoring, granting, and provisioning models. With growing automation, the team will gradually extend its scope to control other KB model families (e.g. StressTesting models).

Real estate valuation

In compliance with Czech and EU regulations, the valuation and monitoring of real estate collaterals accepted by the Bank as security for corporate and retail loan exposures are delegated to a dedicated independent unit. This unit is a part of the Risk Management Arm and co-operates with a broad group of external valuation experts.

Komerční banka continuously monitors both residential and commercial real estate markets and regularly revaluates the real estate collaterals. The Bank utilises appropriate techniques (individual or statistical) for this purpose in order to react adequately to market developments. Komerční banka uses statistical monitoring of residential real estate market developments and applies an adjustment for pertinent residential real estate appraised values if residential real estate market values significantly decrease in relevant regions and periods. Moreover, Komerční banka monitors the development of commercial rents and performs individual revaluation of pertinent commercial real estates if rents significantly decrease in relevant regions and commercial real estate segments. In addition, real estates securing exposures exceeding EUR 3 million are individually revaluated every 3 years.

Starting from November 2019, Komerční banka has been using online statistical real estate collateral evaluation for a part of the low-risk production of mortgages as one of the steps in digitalising the mortgage loan granting process. The evaluation is provided by the company Lux Property Index, s.r.o, which is contractually authorised to use the database of expert prices and attributes of residential real estate into which leading mortgage providers on the Czech market contribute.

Recovery activities

Komerční banka closely monitors changes in the legal environment, analyses their impacts in the area of receivables collection, and ensures their proper reflection in KB processes.

Komerční banka was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and advances from both retail and corporate clients. Komerční banka plays an active role in the insolvency process, from the position of secured creditor, member of the creditors committee, or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Bank depending upon the given debtor's circumstances and the attitudes of other creditors.

Komerční banka responded progressively to the impacts of Covid-19 and adjusted its processes in the collection area in order to be able to react flexibly to the situations of those clients impacted by this pandemic. Increased inflow of both retail and corporate exposures clients into collection due to the pandemic was recorded in the second half of 2020. Nevertheless, Komerční banka continues to increase the effectiveness of its collection process (e.g. by digitisation and automation of some activities). These efforts are ongoing also to improve efficiency in using external recovery capacities.

During 2020, Komerční banka continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

Provisioning

Main principles of provisioning

The Bank uses the IFRS 9 standard in the area of allowances for receivables and, with a few local adjustments, the SG Group IFRS 9 methodology. Depending on the client segment, materiality, risk profile, and characteristics of the receivables, allowances are created either (i) individually (for defaulted or exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on the observed history of defaults and losses and forward-looking adjustments.

Allowances calculation in accordance with IFRS 9 is consistent with the risk-weighted assets calculation (the same statistical models being used in both calculations) and with the regular stress-testing approach (forward-looking predictions in the IFRS 9 calculations are the same as those used in the regular stress testing).

During 2020, the KB Group updated models used for allowances of both performing and non-performing portfolios, taking into account (i) the new macroeconomic forecast including predictions of a financial crisis caused by Covid-19, and (ii) the latest observed history of defaults and losses. Following the forward-looking concept, the Bank also identified the riskiestportfolios (mainly in the retail and SME segments) significantly affected by the Covid-19 pandemic, transferred them to Stage 2, then created appropriate allowances for them.

Credit risk development in 2020 and Covid-19 impacts

Credit risk in 2020 was significantly affected by the Covid-19 pandemic.

Support to clients and Czech economy

After the pandemic's outbreak, the Group quickly prepared and subsequently offered to clients a wide range of activities for mitigating the pandemic's consequences. Among the most significant of these were deferrals of loan instalments, which the Group began to provide in a co-ordinated manner from the end of March 2020 in accordance with its own rules and procedures. Subsequently, deferrals of instalments were granted in accordance with the new Act No. 177/2020 Coll. on certain measures in the area of loan repayments in connection with the Covid-19 pandemic, dated 16 April 2020. Following its issuance, the Group unified the conditions for the two deferral regimes. As of 31 December 2020, the volume of loans that were under deferral regime during 2020 totalled CZK 70.6 billion for KB Group. In cases not covered by the public deferrals (following Act No. 177/2020 Coll.), the Group provided its clients individual tailor-made solutions based on an evaluation of their current and estimated situations. In addition to instalments deferrals, the Group, in co-operation with state institutions (ČMZRB, EGAP), has been offering loan products under COVID programmes created by the government (COVID Prague, COVID Plus, COVID 2, COVID 3). As of 31 December 2020, government programmes covered exposures of CZK 10.1 billion.

Granting policy

In order to continue providing high-quality service to its clients and supporting them along with the economy as a whole, KB decided not to dramatically change its credit risk appetite after the Covid-19 outbreak. Nevertheless, the Group identified sensitive economic sectors within which more significant impacts associated with Covid-19 are observed, and it has been applying stricter credit assessment rules for these sectors in both retail and non-retail segments.

2020 Cost of risk

The Group's cost of risk increased to 68 basis points (net allowances creation) in 2020, which was significantly higher compared to (9) basis points (net release) in 2019. The total volume of loss allowances created for amounts due from customers came to CZK 13.0 billion as of 31 December 2020. Overall, 2.6% of loans were classified in Stage 3 (non-performing) as of 31 December 2020, which compares with 2.1% in 2019.

During 2020, the Group updated its macroeconomic forecasts that are an integral part of the IFRS 9 models for setting allowances and provisions for assets in Stage 1 and Stage 2 (forward-looking concept) with a total impact on the cost of risk of CZK 1.2 billion. Although the macroeconomic scenarios are developed internally, KB Group uses for benchmarking purposes the macroeconomic forecasts published by the Czech National Bank. Furthermore, in accordance with the forward-looking concept, specific allowances were created for two portfolios with deteriorated credit risk profile, namely: (i) exposures of retail clients that were under payment moratorium at the end of September 2020 and identified by the Group based on an expert or model approach as exposures with potentially worsened credit profile after the end of the moratorium, and (ii) exposures of SME clients from the following sectors with significant negative Covid-19 impact: hotels, restaurants, spas, catering, and travel agencies.

Further details on the implementation of the IFRS 9 model update are provided in the Notes to the Consolidated Financial Statements.

Principal activities in 2020

KB Group concentrated during 2020 especially on the following activities in the credit risk area:

- Appropriate reaction to the Covid-19 pandemic, as described above. Specifically, KB Group has been closely monitoring the development of exposures that were under loan moratoria regime in order to (i) support clients with targeted measures, (ii) establish recovery capacity for the expected wave of restructuring requests after the moratorium, and (iii) estimate future P&L impacts. Activities in 2020 were focused on the following areas: i) dynamic monitoring of risk indicators, ii) client surveys, iii) modernisation of the retail recovery platform (increase of credit restructuring capacity, implementation of artificial intelligence tools), and iv) determination of appropriate size and seniority of teams of experts dedicated to credit restructuring activities in the corporate segment.
- Preparation of KB Group for various regulatory requirements (AnaCredit reporting, new definition of default implementation, several 2020 stress test exercises, etc.).
- Acceleration in implementing the Bank's digital risk strategy, in the first step by (i) modernising the retail soft collection set-up, (ii) activating new risk enablers in the E2E digitisation of lending processes, (iii) implementing data science and AI components in loan origination and monitoring activities, and iv) upgrading fraud prevention schemes.
- Continued implementation of the optimised risk management function in KB Group with a focus on aligning and interconnecting subsidiaries' risk management processes with those of the Bank.

Capital markets risks

Capital markets risks management

Market risk and counterparty risk on market transactions within KB Group's financial markets activities are managed by a dedicated Markets and Structural Risks Department. This department reports directly to the Bank's Chief Risk Officer and is fully independent of business units. It operates within the framework of Société Générale Group's Market Risk Division. Methodologies for measuring risks and control procedures are thus aligned with the best practices of Société Générale.

Market risk of the trading portfolio

Several types of measures are used for assessing risks in Komerční banka's trading portfolio:

- Value-at-Risk (VaR) is calculated using historical scenarios with a 99% confidence level and 1-day time horizon. As of 31 December 2020, the VaR amounted to CZK (27) million. The reliability of the VaR model's results is back-tested while checking the daily P&L against the VaR. KB's Board of Directors is regularly informed about the results of the back-testing.
- The impacts of low-probability events not covered by VaR are assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all relevant risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

Market risk limits are approved by two members of the KB's Board of Directors (the Member of the Board in charge of Risk Management and the Member of the Board in charge of Corporate and Investment Banking) after being validated by SG's Market Risk Division.

The Bank uses enhanced valuation techniques for derivatives while taking into account whether a given derivative is concluded with or without collateral agreement and thus reflecting the cost of the Bank's liquidity.

Komerční banka is not exposed to the risk of change in volatility on its market book, as all option derivatives are traded on a back-to-back basis.

Counterparty risk on financial markets activities

A market transaction may be concluded with a counterparty only on validated products and if approved limits exist for that counterparty. Counterparty limits for financial markets operations are monitored on a daily basis. Any breach of such limits is immediately reported to the relevant management level within the Bank.

The measurement of counterparty risk arising from derivative products is based on the Credit Value at Risk (CVaR) indicator. This indicator is calculated using Monte Carlo simulation while taking into account netting and collateral effect. With a 99% confidence level, CVaR quantifies the potential future replacement costs of a transaction with a client in case of such client's default.

As of 31 December 2020, the KB Group was exposed to a credit exposure of CZK 225,490 million on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the replacement costs at market rates as of 31 December 2020 for all outstanding agreements. The netting agreements and parameters of collateral agreements are taken into account where applicable.

Covid-19 impact

Due to its prudent approach to market risk, the impact of the pandemic on KB is limited. Specifically, the operational Covid-19 thresholds were defined for selected market risk metrics (related to CZK derivative and bond sensitivities) as a response to the deterioration of the liquidity observed in the Czech financial market. Thresholds were set at levels lower than the standard market risk limits and were subject to Risk Management approval. The framework was implemented in April 2020 on a temporary basis and was in place throughout 2020.

Financial risks

In addition to credit and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring, and managing risks in the areas of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Supervision of the financial risk management process is by the Assets and Liabilities Committee (ALCO), which includes, among others, members of Komerční banka's senior management. The ALCO also oversees the levels of risk taken on and the proposed hedging transactions that the Bank will execute in managing risk. KB's Asset and Liability Management (ALM) department defines methodologies for identifying and measuring these risks, subject to approval by the ALCO and Board of Directors. The ALM department also measures the risk indicators and reports them regularly to the ALCO and Board of Directors. The methodology of identification and measurement of financial risks is reviewed by the Risk Management Arm, specifically by the Market and Structural Risk Department. This department is also responsible for managing the limits for individual risk categories. KB's Treasury Department proposes and implements investment and hedging operations for managing the Bank's risk profile. Treasury is also in charge of setting up appropriate economic benchmarks for price setting, again subject to ALCO approval. Mirroring the regulatory developments in France and the USA, liquidity risk management has been centralised into the Treasury Department.

The ALCO, as well as the ALM, Treasury, and Market and Structural Risk departments, supervise the processes of asset and liabilities management also in other KB Group entities. All financial risk management activities fully comply with the rules of Czech regulatory authorities and with relevant international banking regulations.

Price setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of Komerční banka's portfolio (by ALCO). The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective (by the Commercial Committee). Treasury provides tools and supports the Bank's business network in valuing transactions, setting client rates, and determining exchange rate spreads. The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account those costs connected with the price of liquidity and hedging against interest rate risk. In that manner, margins and financial stability are preserved even despite possible changes in market conditions.

Interest rate risk in the banking book

Interest rate risk constitutes the risk of possible financial loss or negative changes in the Group's net interest income due to movements in market interest rates. KB Group has divided its business activities according to their nature into the banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations with instruments acquired with intention of further trading belong in the market book. Interest rate risk is measured and managed separately for the banking and market books. With regard to interest rate risk in the banking book, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its banking book interest rate risk using such standard methods as gap analysis and interest rate sensitivity analysis. The aim of the Group is to minimise banking book risk and not at all to speculate on interest rate changes. To this end, the Group has established prudential limits.

KB uses such standard market instruments for hedging against interest rate risk as interest rate swaps and forward rate agreements, as well as investing in securities. All hedging and investment transactions are immediately entered into the Bank's front office system, where they are recorded and priced.

As from 2018, the Group classifies financial assets pursuant to the IFRS 9 Financial Instruments into the following business models: for the banking book – Hold to Collect contractual cash flows (HTC portfolio) and Hold to Collect and Sale (HTCS portfolio) contractual cash flows, and for the trading book – Hold to Sale. The choice of portfolio for holding an investment in the banking book is defined by accounting requirements and the associated internal rules (for classification of securities, the Bank is considering the business model and the nature of the cash flows). Revaluation of the HTCS portfolio to fair value impacts upon regulatory capital through changes in Other Comprehensive Income (OCI). The volume of regulatory capital could be impacted mainly by a worsening in the credit quality of bonds, whereas an impact from movements of market interest rates is substantially limited due to the bonds' interest payments being hedged. Selection of the HTC or HTCS portfolio allows for hedging an investment against interest rate risk.

Interest rate derivatives (for hedging risk in the banking book) are recognised pursuant to valid accounting rules (including IAS 39) so as to achieve the most precise accounting recognition.

KB has prepared a detailed strategy for managing interest rate risks that includes descriptions of permitted derivatives, instructions on using them, and methods for their accounting valuation.

Foreign exchange risk in the banking book of KB Group

Foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the banking book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in Komerční banka itself. The maximum open foreign exchange position of the Group's banking book in 2020 was less than 0.2% of the Group's capital, and thus it was essentially negligible. Part of foreign exchange risk management also involves KB's ability to respond quickly to market developments so as to prevent the conclusion of economically disadvantageous transactions. Komerční banka uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined threshold.

Operational risk

The overall strategy for operational risk management is determined by the Operational Risk Committee, which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events.

KB has been applying the Advanced Measurement Approach (AMA) to operational risk management and capital requirement calculation since 2008. Capital requirement calculation is performed using a central model of Société Générale. In addition to the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators, and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. The headquarters departments use the SG Group tool GPS (Group Permanent Supervision) to manage and report on these formalised controls. In 2020, the concept of "second-level controls" based on SG Group principles was further developed and strengthened, aiming at an independent review of control set-up and appropriate performance of formalised and operational controls. To further strengthen "second-level controls", dedicated teams for Compliance, Risk, and Finance were reinforced and are newly managed directly by the Chief Risk Officer (CRO). The Bank continuously enhances the effectiveness of individual operational risk management processes, including the collection of information about internal events. In 2020, Komerční banka Group recorded 362 operational risk events in a final amount of CZK 220.5 million. In a year-on-year comparison, this represents a 29% decrease in the number of losses and a 155% increase of total loss volumes. After deducting losses related to the Covid-19 crisis, and one-off allowances created for a single credit case, the volume of operational risk losses declined by 13.5% compared to the previous year. Regarding net loss volumes, fraud and other criminal acts constitute the most significant long-term risk category.

KB is participating in the SG Permanent Control Transformation Program, which aims to further streamline operational risk management procedures and strengthen the control environment throughout the SG Group. As part of that programme, the Risk Control Self-Assessment methodology was redesigned to promote a "process" approach and new principles of risk assessment were applied for the first time in 2019, and further developed in 2020. To reflect recent regulatory challenges on the SG Group level and in order to mitigate the most significant risks of the Group, a review of formalised controls was set up together with a review of coverage of the key activities of KB, with the risk mitigants defined in a unified way for the whole SG Group.

To strengthen KB's holistic approach to risk management, the Operational Risk Department was transferred under the Risk Management Arm in 2019 and thus the department is currently being supervised directly by the Chief Risk Officer. In order to strengthen independent management of risks in the area of physical security, the Security Services unit was transferred into the Operational Risk Department in 2020. The unit is in charge of methodology and principles and rules settings in the area of physical security and regime protection of KB's premises. Co-operation within KB Group companies in the area of operational risk management has been ensured through the regular exchange of information and participation of KB representatives on Operational Risk Committees organised by major Group companies. Within KB Group, the AMA approach is already used in four Group companies. In addition to the Bank itself, these include Modrá pyramida, as well as two non-banking entities, SGEF and ESSOX.

KB devotes considerable effort and resources to the fight against fraud. Within the Bank, there are several teams specifically focused upon preventing and fighting against various types of fraud in key areas of KB's activities. In 2018, several fraud prevention teams were partially consolidated through their organisational inclusion into Operational Risks. KB strengthened its capability of online fraud detection in 2019, mainly with respect to instant payments. In relation to the increase of cashless transactions due to the extraordinary pandemic situation, KB noticed an increase in fraudulent attempts, especially in the area of payments. Due to effective system measures, the vast majority of these attempts was identified and therefore no significant material harm was caused either to KB itself or to KB's clients.

Business continuity

Business continuity management consists in developing Komerční banka's structures, procedures, and resources intended to cope with extraordinary situations in order to reduce the potential damaging impacts these may have on the Bank; protect the entity's employees, clients, assets, and activities; and enable it to continue providing basic services and thus to protect KB's reputation, business assets, brands, products, processes, and know-how while limiting the impact on KB's financial position. KB has developed business continuity plans for all main vital and critical processes. These plans are regularly updated and tested. The system is subject to regular reviews by external and internal auditors, as well as regulatory authorities. KB is a part of CZ Critical infrastructure of Financial Sector (KIFT).

The extraordinary situation linked with Covid-19 well tested and confirmed the robustness and efficiency of the business continuity and crisis management setup.

Covid-19 impacts

The situation linked with Covid-19 measures is bringing numerous changes across the whole organisation, particularly in relation to business continuity and crisis management.

Crisis management's organisation was established at the executive level to efficiently direct and manage all the changes and measures. Protecting the Bank's employees and clients was one of the key and essential priorities over the first and second waves of Covid-19. Therefore, the Bank provided its staff approximately 200,000 FFP2 respirators and the Bank's branches were equipped with contactless disinfectant dispensers and Plexiglass barriers.

The Bank significantly transformed its working capacity towards remote working and remote client servicing. To ensure efficient transformation, the Bank purchased about 1,000 notebook computers and doubled capacity of its data lines and VPN concentrators. The Bank's business continuity plan was activated in both the sales network and head office. The Bank established approximately 100 backup working places for activities where remote working was not applicable.

To maximise protection of employees, the Bank's staff was split into four groups with weekly rotations. The Bank as well performed regular weekly antigen testing of its critical infrastructure employees. Other Bank staff members were offered such testing at no cost in two waves. In total, 1,564 employees were tested and the positivity rate was at a very low 1%.

All changes connected to Covid-19 measures were closely monitored and validated by the Risk Management Arm, either via standard processes involving the New Products Committee or the Credit Risk Management Committee or in a strict bypass management procedure.

In response to emerging security risks associated with remote working and client servicing, the Bank strengthened its security measures by (i) implementing two-factor authentication for employees using KB Key, (ii) enhancing DLP (data leakage prevention) capabilities, and (iii) enhancing security operating centre detection capabilities.

Cyber and information security

Cyber and information security in Komerční banka is technically managed under the Chief Digital Officer, a member of the Board of Directors. Since transformation to agile@scale delivery, the Bank has centralised cyber security expertise in the Security Center of Expertise, from where the overall cyber and information security governance is managed and disseminated into the entire organisation. A key principle followed is that every asset owner is responsible for the security of the owned asset and every employee is responsible for his or her own secure behaviour. Control over achieving defined security levels is organised and validated by the Security Center of Expertise.

Work in the security area has to be executed in a fundamentally proper way so that it well protects the Bank's business, including interactions with the clients, against foreseeable threats originating from the continually evolving digital environment. Komerční banka's approach to protecting the digital environment is based on an ISO/IEC 27000 methodology in order to have end-to-end defences coverage and ensure that the key pillars of information security – confidentiality, integrity, availability, and non-repudiation – are properly maintained. The most severe risks originate from the external environment and include the likes of fraud risks, risks of attacks on our clients, risks of penetrating the Bank's information systems, risks of electronic services availability loss, and risks of illegitimate data exfiltration. The Bank does not underestimate threats that originate from inside of the bank organisation, either, such as internal fraud, misuse of access rights, or potential leakage of the Bank's confidential information. Komerční banka employs a broad set of preventive and detective measures as security defences. The Bank continually monitors the external and internal environments and assesses risks associated with changes in the internal environment. It also continually implements regulatory requirements for a prudent security setup that contributes to high preventive and control standards. The adherence to internal policies and external requirements is checked by the Internal audit department, which conducts approximately five missions yearly on different cyber and information security topics.

In 2020, Komerční banka faced an unprecedented situation caused by the Covid-19 pandemic. This led to implementation of remote working on a broad scale. Also, interaction with clients shifted mainly to digital means. To facilitate this change, the Bank needed to review its information exchange with clients. The trend towards rising insecurity in the external cyber environment continued in 2020, as malicious actors tried to take advantage of the sudden switch to the predominant use of remote work, as well as electronic interactions and transactions.

Secure work of KB's employees and partners from their homes was assured through Komerční banka's VPN solution, complemented by a virtual desktop solution with two-factor authentication using the KB Key application (KB Klíč). KB also promoted more strongly encrypted information exchange with clients. The Bank faced a small number of phishing attempts in 2020. These did not cause any significant interruption of services or detriment to the internal environment. The number of serious, publicly announced cyber security threats grew and these were addressed immediately as they inherently brought about heightened risk for breach of the Bank's cyber and information security. Those attacks and threats were quickly investigated and mitigated by applying incident response plans or implementing recommended fixes or patches. Since 2020, KB has had its external perimeter continually monitored by an external service, which has improved overall security and boosted the speed at which identified vulnerabilities are corrected.

KB's cyber and information security policies are based on Czech as well as EU law and regulations, internal Société Générale policies, and a family of ISO/IEC 2700x norms. The Bank reinforced in 2020 its IT risk management practices and their integration with agile@scale development methods. Rollouts of IT risk dashboards together with strong management attention led to a decrease of internal IT risk exposures, including the number of identified high-risk situations. The risk mitigation processes are being closely monitored, further accelerated, and fully integrated into the overall risk control self-assessment practice (RCSA).

Security assessment of KB's internal information environment is regularly performed by Gartner, a cyber security firm. Its findings are utilised in further development and adjustments. In 2020, KB moved security assessment forward into an earlier phase of the development process and implemented secure development principles and SAST (static application security testing) techniques. Additional applications have been integrated into centralised access management and security monitoring systems. The Bank implemented an additional layer of protection against unknown threats at the endpoints. The data leakage prevention (DLP) monitoring measures were extended to additional data exchange channels and the development of an endpoint DLP installation was completed for a planned rollout in 2021. The network segmentation of the user-facing part of the network was reviewed and adjusted in order to accommodate the new agile@scale delivery organisation. KB also reviewed connections with co-operating partners and prepared a switch of some of these to more secure means. The secure behaviour of employees was promoted via continual delivery of an information security awareness programme, including annual information security training complemented by internal communication on actual security topics. A new education programme for senior developers was introduced in order to improve their security skills. The employees are also kept alerted via simulated phishing attacks (at least three times per year).

With the aim to further mitigate risks associated with client security, Komerční banka further expanded its KB Key secure authentication method together with a new central client access management solution. Secure two-factor authentication via KB Key has become a prevalent authentication method used by the clients. The number of clients with active KB Key has already risen to around 800,000. Komerční banka continued to share security education directly with the clients via its dedicated security website (https://www.kb.cz/en/security). It communicates key secure behaviour practices and features that should help clients to stay safe. It includes recommendations on how to protect client devices and information about current threats and active fraud schemes. Komerční banka continues to promote use of IBM's protective client security tool Trusteer Rapport for internet and mobile banking solutions. Trusteer is focused on protection from specific threats, such as fake, harmful websites (phishing) and malware, and on preventing attempts to detect passwords (e.g. keylogging). KB's anti-fraud detection system helped to save the money of a number of clients by detecting and blocking suspicious payments that were made by impacted clients but on the basis of fraudulent requests.

Komerční banka continually monitored a defined set of key risk indicators (KRI), such as number of security exceptions, number and criticality of open vulnerabilities, and number of security incidents. None of the monitored KRIs deviated from long-term approved levels in 2020. The Bank reported one cyber security event (loss of availability due to operational reasons) as defined by the Cyber Security Act (Act No. 181/2014 Coll.)

Compliance risk

Compliance risk arises from possible breaches of regulatory rules, standards, principles of ethical conduct, and KB's internal regulations based on general ethical and corporate social responsibility principles that are obligatory for all employees. Any materialisation of this risk means the possibility of bringing KB into conflict with regulatory authorities, institutions, or its clients. KB could face financial penalties, reimbursement for damages and costs for corrective measures, as well as loss of reputation and goodwill with clients and the general public.

To manage compliance risk, KB has established a set of rules and processes within the control and management system. KB is scrupulously attentive to their observance. The Compliance Department is an important part of KB's management and control system. It has clearly defined functions and powers to identify these risks. Risk management rules and processes are vested in KB's internal regulations. Those internal regulations are regularly communicated to all employees, and compliance with them is regularly controlled. Senior employees are responsible for the continuous education of their colleagues to ensure compliance with the rules.

KB conducts a series of activities for the purposes of compliance risk management. The first step is systematically to monitor outputs of the relevant regulatory bodies as well as to monitor new regulations. The next activity is continuously to co-ordinate the implementation of the regulations within KB by creating internal policies and procedures. Finally, there is a follow-up that involves inspection and consulting.

KB has developed a broad basis of internal regulations within risk management focused primarily on preventing the violation of regulatory and ethical rules and minimising the associated risks. The main areas relevant for KB include in particular preventing money laundering and financing of terrorism, rules for preventing corruption and accepting gifts, managing conflicts of interest, rules for providing financial market services, rules for handling insider information, distribution and advertising of products, payment operations, protecting banking secrecy, consumer protection, client data protection, competition, and rules regulating advertisement. Within these areas, KB provides training to relevant employees and informs them about new regulatory developments. The purpose of the training is to ensure understanding and compliance with regulatory requirements while maintaining general awareness of the main principles and rules of conduct that both KB and its employees must observe. KB provides advice and support in the aforementioned areas across all KB Group companies.

In the context of compliance risk management, KB strictly insists on a zero tolerance for fraudulent and dishonest conduct of any kind, as well as for any infringement of the pertinent regulatory and ethical rules, whether consciously or through negligence. Special attention is given also to reputation risks that must be taken into account within the context of KB's activities.

A number of mechanisms have been put into place to minimise the risks of regulatory non-compliance by KB and its employees. There is continuous monitoring of compliance with the rules and subsequent controls. The results of particular controls are regularly reviewed. KB records the findings and conclusions from inspections carried out by regulatory institutions and internal audit. Special attention is paid to corrective measures. Furthermore, individual regulatory discrepancies identified through normal banking operations are recorded and carefully evaluated. The process of improvement is constantly being reported to KB's Board of Directors.

Rules of conduct

KB is aware that the professional behaviour and conduct of its employees are basic preconditions for the successful development of the Bank and Group. Such behaviour and conduct are based on building open relationships with the clients and deepening trust between KB, its employees, and its clients and partners. KB Group has created rules for ethical behaviour and conduct of its employees that are based on general obligations as defined both by regulatory provisions and by standards of professional conduct applicable to the banking industry. These obligations consist of particular rules preventing conflicts of interest and corruption, rules for accepting gifts, rules preventing abuse of position, and rules against misuse of confidential information. The principles of ethical conduct and the necessity for upholding these rules are effective for all employees and are defined in KB's internal policies. A Société Générale and KB training programme raises the awareness of ethical conduct among KB employees. It is designed for all employees of the Group and focuses on principles of conduct and values for individuals and the Group as a whole.

On a local level, KB has internal policies such as its Code of Ethics, Explanatory Notes to the Code of Ethics, and other internal policies (non-public and intended only for KB employees) encompassing, among others, such areas as anti-discrimination rules, conflict of interest, whistleblowing, anti-corruption and anti-bribery, confidentiality of information, banking secrecy, anti-competitive practices, anti-money laundering, and insider dealing, as well as compliance with local, EU, and international regulations regarding above all environment, health, and safety. Further information is available at https://www.kb.cz/en/about-the-bank/everything-about-kb/corporate-social-responsibility/six-strategic-priorities/the-environment.

KB has zero tolerance for any kind of fraudulent behaviour, corruption and bribery, antitrust/anti-competitive business practices, as well as discrimination or harassment in any form. KB is fully in line with the SG Code governing the fight against corruption and influence peddling, available at https://www.societegenerale.com/en/societe-generale-group/ethics-and-compliance/code-of-conduct.

On the SG Group level, KB is bound by SG's Code of Conduct, which encompasses all those areas wherein SG has obligations. It refers, among other things, to the prevention of discrimination, confidentiality of information, conflict of interest, insider trading, and whistleblowing. In addition, Société Générale has a specific code dealing with tax issues (please refer to https://www.societegenerale.com/en/societe-generale-group/ethics-and-compliance/code-of-conduct). These publicly available principles guide the work of the Group across the globe. Therefore, they are applied and promoted also in KB, whose website contains information regarding corporate culture applicable to KB and external partners (please refer to www.kb.cz/en/suppliers and to www.kb.cz/en/o-bance/vse-o-kb/spolecenska-odpovednost/sest-strategickych-priorit/etika-a-odpovedne-podnikani).

All employees receive training at the beginning of their work relationship, after which they are trained every two years. In addition, there are dedicated KB or group training courses (from SG) that are tailored for exposed staff and conducted more frequently or on an ad hoc basis. Only employees on maternity leave or in long-term absence receive no new training.

Since 2020, new employees are required to sign off a document confirming that they have read and understood the latest version of the Code of Conduct. In addition, all applicants are informed at an early application stage about the existence of the Code of Conduct and SG Code governing the fight against corruption and influence peddling, and they are asked to act according to the rules encompassed in these two documents.

Effective implementation of the Code of Conduct is assured by responsibilities, accountabilities, and reporting lines systematically defined in the internal policies of KB and its subsidiaries. The relevant contacts are available on the website (www.kb.cz/en/about-the-bank/contacts). All employees are encouraged to follow the rules in the Code of Conduct and SG Code, which are linked to the remuneration principles. Internal policy covers breaches of compliance risk by enabling the Bank to issue warnings or a dismissal.

The compliance system is verified on a regular basis by internal audit, external audit, SG supervision, and the Czech National Bank. The Czech National Bank is the supervisory authority for banks in the Czech Republic. This supervision comprises on-site and off-site inspections.

Generally, KB does not disclose breaches, except for systemic breaches or serious breaches which must be disclosed according to mandatory disclosure requirements. KB reports on breaches to SG via intragroup reporting reporting pool. The qualified breaches are always reported to the CNB or other relevant authority. Following investigations, the actual breaches would be published by such authority on their web sites. No such breach occurred in 2020.

Anti-corruption measures

The adoption and upholding of clear rules against corruption and KB's zero tolerance towards any kind of corruption constitute basic standards and a foundation for responsible business. These are prerequisites for maintaining and strengthening the position of the Group and its place in the competitive market. KB's anti-corruption measures are targeted at KB itself and its business activities, employees of KB, as well as third parties, including clients, suppliers, and financial service providers. The rules and principles adopted to fight corruption and bribery, are anchored in the internal policies and are elements of mandatory training for all employees. To comply with the rules on combating corruption, suppliers and other KB's business partners also are bound by obligatory contractual clauses.

KB has a procedure for establishing a business relationship with a new business partner. KB always requires the execution of due diligence by checking adverse information relating to a natural person or legal entity, such as information on conducting administrative or criminal proceedings relating to money laundering or financing of terrorism, corruption, fraud, tax evasion, sanctions, or negative experience of KB. There is a scoring model for the risk rating of the new business partner determining low, medium-low, medium-high, and high risk. Risk factors are evaluated on the basis of geography, industry, reputation (negative news, corruption, bribery, fraud), sanctions, and politically exposed persons (PEP) screening data. Business partners with red flags on such factors are rated as high risk. High-risk business partners have to be approved by KB and SG Compliance departments.

Upon establishing a new relationship with an intermediary (financial service provider), KB always conducts due diligence according to the regulatory requirements in relation to financial crime. The risk rating model for financial service providers is similar to that for clients. The contract contains anti-corruption clauses compliant with internal policy.

To date, KB has no knowledge of any external investigation of breaches of anti-corruption or anti-bribery rules in relation to it.

The Compliance Department is responsible for establishing the rules against corruption. As a result of SG Group emphasis in this area, KB has implemented numerous measures, such as by amending its internal policy on anti-corruption, establishing stricter rules for offering and accepting gifts and invitations to employees, launching a database tool for recording such gifts and invitations, and setting up monitoring and control of adherence to the rules. In addition, all respective managers have received face-to-face training from the Compliance Department.

The Compliance Department is also responsible to establish the rules on prevention of bribery. These rules comply with SG's group-wide policies and its anti-bribery code. The respective rulebook is updated on a continuous basis and covers mainly areas regarding whistleblowing, gifts, refreshments, external events, procedures for third-party assessments, rules for sports donations, rules for charity donations, mergers and acquisitions, and lobbying.

There were no substantiated cases of corruption and bribery in the last four fiscal years. There are no ongoing external investigations by local or international authorities.

Policy influence

KB and its employees strictly follow the rules for asserting the Bank's interests with public authorities (lobbying). Employees of KB who will carry out advocacy activities must comply with the rules and provisions relating to the fight against corruption and influence peddling, as described in the SG Code governing the fight against corruption and influence peddling and the anti-bribery rules, as well as KB's internal Advocacy policy. In addition, they must undergo mandatory training specific to the fight against corruption relating to the identification of staff exposed to corruption, and they may report any situation that could constitute a violation of internal, legal, or regulatory standards via whistleblowing.

KB employees may represent the views and standpoints of KB in professional associations and other bodies of which KB is a member (e.g. the Czech Banking Association). KB employee can enter into a negotiation with a public/state representative, but in such case he or she must act in his or her capacity as a representative of a professional association. In principle, the views of KB employees are taken as those of the association and not of the Bank and therefore are not regarded to constitute lobbying.

Contributions to political campaigns or organisations or other groups whose role is to influence political campaigns or public policy and legislation are prohibited by internal policies. KB strictly follows a course of political neutrality and refrains from supporting any political organisations or activities through donations or subsidies, even where local law so permits. The only contributions – in the form of standard membership fees – were made in 2020 to industry or trade associations (such as the Czech Banking Association) in the amount of CZK 9.7 million.

Proactive identification and reporting of potential risks, whistleblowing

Employees are encouraged to avoid a breach of any regulatory or ethical rules and to report such breaches if they do occur. In this respect, all employees can inform the Compliance Department about any substantiated suspicion of breach of regulatory or ethical rules. Rules for this procedure are laid down in the Explanatory Notes to the Code of Ethics. Employees are informed about this possibility during the welcome training, continuous e-learning, and via the intranet. Employees are guaranteed anonymity to the maximum possible extent and that no retaliatory measures will be taken against them.

Whistleblowers may exercise their whistleblowing right through contacts within KB or through SG. Within KB, the whistleblowing right may be exercised in any possible way, be that in writing, by e-mail, providing information orally (telephone or interview), etc. Employees may exercise the whistleblowing right through their direct superior or the Compliance Department.

All KB employees may use an SG secured anonymous whistleblowing web tool for exercise of the whistleblowing right (report.whistleb.com/en/societegenerale). SG is constantly improving the whistleblowing process. In 2020, SG updated operational procedures on investigation of reported issues. The changes were reflected in the KB internal policy.

Focused training of employees

KB has a training system for the employees. Training courses are allocated to employees according to their work duties, putting emphasis on mandatory training courses applicable to all employees (all staff) and those applicable to specific positions (targeted population).

All employees are obliged to complete the training courses regarding workplace safety, fire safety, compliance and ethical code, risk management culture, safety minimum, reputation risk, e-starting, internal policies, anti-money laundering, and tax transparency (including FATCA).

Employees selected according to their work positions must complete special certifications and training courses on special regulation or training courses for certain positions, such as managers and team leaders.

All employees receive training at the beginning of their work relationship and then it is regularly renewed every other year. In addition, there are dedicated training courses that are tailored for exposed staff and conducted more frequently. Only employees on maternity leave or in long-term absence receive no new training.

The completion of mandatory training courses is monitored. In case mandatory training is not completed, the employee is automatically notified by the system monthly. The administrator of the training is then notified quarterly.

Product development and offer

KB is continuously developing a number of new products with the objective of satisfying the needs of clients from various segments. Their parameters, processes, and related risks are analysed in advance and approved by the responsible units, including oversight units (the Risk Management, Legal, and Compliance departments). This ensures compliance with laws and regulations. When offering products to clients in the distribution network, the suitability of a given product for a specific client is evaluated, and the client's needs are taken into consideration. KB follows the principle of responsible lending and provides the clients with all information regarding its products in a clear and transparent manner.

Environmental and social risks

Komerční banka has implemented a system for identifying and managing environmental and social risks (ESRM) in the provision of financing to the Bank's corporate clients from the viewpoint of potential damage or negative effects on environment, health and safety, human rights, and basic freedoms. These factors may lead to a potential non-compliance with KB's rules and commitments, with obligations from applicable regulations or with environmental and social commitments of Société Générale Group, as well as to negative impact on KB's reputation or even giving rise to a credit risk exposure, including from physical damage to a client's assets due to such environmental or social factors, as climate change or industrial accidents.

Implementation of this system is a condition for long-term successful development of KB's business and it relates also to SG Group's commitments. In 2007, SG Group committed to adopting the Equator Principles, a voluntary framework of rules for evaluating environmental and social risks when financing projects. SG Group also is a founding member of UNEP-FI – the United Nations Environmental Programme Financial Initiative and of Equator Principles. In 2019, SG became a signatory to the so-called Principles of Responsible Banking, thereby committing to considering principles of sustainable banking in all its activities, including to adopt its own goals for supporting the Paris Climate Agreement.

KB respects business restrictions related to the provision of banking services and products for trading in certain types of weapons, ammunition, or other military goods and technologies. KB does not finance transaction related to export of weapons and military equipment to countries involved in wars and armed conflicts and to undemocratic and authoritarian regimes. These restrictions also cover individual private or state entities or business groups whose activities are considered within the weapons industry to be non-transparent.

In the area of environmental and social responsibility, KB is also guided by specific sector policies of the SG financial group governing the provisions of financial products in areas that can have fundamental impact on the natural or social environment. These specific sector policies cover such areas as thermal power, mining and use of thermal coal, mining of natural resources, civil nuclear power, dams and hydropower, defence and security equipment, oil and gas, forestry and forestry products, agriculture, fisheries and foods, palm oil production and processing, shipping, and protection of biodiversity.

The ESRM system stipulates procedures for assessment of these risks during onboarding of new clients, annual review of limits, providing of financing to clients in corporate segments, and for transactions covered by the Equator Principles.

The main aims of the ESRM system are to make sure that the Bank does not finance entities participating in excluded activities (by listing such entity in the SG Exclusion List shared across the whole Société Générale Group); that the Bank carefully assesses the environmental and social risk when servicing clients in sensitive sectors; that all servicing of clients and transactions are in accordance with the applicable environmental, labour, and social regulations; and that a client or transaction is not linked to a significant reputation or credit risk due to environmental or social factors.

The process of environmental and social (E&S) risk assessment is closely linked with the KYC process. E&S risk assessment of new clients is regularly conducted along with the KYC. A need for assessment may be also triggered, besides when accepting a new client or during a regular review, by the client's application for a new product or a service, renewal of a credit line, or even during a review or adjustment of the assessment procedure itself. Other important changes relevant to the client, such as a change of ownership, reputational or legal controversy, or a change of applicable laws, may also lead to a need for a new assessment. Acceptance of the business relationship with the client may be subject to an agreement on a programme of resolving the risk identified during the assessment.

In 2020, the thermal coal policy, as well as the defence and security equipment policy were amended. The changes further develop the SG Group's commitments to reduce its exposure to coal in line with its ambition to contribute to the fight against climate change and to avoid financing armed conflicts and weapons export to authoritarian, undemocratic regimes.

Crime prevention, measures against money laundering (AML), financing of terrorism, and circumvention of international sanctions

KB exerts maximum efforts to prevent the abuse of its services for any purposes relating to money laundering and the financing of terrorism or circumvention of international sanctions. It applies rules, methods, and verification procedures in compliance with the corresponding legal regulations, norms, and rules of the SG financial group. KB's internal prevention system is periodically verified and updated. Information in this area is periodically shared with the employees in the forms of, for example, operational reports and training classes and/or e-learning courses. KB has an established system for monitoring all transactions and business relationships. Publicly available policies or procedures cover mainly customer due diligence, terrorist financing, and politically exposed persons.[1)]

KB has publicly available procedures in place to ensure the effective establishment and implementation of a company culture opposing money laundering and terrorism financing.[2)]

These documents refer to the information requested from clients regarding customer due diligence. Formal policies and procedures include customer verification based on reliable, independent source documents, data, or information; identification of beneficial owner; and conducting ongoing due diligence on business relationships. In line with regulation, KB performs screenings against applicable lists of sanctions and embargoes issued by competent authorities having jurisdiction over the relevant financial institutions and SG Group as a whole on a daily basis as well as lists of politically exposed persons (PEP) at the beginning of a relationship, then quarterly on the whole client portfolio. In 2020, KB prohibited opening accounts for clients without prior sanctions and PEP screening. In the case of PEP, each client is questioned during an onboarding process and then recorded in a special database. The client is then screened regularly. The power to approve PEP is delegated to the head of the Anti-Money Laundering Unit or his or her deputy.

In all business relationships with its clients and other commercial partners, KB diligently applies the "know-your-client" (KYC), "know-your-supplier" (KYS), and "know-your-financial service provider" (KYP) rules as defined by both local laws and regulations and internal policy. KYC rules are applied accordingly to particular client groups, including natural person, legal entity, and entrepreneur (natural person). Based on the client type and existence of defined riskiness criteria, including the type of product, business area, country-based risks, and many others (i.e. negative news, sanctions issues, PEP identification, entity size, transactions with high risk countries, date on entity establishment, date entity onboarding, identification of the ultimate beneficial owner, legal form of the entity, non-face-to-face onboarding, suspicious behaviour of a client, source of wealth, source of funds), each client is expected to submit a pertinent set of documents when opening an account. A natural person is required to submit mainly documents proving identity and address, tax return, and FATCA questionnaire. In addition to the requirement to submit the same documents as natural persons, entrepreneurs are required to submit the business licence and complete a sanctions questionnaire. Legal entities must always submit documents proving their existence, the identity of the executive directors, ownership and management/control structures, as well as documents showing the income and business activity of the client, tax return, sanction questionnaire, and declaration of business activities. If explicit or very specific knowledge regarding clients' activities is needed, some other documents are required during the onboarding KYC procedure or during regular verification of KYC validity and accuracy. There are two possibilities for how to proceed with non-face-to-face identification while ensuring the same standard of KYC: by online application or by courier. Both require the client to submit two documents proving identity and other documents relevant for a legal entity. Online onboarding is offered only for Czech citizens. The information requirements and requested documentation are available at https://www.kb.cz/online/welcome/muj-ucet-plus.

KB is continuing in developing a dedicated KYC project, the principal goal being to improve the efficiency of the whole KYC process that began in 2019. Development in digitalisation (digital onboarding) is ongoing via the development of an application for AML categorisation (kAMiLa v2.6) in line with SG rules. The binding rules cover all recognised international standards on AML/CFT, as well as reputation and business-ethics risk viewpoints. KB progressively is improving and adjusting the processes to reflect the quickly changing regulatory environment, lessons learned from issues of the world's banking players, and constantly changing consequences of the sanctions to which KB must react.

During 2020, 3,566 business cases or applications to establish business relationships were further analysed by the Compliance Department. Of these, 318 were recommended to be declined.

Records are kept for 10 years from the end of a relationship with the client. An annual independent assessment of monitoring procedures is conducted.

All employees, including senior management, are requested to complete training courses and/or e-learning with final tests in the areas of anti-money laundering and countering financing of terrorism, know-your-customer, anti-bribery, and anti-corruption on an annual basis. The intranet-based training includes case studies and computer-based training with self-assessment. Face-to-face training by the Compliance Department is mandatory for selected employees.

Tools used for monitoring transactions in relation to money laundering include the following:

a) Siron AML, an application used on a daily basis that automatically detects non-standard/risk transactions of clients in the AML/Countering Financing Terrorism area (generating AML alerts). Altogether, 30 indicators/scenarios of risk behaviour/type of transactions are set up.

b) AML application is a system providing mutual communication between the AML unit and responsible employees (i.e. evaluation and recording of feedback, reporting suspicious transactions, etc.).

[1)] https://www.kb.cz/en/about-the-bank/documents

[2)] https://www.kb.cz/getmedia/650c8072-d4e2-481d-9d0a-6545f9a968ff/Summary-of-AML-policies-and-procedures-or-AML-and-KYC-data-2020.pdf.aspx; https://www.kb.cz/getmedia/cc2f6688-3855-4a4f-9f4f-604f7e2d654f/kb-identification-and-verification-of-clients.pdf.aspx

In 2020, the AML unit:

- investigated 48,439 cases received from different KB units (in 2019: 775; in 2018: 815, in 2017: 531; the year-on-year increase in the number was caused by adopting of new rules for acceptance of clients and transactions, and by centralising the administration of alerts in the Compliance department);
- notified 444 suspicious transactions to the Financial Analysis Unit by the Czech Ministry of Finance (FAU) (in 2019: 248; in 2018: 212, in 2017: 210);
- processed 1,135 inquiries from the FAU (in 2019: 1,469; in 2018: 1,503; in 2017: 2,004);
- in 684 cases followed orders for execution deferrals or account/client blocking (in 2019: 165; in 2018: 293, in 2017: 181); and
- in 351 cases initiated termination of the existing contractual relationships (in 2019: 532; in 2018: 559, in 2017: 158).

c) AMLCOM is an application for correspondent banking screening of transactions implemented in February 2020. Evaluation of alerts is under the control of the KB Compliance department.

From different KB units, 1,373 cases received were investigated, 46 of which were subject to enhanced due diligence.

In the area of preventing money laundering and financing of terrorism, the Compliance Department focused during 2020 on adjusting the internal control system following adoption of an amendment to Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism. It also created conditions for updating internal processes and rules in accordance with the project programmes of Société Générale Group.

KB has developed sophisticated measures against circumvention of international sanctions, including to check on a daily basis KB's entire client portfolio against sanctions lists, check all foreign transactions for potential violations of sanctions, as well as check the products and services, especially those involving foreign trade and export.

In 2020, KB evaluated 59,094 hits on KB clients with potential risk of breach of sanctions. The vast majority of these hits was evaluated as false. No significant breach of sanctions was detected. Nevertheless, several business relationships with clients did have to be terminated.

In 2020, KB performed a deeper analysis of 5,980 foreign transactions in order to eliminate the risk of breach of international sanctions (EU and USD-related sanctions in particular). Of these transactions, 5,577 were held by SG Paris and 430 transactions were held by a correspondent bank of SG New York. In total, 349 transactions were blocked and not executed as a result of this control.

All these transactions are checked online in real time. They require mainly (but not solely) detailed analyses of clients' activities, the rationale for the transactions, and relationships with counterparties.

Client data protection

KB respects protection of clients' personal data and data covered by banking secrecy. Transparent handling of data and its maximum security are considered essential to fulfilling KB's regulatory obligations and maintaining responsible business operations and long-term relationships with clients.

The Bank has a set of internal rules and policies to ensure personal data protection for all data subjects – clients, employees, and suppliers. All information on processing of client data is provided in a set of document, that is available on KB's web[1], including the document Information about processing of personal data for clients. This document provides the clients or third parties whose data are or may be processed with relevant information regarding the legal basis for personal data processing, the purpose, what personal data are processed, where the personal data is obtained, who are the processors and receivers of the personal data, for how long the data is stored, what legal rights the clients have, and what legal acts are binding upon the Bank regarding personal data protection. All relevant information referred to in the GDPR is covered.

There is a document with similar information for the Bank employees on the intranet.

All information for suppliers (data processors) including GDPR clauses is included in the contract clauses.[2] GDPR governance is systematically defined and set up in KB and the Group entities. Breaches of the privacy policy are independently evaluated by the data privacy officer (DPO), who recommends actions to be taken. In addition, the DPO is responsible for consultations with the Office for Personal Data Protection. Breaches of GDPR by an employee might result in disciplinary procedures (i.e. warnings). The privacy policy is a part of the regular internal audit plan. In 2020, there was an SG inspection which identified only a very small number of issues rated with low risk.

During 2020, there were in total 61 suspicions received from outside parties concerning breaches of customer privacy, 2 of which were received via the regulator.

Supplier relationships

In its relationships with suppliers, Komerční banka is committed to honouring all legal obligations, protecting the environment as well as social and human rights, and respecting the principles of sustainable development. KB is implementing those principles common to the Société Générale Group in its purchasing processes. The Bank regards this, too, as an aspect of its responsible approach to risk management.

In 2020, KB continued in strengthening its discovery and evaluation of information on suppliers and potential suppliers (so-called "know-your-supplier", or KYS) with the aim of preventing any co-operation with suppliers who violate applicable rules and regulations in the areas of taxation, anti-money laundering, financing of terrorism, and corruption, or who might be involved in other illegal activities. The rules have been tightened for

1) https://www.kb.cz/en/protection-of-personal-data

2) https://www.kb.cz/en/suppliers

verifying suppliers' governance bodies, beneficial owners, and any politically exposed persons linked to them. Moreover, suppliers are checked against registers such as the EU Sanctions List, sanctions and embargoes of the USA, and lists of the United Nations Security Council.

KYS involves also rules for establishing business relationships with suppliers from sectors sensitive from the perspective of responsible banking (e.g. the energy industry).

Protecting economic competition

KB had previously introduced an internal directive covering protection of competition based upon both general obligations as established by regulatory provisions and on the standards of SG Group. This regulation describes the regulatory framework, risk areas concerning the banking sector, and behaviour of individual employees in negotiating with third parties and with the regulator so that the employees are sufficiently informed regarding risks and methods for avoiding them. Selected employees also are subject to internal training in this area. Employees negotiating on the Bank's behalf at the level of the Czech Banking Association also undertake to uphold the rules of the Czech Banking Association in this area.

KB did not incur any fines or settlements related to anti-competitive business practices in the past four fiscal years, nor is it currently involved in any ongoing investigations related to anti-competitive practices.

Governing law

As an issuer of publicly traded securities, during 2019 Komerční banka was governed in its activities particularly by the following laws:
- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives;
- Act No. 257/2016 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act;
- Act No. 170/2018 Coll., on Distribution of Insurance and Reinsurance;
- Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 69/2006 Coll., on Implementation of International Sanctions;
- Act No. 300/2016 Coll., on the Central Register of Accounts;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., the Civil Code;
- Act No. 277/2013 Coll., on Foreign Exchange Activities;
- Act No. 634/1992 Coll., on Consumer Protection;
- General Data Protection Regulation (EU) 2016/679 (GDPR);
- Regulation (EU) No. 596/2014, on Market Abuse;
- Regulation (EU) No. 575/2013 on Prudential Requirements for Credit Institutions and Investment Firms and Related Implementing Regulations of the European Commission; and
- Regulation (EU) No. 648/2012 on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR).

These regulations entail the main legal basis for the Bank's operations. In addition to what is stated above, the Bank's activities must also comply with a number of other regulations, government decrees, implementing regulations, guidelines and other documents issued by European bodies.

Penalty incurred

No penalties or regulatory sanctions were incurred in 2020.

Legal risk

Managing legal risk consists in minimising uncertainty associated with enforcement and interpretation of legal acts, contracts, regulations, and laws. KB Group applies a variety of techniques, procedures, and tools, including regular monitoring of proposed and adopted legislation, close co-operation among the legal teams within KB Group, a system of continuous education of and specialisation among lawyers, detailed documentation and evaluation of outputs, and, last but not least, a set of corresponding control mechanisms to manage legal risks.

In addition to standard legal functions within such various areas as contracts, banking, and corporate law, the main tasks of KB's lawyers during 2020 involved in particular support of KB in implementing legislation adopted in connection with the pandemic situation in the Czech Republic, including the statutory postponement of loan repayments and implementation of governmental support and guarantee programmes. Further, they provided legal support for creation of bank identity services, co-operation in preparing the National Development Fund, and legal support for various streams of the KB CHANGE 2025 strategy.

Significant legal disputes

With respect to its overall financial situation, Komerční banka considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As of 31 December 2020, KB Group was a party to 8 significant legal proceedings as a plaintiff. The principal that was the subject of these legal proceedings totalled CZK 445.1 million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 14 bankruptcy proceedings. The total of claims filed in relation to these proceedings was CZK 2.2 billion. As of 31 December 2020, KB Group was a party to a total of 7 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 658.4 million.

Information concerning the provisions created for litigations in which the Group is a defendant is stated in the Notes to the Consolidated Financial Statements according to IFRS, Note 37 – "Commitments and contingent liabilities".

Internal audit

The main tasks of KB Internal Audit include assessing the functionality and effectiveness of risk management, control processes, and the Bank's corporate governance, as well as contributing to improving the organisation's overall operational effectiveness.

KB Internal Audit is integrated into the organisation of the global division of Internal Audit within SG Group. In addition to conducting audits at KB, it also provided coverage for KB Group subsidiaries and SG Group entities in the Central European region. The strategic goals of Internal Audit are primarily focused on covering major risks and the most important activities of the Group, including fulfilment of all regulatory requirements. Internal Audit's engagements are driven by the annual audit plan prepared mainly based on assessments of the risks and priority areas. In 2020, 50 audit missions were carried out, of which 17 were performed in KB Group subsidiaries and 2 were conducted across the KB Group, including within the Bank itself. Thirty-one audits performed within the Bank covered both the distribution network and head office units. In total, 158 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2020. Of these, 39 were given significant priority. The Bank maintained a low number of long-term unresolved recommendations. As of 31 December 2020, eight recommendations had been outstanding for more than 18 months.

A review of the remuneration system in KB, which focused mainly on the fulfilment of CRD IV requirements, was performed for the ninth time. That review identified no significant shortcomings.

In its regular report to KB's Board of Directors, the Audit Committee, and the Supervisory Board, Internal Audit evaluated the Bank's internal control system and declared it effective.

Using a methodology shared across the entire SG Group, the plan for 2021 draws upon outcomes from a risk assessment, the five-year audit cycle, and regulatory requirements.

Internal control and approach to risks in the process of accounting and preparing financial statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve preparing the statements and their control.

The tools used for proper recording of transactions, events, trades, and the like in the accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, and managing of access rights to individual systems. Setting up systems, processes, and controls is always formally governed by the Bank's internal regulations.

Compliance of those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with relevant departments. For more information on the rules used, see Notes to the Separate Financial Statements, Note 3 – "Principal accounting policies" and Note 43 – "Risk management and financial instruments".

The Bank utilises a system of defining responsibilities for individual ledger accounts (the so-called ownership system) under which a particular employee authorised to transact with the account and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance and to monitor its balance and movements, as well as responsibility for documentary stock taking of accounts. The control over account analysis also involves the reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems. Control over the accuracy of input data is performed especially in the Retail Banking, Corporate and Municipal Banking, and Transaction and Payment Services arms within the First Level Control system, which constitutes the basis of the Bank's internal control system. The First Level Control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness, and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out in particular by the Accounting and Reporting Department, which expressly checks the data in the accounting by means of analytical procedures. The main analytical procedures may be classified as control over data consistency as of the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided, and market data, or to changes attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled with the general ledger while at the same time the accuracy of the data in the general ledger is checked.

The effectiveness of internal controls is evaluated by an independent Second Level Control system that examines design and operating effectiveness of both First Level Controls and operational controls. Key risk indicators (such as the number of manually processed transactions or the number and volume of various reconciliation gaps) are also regularly followed up and evaluated. Their values within the Bank have long been held to levels indicating a very low risk. The internal control system in the financial reporting area is also regularly evaluated by Internal Audit.

Capital and liquidity

Regulatory framework

Komerční banka is subject to supervision by the Czech National Bank (CNB), and since November 2014 the Société Générale Group has been supervised by the European Central Bank. The regulatory requirements in the European Union are established within the Basel 3 capital framework through Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or “CRR”) and by Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4, or “CRD IV”). CRD IV was transposed into Czech law by an amendment to the Banking Act and publication of CNB Decree No. 163/2014 Coll. This regulation has established, above all, the newly conceived capital ratios as well as more stringent requirements mainly on regulatory capital, liquidity, risk-weighted exposures, and overall corporate governance.

According to the valid Basel 3 capital rules, an additional Pillar 2 buffer of 2.2% over the minimum required capital ratio of 8.0% was applied to the Bank in 2020. This brought the required TSCR (i.e. total SREP) capital ratio to 10.2%.

As of 31 December 2020, the combined capital buffer of 6.0% was applied on top of the TSCR capital ratio. That consisted of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and a required countercyclical buffer of 0.5% for exposures in the Czech Republic. (The CNB had reduced the countercyclical buffer as a part of its measures against the impacts of the Covid-19 pandemic from 1.5% as of 31 December 2019 to 1.00% as from 1 April 2020 and further to 0.50% as from 1 July 2020.) The required overall capital ratio thus reached approximately 16.2% as from 1 July 2020 (lower by 0.4 percentage point mainly due to decrease in the countercyclical capital buffer).

Komerčni banka’s overall capital requirements as of 1 January 2021 stood at approximately 16.2% in relation to the consolidated volume of risk-weighted assets. It is expected that the overall capital requirements may change during 2021 due to the implementation of Capital Requirement Directive 5 (CRD V), upon which basis the CNB will replace the requirement for systemic risk capital buffer with a requirement for a capital buffer for Other Systemically Important Institutions (O-SII) in order to limit the risks related to the systemic importance of individual banks. Already during initial implementation of the Basel 3 regulatory framework, the Czech National Bank had designated Komerční banka as an Other Systemically Important Institution (O-SII). In 2020, this decision was reaffirmed by the CNB following the regular regulatory review.

The Bank and Group meet the overall capital ratio requirements with significant reserve, because their respective capital ratios stand well above the minimum required level.

Consolidated capital and risk-weighted assets

Total shareholders’ equity comprises the following main items: share capital, reserve funds, and retained earnings. As of 31 December 2020, total equity grew year over year by 7.8% to CZK 117.1 billion. The growth reflected mainly the creation of net profit while payment of dividends was suspended due to the CNB’s counter-crisis measures. The value of non-controlling interests reached CZK 3.2 billion. As of 31 December 2020, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital. These shares had been acquired in previous years at a cost of CZK 726 million. The Bank did not acquire its own shares during 2020. The acquisition of its own shares had been authorised by the General Meeting, particularly for purposes of managing KB’s capital adequacy.

As of 31 December 2020, Komerční banka held a Tier 2 subordinated loan in the amount of EUR 100 million (CZK 2.6 billion), with 10-year maturity from the issuance in October 2017, a call option for the benefit of the Bank after 5 years from issuance, and interest rate of 3-month EURIBOR plus 1.26%. The subordinated loan is denominated in EUR in order to better align the currency structure of KB’s regulatory capital with that of its assets. The loan was accepted from Société Générale after the Bank assessed other opportunities available on the market and concluded that the loan from SG provides the most effective option for the Bank. The Bank may in coming years continue gradually to increase the volume of Tier 2 instruments, which, according to the regulation, may cover up to 2 percentage points of Komerční banka’s risk-weighted assets in order to optimise the structure of its regulatory capital. Actual decisions on potential further Tier 2 reinforcement will reflect the required level of regulatory capital as well as prevailing market conditions.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 100.7 billion as of 31 December 2020, which is 16.3% higher compared to 31 December 2019. This growth is mainly due to the retention of the whole profit of 2019 in compliance with the instruction of the CNB from 16 March 2020 that banks refrain from any dividend payouts or any other steps that might jeopardise individual banks’ resilience until both acute and longer-term consequences of the new coronavirus epidemic fade away. According to the initial decision announced on 6 February 2020, the Board of Directors had decided to propose to the Supervisory Board and the Annual General Meeting a dividend payment of CZK 11.0 billion. This decision was subsequently amended in accordance with the aforementioned instruction of the CNB, as KB announced on 23 March 2020.

As of 31 December 2020, total capital adequacy stood at 22.3%. Tier 1 capital stood at CZK 97.9 billion (increased by 16.5% since the end of 2019, also due to retained 2019 profit) and the Tier 1 ratio reached 21.7%, also after adjustment for the foreseeable dividend. Tier 2 capital came to CZK 2.8 billion, or 0.6% of risk-weighted assets.

KB uses the following approaches for calculating capital requirements related to individual types of risk:
Capital requirement calculation approaches for KB Group Companies

<table>
<tr><th rowspan="2">KB Group entity</th><th colspan="3">Capital requirement calculation approach</th></tr>
<tr><th>Credit risk</th><th>Market risk</th><th>Operational risk</th></tr>
<tr><td>KB*</td><td rowspan="5">AIRB</td><td rowspan="8">STA</td><td>AMA</td></tr>
<tr><td>BASTION</td><td rowspan="3">TSA</td></tr>
<tr><td>Protos</td></tr>
<tr><td>KB Penzijní společnost</td></tr>
<tr><td>Modrá pyramida</td><td rowspan="3">AMA</td></tr>
<tr><td>SGEF</td><td rowspan="3">STA</td></tr>
<tr><td>ESSOX</td></tr>
<tr><td>other entities</td><td>TSA</td></tr>
</table>

AIRB: Advanced Internal Rating-Based Approach.
AMA: Advanced Measurement Approach.
STA/TSA: Standardised Approach.

* KB Slovakia uses STA approach for calculation of the requirement for credit risk.

The volume of the Group's risk-weighted assets (RWA) stood at CZK 450.6 billion as of 31 December 2020, compared to CZK 439.2 billion as of 31 December 2019. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 10%, and market risk 6% of the total RWA. The changes in RWA during 2020 were driven by growth in exposures for both corporate and retail portfolios, regulatory adjustments (mainly SME regulation allowing to apply SME supporting factor on a broader set of exposures, and EBA regulation on part of intangible assets) as well as limited impacts from the ongoing Covid-19 crisis.

The severity of the economic crisis related to Covid-19 has so far been reflected in the RWA or risk weighting itself only to a limited extent in 2020, mainly due to effective government measures (Antivirus programme, guarantee schemes, loan moratoria, etc.). Moreover, the impacts on RWA of several defaults in the corporate segment and restructurings of a small part of the retail portfolio after moratoria were not material, because the expected losses had been covered by provisions.

Subsequently the average risk weight for credit risk stood at 29.0% as of 31 December 2020, down by 240 bps from the 31.4% as of 31 December 2019. The decrease was driven mainly by regulatory and methodology adjustments (extended SME supporting factor), improved risk weight of mortgages, partially offset by only limited negative impact of the Covid crisis thanks to government measures. The residential mortgages portfolio risk weight declined to 19.3% as of 31 December 2020 from 20.7% as of 31 December 2019. The decrease was driven by the continuing effect of the CNB's loan-to-value regulation.

Information on consolidated capital, risk-weighted assets for calculation of capital adequacy, and capital requirements (in CZK million)

Reconciliation of accounting and regulatory capital

(CZK million)	31 December 2020	31 December 2019	31 December 2018
Items from Statement of Financial Position – Total shareholders' equity	**117,058**	**108,635**	**103,329**
Share capital	19,005	19,005	19,005
Share premium	149	149	149
Other equity	526	506	478
Accumulated Other comprehensive income	447	682	418
Retained earnings from previous periods	81,047	65,812	61,089
Reserve funds	5,211	5,211	4,671
Own shares	(726)	(726)	(726)
Net profit for the period	8,157	14,901	14,846
Minority interests	3,242	3,095	3,398
Total adjustments to CET1	**(19,152)**	**(24,573)**	**(22,541)**
Gains/(losses) on hedging instruments (cash flow hedging)	90	82	87
Additional value adjustment	(149)	(354)	(288)
Goodwill	(3,752)	(3,752)	(3,752)
Other intangible assets, net of tax	(3,942)	(5,681)	(4,959)
Insufficient coverage of expected credit losses (lack of provisions)	0	(746)	(581)
Unusable profit	(8,157)	(11,027)	(9,650)
Minority interests	(3,242)	(3,095)	(3,398)
Other transitional adjustments to CET 1	0	0	0
Tier 2 capital	**2,784**	**2,546**	**2,578**
Subordinated debt received	2,629	2,546	2,578
Subordinated debt provided	(446)	0	0
Surplus coverage of expected credit losses (Excess of provisions)	601	0	0
Total capital	**100,690**	**86,608**	**83,366**
Tier 1 capital	**97,906**	**84,062**	**80,788**
Core Tier 1 (CET1) capital	**97,906**	**84,062**	**80,788**

Consolidated risk-weighted assets

(CZK million)	31 December 2020	31 December 2019	31 December 2018
Total risk-weighted assets	**450,628**	**439,237**	**451,052**
for credit risk	**375,851**	**367,550**	**375,390**
for credit risk pursuant to the Standardised Approach in IRB	69,839	69,030	71,551
for credit risk pursuant to the IRB Approach	306,012	298,520	303,839
for settlement risk	**16**	**15**	**n.a.**
for position, foreign exchange, and commodity risks	**26,378**	**23,630**	**28,797**
for operational risk	**45,551**	**45,142**	**44,066**
for credit valuation adjustment	**2,832**	**2,900**	**2,799**

Capital requirements

(CZK million)	31 December 2020	31 December 2019	31 December 2018
Total capital requirements	**36,050**	**35,139**	**36,084**
for credit risk pursuant to the Standardised Approach in IRB	**5,587**	**5,522**	**5,724**
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	3	15	18
Exposures to international development banks	0	0	0
Exposures to international organisations	0	0	0
Exposures to institutions	13	26	43
Exposures to corporates	4,082	4,019	4,397
Retail exposures	948	1,047	858
Exposures secured by real estate	0	0	0
Exposures in default	145	80	91
Exposure associated with particularly high risks	0	0	0
Exposure to covered bonds	0	0	0
Items representing securitisation positions	0	0	0
Exposures to institutions and businesses with short-term credit rating	0	0	0
Exposures in the form of units of shares or shares in collective investment undertakings	0	0	0
Equity exposure	306	247	226
Other items	90	88	90
for credit risk pursuant to the IRB Approach	**24,481**	**23,882**	**24,307**
Exposures to central governments or central banks	128	255	970
Exposures to institutions	1,247	1,284	1,371
Exposures to corporates	14,486	14,101	13,770
Retail exposures	7,025	6,867	7,039
Equity exposures	66	120	82
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligations	1,529	1,255	1,075
for position risk	**2,110**	**1,812**	**2,103**
for large exposures exceeding the limits	**0**	**0**	**0**
to currency risk	**0**	**0**	**0**
to settlement risk	**1**	**1**	**0**
to commodity risk	**0**	**78**	**201**
to operation risk	**3,644**	**3,612**	**3,525**
for credit valuation adjustment	**227**	**232**	**224**

Information in accordance with Decree 163/2014 on an individual basis (in CZK million)

Reconciliation of accounting and regulatory capital

(CZK million)	31 December 2020	31 December 2019	31 December 2018
Items from Statement of Financial Position – Total shareholders' equity	**105,194**	**98,217**	**92,721**
Share capital	19,005	19,005	19,005
Share premium	134	134	134
Other equity	473	454	430
Accumulated Other comprehensive income	501	781	526
Reserve funds	4,189	4,189	4,189
Retained earnings from previous periods	74,689	59,564	53,924
Own shares	(726)	(726)	(726)
Net profit for the period	6,929	14,816	15,238
Total adjustments to CET1	**(11,834)**	**(17,235)**	**(14,952)**
Gains/(losses) on hedging instruments (cash flow hedging)	85	45	22
Additional value adjustment	(149)	(354)	(288)
Other intangible assets, net of tax	(3,614)	(5,187)	(4,480)
Insufficient coverage of expected credit losses (lack of provisions)	0	(712)	(557)
Unusable profit	(8,156)	(11,027)	(9,650)
Other transitional adjustments to CET 1	0	0	0
Tier 2 capital	**2,775**	**2,546**	**2,578**
Subordinated debt received	2,629	2,546	2,578
Subordinated debt provided	(446)	0	0
Surplus coverage of expected credit losses (Excess of provisions)	592	0	0
Total capital	**96,135**	**83,528**	**80,347**
Tier 1 capital	**93,360**	**80,982**	**77,769**
Core Tier 1 (CET1) capital	**93,360**	**80,982**	**77,769**

Risk-weighted assets

(CZK million)	31 December 2020	31 December 2019	31 December 2018
Total risk-weighted assets	**403,622**	**395,828**	**409,958**
for credit risk	**334,330**	**329,787**	**340,108**
for credit risk pursuant to the Standardised Approach in IRB	39,449	39,531	38,698
for credit risk pursuant to the IRB Approach	294,881	290,256	301,410
for settlement risk	**16**	**15**	**N/A**
for position, foreign exchange, and commodity risks	**26,378**	**23,630**	**28,797**
for operational risk	**40,066**	**39,495**	**38,253**
for credit valuation adjustment	**2,832**	**2,901**	**2,799**

Capital requirements

(CZK million)	31 December 2020	31 December 2019	31 December 2017
Total capital requirements	**32,290**	**31,666**	**32,797**
for credit risk pursuant to the Standardised Approach in IRB	**3,156**	**3,162**	**3,096**
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	3	15	18
Exposures to international development banks	0	0	0
Exposures to international organisations	0	0	0
Exposures to institutions	5	15	27
Exposures to corporates	2,022	2,014	1,924
Retail exposures	0	0	0
Exposures secured by real estate	0	0	0
Exposures in default	0	0	5
Exposure associated with particularly high risks	0	0	0
Exposure to covered bonds	0	0	0
Items representing securitisation positions	0	0	0
Exposures to institutions and businesses with short-term credit rating	0	0	0
Exposures in the form of units of shares or shares in collective investment undertakings	0	0	0
Equity exposures	1,126	1,118	1,122
Other items	0	0	0
for credit risk pursuant to the IRB Approach	**23,590**	**23,221**	**24,113**
Exposures to central governments or central banks	128	255	954
Exposures to institutions	1,483	1,449	1,656
Exposures to corporates	14,873	14,459	14,441
Retail exposures	5,897	6,030	6,259
Equity exposure	65	119	82
Items representing securitisation positions	0	0	0
Other assets that are non-credit obligation	1,144	909	721
for position risk	**2,110**	**1,812**	**2,103**
for large exposures exceeding the limits	**0**	**0**	**0**
to currency risk	**0**	**0**	**0**
to settlement risk	**1**	**1**	**0**
to commodity risk	**0**	**78**	**201**
to operation risk	**3,205**	**3,160**	**3,060**
for credit valuation adjustment	**227**	**232**	**224**

Capital ratios and ratios in %

(%)	31 December 2020	31 December 2019	31 December 2018
Capital ratio for common equity tier 1	23.13	20.46	18.97
Capital ratio of Tier 1 capital	23.13	20.46	18.97
Capital ratio for total capital	23.82	21.10	19.60
Return on average assets (ROAA)	0.61	1.38	1.49
Return on average equity Tier 1 (ROAE)	7.74	18.42	20.18
Assets per employee in CZK thousand	154,145	137,809	133,873
Administrative costs per employee in CZK thousand	1,414	1,521	1,499
Profit or loss after tax per employee in CZK thousand	977	2,019	2,037

Capital management

The Bank manages its capital adequacy to ensure its sufficient level in the environment of changing regulatory requirements while allowing for organic business growth and for potentially adverse macroeconomic developments. Under the applicable Basel 3 regulation of capital adequacy, in addition to the usual reporting of the capital adequacy ratio (so-called Pillar 1), regulatory demands comprise also fulfilling conditions for evaluating required economic capital, stress testing, and capital planning (so-called Pillar 2, or the internal capital adequacy assessment process). To determine the required economic capital, to substantial extent, the Bank has selected methods close to the regulatory procedures applied for Pillar 1. That has resulted in there being very similar levels of necessary economic and regulatory capital.

Given the fact that Basel 3 capital requirements are still being developed (and in the future they will transform into regulation termed Basel 4), the Bank is continuously assessing the impact of their changes in the process of capital planning. As the national regulatory authority, the CNB oversees KB's compliance with capital adequacy requirements on standalone and consolidated bases. During 2020, the Bank met all regulatory requirements. On a regular basis, KB also compiles and reports to the CNB mandatory information regarding its internal system for assessing capital adequacy.

Stress testing

As an essential part of its risk management under Pillar 2, KB regularly simulates hypothetical macroeconomic scenarios involving potential adverse external macroeconomic conditions. In 2020, the scenarios factored in the effects of the Covid-19 pandemic. On this basis, the Bank estimates impacts upon its financial result and the risk profile of its business in a medium-term horizon. It subsequently generates expectations for the development of RWA (i.e. capital requirements) and financial results. The results of stress testing are among the inputs considered in determining the Bank's dividend policy. In the liquidity risk area, client behaviour and its effect on the deposit base are modelled on the basis of stress scenarios such that any possible outflow of liquidity would be very securely covered.

The results of stress testing in 2020 confirmed that KB is resistant to impacts from potential unexpected adverse developments in the Czech economy.

Liquidity and funding

KB Group's strong liquidity position is founded upon the various types of customer deposits that it holds and the fact that the Group does not substantially use secondary financing. Thanks to the stability of its large deposit base, the Group had no need to modify the structure of its balance sheet in response to external economic developments by reducing certain types of exposures or seeking to obtain other types of funding. KB Group's strong creditworthiness is supported by its stable financial results, as well as the level of capital adequacy it has achieved. As a result, as of 31 December 2020, it had an excellent net loan-to-deposit ratio of 76%.[1)] KB also would meet by a large margin the 3% required leverage ratio. This indicator confirms Komerční banka's solid position and its adequate room for further business growth.

Funding of KB Group

Client deposits in the volume of CZK 893 billion[2)] (not including Other payables to clients) comprise a crucial part (approximately 77%) of the Group's total liabilities and shareholders' equity. Current accounts made up the largest proportion of client deposits within the Group (77%). In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Komerční banka did not increase in 2020 the volume of issued debt securities. As of the end of 2020, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 1.0 billion.

In order to enhance currency diversification of its funding sources, the Bank issued as of 20 January 2021 its inaugural issue of mortgage covered bonds denominated in euros, in the volume of EUR 500 million (CZK 13,063 million equivalent). The bond was rated AAA by Fitch Ratings as of 20 January 2021 and was admitted for trading on the regulated market of the Luxembourg Stock Exchange.

Liquidity management

Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily adding to the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management. A liquidity snapshot broken down by currency (CZK and foreign) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons.

Behaviour of the client deposit base and clients' use of financing are modelled (including under stress scenarios) in order to maintain a very high certainty of covering possible outflows of

1) Excluding repo operations with clients.

2) Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' reached CZK 906 billion.

funds. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on- and off-balance sheet transactions on the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments which allow it to stabilise both volumes and associated costs while at the same time reflecting changes in costs when setting prices.

The Group maintains high liquidity at all times. It covered all its liabilities during 2020 from its internal sources without any problems, and the use of additional secondary funding remained limited. As of 31 December 2020, the Group was not drawing liquidity from central banks. The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB.

As part of the Basel 3 regulation, the Bank follows the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are simplified versions similar to those used by KB Group to measure its liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG Group reporting and simultaneously it is reported to the CNB, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.

Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited net profit attributable to the Group's equity holders of CZK 8,156 million for 2020 under International Financial Reporting Standards (IFRS). This represents a 45.3% decline in comparison with 2019.

Statement of Income

Komerční banka's revenues (net operating income) for the full year of 2020 deteriorated by (8.9%) year on year to reach CZK 29,664 million. This decline was mainly driven by net interest income, affected as it was by the sharp drop in market interest rates that pressed down yields from reinvestment of deposits, and by net fees and commissions, which were impacted by a drop in client activity during the lockdown and by the new caps on fees for payments within the Single European Payments Area (SEPA). Net gains from financial operations improved slightly, with increased clients' demand for hedging of financial risks being offset by a lower volume of foreign currency transactions and conversions due to reduced international travel.

Net interest income was down by (9.5%), at CZK 21,360 million. This was caused mainly by the sharp drop in market interest rates since March 2020, which negatively impacted the yields from reinvestment of deposits and the Bank's own funds. KB also recorded a modification loss of CZK 177 million from the postponement of instalment payments under the loan moratorium. The net interest margin for the year 2020, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.4% a year earlier.

Net fee and commission income diminished by (12.9%) to CZK 5,210 million. The drop was related to decline in transaction activity. In comparison with 2019, the number of transactions submitted at branches and cash transactions diminished significantly. Meanwhile, the number of non-cash transactions and card payments increased only slightly. All of these were significantly influenced by the repeated lockdowns. Transaction fees were also hit by the new regulation of charges for euro-denominated payments within SEPA. The maintenance fee income decreased marginally, reflecting lower prices for some account packages. KB recorded less income from specialised financial services, as loan syndication activity weakened and fees for custody and depository services declined somewhat, too. On the other hand, income from bank guarantees improved year on year. Fees from cross-selling were up due to income from life insurance and mutual funds, but new sales of mutual funds deteriorated during the pandemic.

Net profit on financial operations improved by 2.9% to CZK 2,884 million. Clients' demand for hedging of financial risks was gradually moderating after an initial boost in the first half of the year. This reflected somewhat decreased volatility and weaker underlying activity, such as long-term lending for investment projects. A decrease in inbound and outbound travel and related currency conversions and foreign transactions also weighed negatively on the result.

Dividend and other income declined by 7.7% to CZK 210 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by a slight 0.4%, at CZK 14,995 million. Personnel expenses declined by (1.7%) to CZK 7,650 million, as the average number of employees diminished by (1.3%) to 8,061[1]. General administrative expenses (not including contributions to the regulatory funds) were lower by (4.3%), at CZK 3,674 million, as expenses on marketing, events, and travel were lower. This was offset in part by higher costs of IT equipment and support, telecommunications, and, of course, protective equipment. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 941 million, up 10.2% year on year, because the CNB adjusted the 2024 target volume of the Resolution Fund and boosted the aggregate annual contribution from Czech banks to this fund by 9.2% year on year. Depreciation and amortisation grew by 11.1% to CZK 2,730 million, driven mainly by new and upgraded software and IT equipment, as well as some charges related to closed branches and decommissioning of some software.

Operating profit (before the cost of risk, profit on subsidiaries, and income tax) was down by (16.8%), at CZK 14,669 million.

Cost of risk reached CZK 4,578 million (net creation of allowances) in comparison with a negative CZK (572) million (net release of allowances) in the full year 2019. The creation of allowances was predominantly induced by the economic hardship ensuing from the coronavirus pandemic. It consisted of a charge for expected losses based on macroeconomic scenarios as envisaged in the IFRS 9 accounting standard, impact from reviews of the risk profile of non-defaulted portfolios, and allowances for newly defaulted exposures (mainly in corporate segments). The full transmission of crisis impacts into the risk profile was delayed by various government support programmes, including payment moratoria. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2020 came to 68 basis points. That compares to (9) basis points for the previous year.

[1] Recalculated to a full-time equivalent number.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down by (19.0%) year on year, at CZK 248 million, reflecting mainly lower yields from reinvestment of insurance reserves. Loss attributable to exclusion of companies from consolidation at CZK 40 million was attributed to an impairment of the investment in My Smart Living real estate portal.

Net profits on other assets reached CZK (15) million, which amount was linked to sales of buildings in the held-for-sale portfolio, and a loss from disposal of certain IT projects. In the previous year, this result was CZK 17 million.

Income taxes were lower by (41.9%), at CZK 1,985 million.

Current tax per country

(CZK million)	Czechia	Slovakia	Belgium
		(branch of KB and SGEF, ESSOX FINANCE)	(BASTION)
Net operating income	29,068	595	1.2
Profit before income tax	10,042	242	0.5
Current tax	1,974	93	0.1
State support	0.9		

KB Group's consolidated net profit for the full year of 2020 reached CZK 8,299 million, which was down by (45.3%) in comparison with the year earlier. Of this total, CZK 143 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (47.2%) year on year).

Reported profit attributable to the Group's equity holders totalled CZK 8,156 million, which is (45.3%) less year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK (208) million. Consolidated comprehensive income for 2020 totalled CZK 8,091 million, of which CZK 146 million was attributable to the owners of non-controlling stakes.

Statement of financial position

Assets

As of 31 December 2020, KB Group's total assets had risen by 8.3% year on year to CZK 1,167.1 billion.

Cash and current balances with central banks were up 32.7%, at CZK 23.5 billion. Financial and other assets held for trading at fair value through profit or loss (trading securities and derivatives) increased by 9.4% to CZK 25.6 billion. The positive fair value of hedging financial derivatives grew by 33.2% to CZK 13.3 billion.

Year on year, there was an 11.0% rise in financial assets at fair value through other comprehensive income totalling CZK 40.2 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 7.5% to CZK 1,035.4 billion. The largest portion of this consisted of (net) loans and advances to customers, which rose by 5.1% to CZK 680.0 billion. A 97.4% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.6% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 13.0 billion. Loans and advances to banks increased by 7.4% to CZK 262.6 billion. The value held in debt securities was up by 29.7% and reached CZK 92.8 billion at the end of December.

Revaluation differences on portfolio hedge items totalled CZK 0.3 billion. Current and deferred tax assets stood at CZK 1.3 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (1.4%) to CZK 5.1 billion. Assets held for sale increased by 8.1% to CZK 0.1 billion.

Investments in associates rose by 26.5% to CZK 1.6 billion.

The net book value of tangible assets declined by (7.3%) to CZK 9.8 billion. Intangible assets grew by 14.6% to reach CZK 6.9 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 8.4% higher in comparison with the end of 2019 and stood at CZK 1,050.1 billion.

Financial liabilities at amortised costs were 8.1% greater, at CZK 996.6 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 10.3% to CZK 906.2 billion. This total included CZK 13.2 billion of liabilities from repo operations with clients and CZK 6.3 billion of other payables to customers. Amounts due to banks decreased in 2020 by (7.5%) to CZK 86.6 billion. The volume of outstanding securities issued was down by (68.3%), at CZK 1.1 billion.

Revaluation differences on portfolios hedge items expanded to CZK 2.7 billion. Current and deferred tax liabilities diminished by (37.0%) to CZK 0.8 billion. Accrued expenses, deferred income and other liabilities, which include payables from securities trading and settlement balances, decreased by (4.7%) to CZK 11.4 billion.

Provisions were 50.7% higher, at CZK 2.0 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.6 billion, was up 3.3% year to date. Because that debt is issued in euro, the change reflects the Czech crown's depreciation over the same period.

Equity

Total equity grew year to date by 7.8% to CZK 117.1 billion. The value of non-controlling interests reached CZK 3.2 billion. As of 31 December 2020, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Expenses on research and development

In 2020, Komerční banka had outlays through operating expenses of CZK 133 million for research and development. Most of these outlays were related to development studies and the implementation of individual projects, particularly in the area of information technologies and systems, including the development of internet applications.

Financial investments made by the Group (balance as of the end of the year)

(IFRS, CZK million)	31. 12. 2020	31. 12. 2019
Bonds and treasury bills	136,332	111,375
Shares	47	522
Emissions allowances	0	494
Equity investments in subsidiary and associated undertakings*	1,587	1,255
Total	**137,966**	**113,646**

* Including investment in Held for sale portfolio.

Main investments made by the Group – excluding financial investments (balance as of the end of the year)

(IFRS, CZK million)	31. 12. 2020	31. 12. 2019
Tangible fixed assets*	9,758	10,528
Intangible fixed assets*	6,898	6,018
Total tangible and intangible fixed assets	**16,656**	**16,546**
Tangible fixed assets held under financial leases**	0	0

* Both tangible and intangible fixed assets also include the Right-of-use asset; See also Notes to the Consolidated Financial Statements according to IFRS, notes 25 – Intangible fixed assets and 26 – Tangible fixed assets.
**Net book value of investments. See also Notes to the Consolidated Financial Statements according to IFRS, notes 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2020, the Bank made non-financial investments in the total amount of CZK 2.6 billion. Most of this amount was invested in the area of information technologies (almost CZK 2.4 billion) especially for acquisition and development of software and hardware. This move accelerated the adoption of digital customer offerings and distribution across all of KB's markets. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2021 should be at the level of CZK 3.1 billion. The Bank will increase its investment in digitisation in relation to the strategic plan KB Change 2025 based on mastering digital interaction with our customers for acquisition, sales and servicing, as well as increasing operational efficiency. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

Description of real estate owned by KB Group

Komerční banka Group uses the real estate for the conduct of its business activities. The operation of owned or leased buildings by the KB Group does not generate an excessive burden on the environment. More information of impact on environment is provided in the 2020 Non-Financial Report.

Summary of the real estate managed by the Group:

As of 31 December 2020	Number	Of which owned by KB	Of which subleased by KB
Buildings in Czechia	530	82	448
Buildings in Slovakia	2	0	2
Total	**532**	**82**	**450**

The Komerční banka Group uses the following significant properties with useful floor area in excess of 5,000 square metres.

Overview of important pieces of real estate managed by KB Group:

City	Street	Land Registry Number	Useful floor area
Brno	náměstí Svobody	92	13,869
Kladno	náměstí Starosty Pavla	14	5,072
Ostrava	Nádražní	1698	7,637
Pilsen	Goethova	2704	11,421
Prague 1	Václavské náměstí	796	50,674
Prague 2	Bělehradská	222	7,924
Prague 5	Štefánikova	267	7,568
Prague 5	náměstí Junkových	2772	27,533
Prague 5	náměstí Junkových	2921	20,754
Prague 8	Zenklova	351	6,236
Prague 9	náměstí Organizace spojených národů	844	12,092
Ústí nad Labem	Bílinská	175	6,910

Note: See also the Notes to the Consolidated Financial Statements prepared in accordance with IFRS, Note 26 – Tangible assets and Note 28 – Assets held for sale.

Trademarks, licences and sublicences

IIn 2020, Komerční banka used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. The new trademarks used were registered with the Industrial Property Office in the Czech Republic.

Komerční banka registered with the Czech Industrial Property Office a total number of 192 trademarks. In the case of 1 more trademark, a registration process had been initiated in 2019 but the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within the KB Group, Komerční banka provides some of its subsidiaries with licences for its trademarks. In some cases, Komerční banka is also a licensee and sub-licensee, typically from providers of IT services.

Definitions of the mentioned Alternative Performance Measures

Earnings per share: 'Net profit attributable to the Group's equity holders' divided by the quantity average number of shares issued without own shares in treasury;

Return on average equity (ROAE, in consolidated statements): 'Net profit attributable to the Group's equity holders' divided by the quantity average 'Total equity' less 'Non-controlling interest';

Average 'Total equity' less 'Non-controlling interest': (('Total equity' less 'Non-controlling interest' as of the year end X) plus ('Total equity' less 'Non-controlling interest' as of the year end X-1)) divided by 2;

Return on average equity (ROAE, in separate statements): 'Net profit for the period' divided by the quantity average 'Total equity';

Average 'Total equity': ('Total equity' as of the year end X plus 'Total equity' as of the year end X-1) divided by 2;

Return on average assets (ROAA, in consolidated statements):[1)] 'Net profit attributable to the Group's equity holders' divided by average 'Total assets';

Average total assets: ('Total assets' as of the year end X plus 'Total assets' as of the year end X-1) divided by 2;

Return on average assets (ROAA, in separate statements):[1)] 'Net profit for the period' divided by average 'Total assets';

Net interest margin (NIM): 'Net interest income' divided by average interest-earning assets (IEA);

[1)] With effect from 1 January 2019, Komerční banka has applied the new accounting standard IFRS 16 Leases, which replaces the previous standard IAS 17. Particularly as a lessee under operating lease of office buildings and branches, the Bank must recognise those leases on its balance sheet. That increases both the assets (right-of-use assets) and the liabilities (lease liabilities) by CZK 2,638 million. The corresponding impact on return on average assets ratio was immaterial.

Average interest-earning assets: ('Total interest-earning assets' as of the year end X plus 'Total interest-earning assets' as of the year end X-1) divided by 2;

Interest-earning assets (IEA) comprise 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to banks', 'Loans and advances to customers', ,'Financial assets held for trading at fair value through profit or loss' [debt securities only], 'Non-trading financial assets at fair value through profit or loss' [debt securities only], 'Financial assets at fair value through other comprehensive income' [debt securities only], and 'Debt securities');

Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated):

(source: Profit and Loss Statement)	2020	2019
Net interest income, year to date	**21,360**	**23,591**
Of which:		
Loans and advances at amortised cost	19,855	24,270
Debt securities at amortised cost	1,706	1,746
Other debt securities	683	587
Financial liabilities at amortised cost	(2,630)	(4,193)
Hedging financial derivatives – income	14,241	17,403
Hedging financial derivatives – expense	(12,495)	(16,222)

(source: Balance Sheet)	31. 12. 2020	31. 12. 2019	31. 12. 2018
Cash and current balances with central banks/ Current balances with central banks	15,050	7,737	16,347
Loans and advances to banks	262,606	244,561	256,268
Loans and advances to customers	679,956	647,259	624,954
Financial assets held for trading at fair value through profit or loss/ Debt securities	3,342	4,112	3,248
Non-trading financial assets at fair value through profit or loss/ Debt securities	279	0	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	40,151	35,682	24,909
Debt securities	92,839	71,581	69,881
Interest-bearing assets (end of period)	**1,094,223**	**1,010,932**	**995,607**
Average interest-bearing assets, year to date	**1,052,578**	**1,003,270**	
NIM year to date, annualised	**2.03%**	**2.35%**	

Cost to income ratio: 'Total operating expenses' divided by 'Net operating income';

Cost of risk in relative terms: 'Cost of risk' divided by the average of 'Gross amount of client loans and advances';

Average of Gross amount of client loans and advances: ('Gross amount of client loans and advances' as of the quarter end X-1 plus 'Gross amount of client loans and advances' as of the quarter end X-2 plus 'Gross amount of client loans and advances' as of the quarter end X-3 plus 'Gross amount of client loans and advances' as of the quarter end X-4) divided by 4;

Gross amount of client loans and advances: 'Total loans and advances to customers, gross' minus 'Other amounts due from customers';

Net loans to deposits: ('Loans and advances to customers' (net) less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients').

Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2020

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

Consolidated Statement of Income for the year ended 31 December 2020

(CZKm)	Note	2020	2019
Interest income	5	36,485	44,006
Interest expense	5	(15,125)	(20,415)
Net interest income		**21,360**	**23,591**
Net fee and commission income	6	5,210	5,983
Net profit/(loss) on financial operations	7	2,884	2,804
Dividend income	8	6	5
Other income	9	204	190
Net operating income		**29,664**	**32,573**
Personnel expenses	10	(7,650)	(7,781)
General and administrative expenses	11	(4,615)	(4,693)
Depreciation, amortisation, and impairment of operating assets	12	(2,730)	(2,458)
Total operating expenses		**(14,995)**	**(14,932)**
Operating profit		**14,669**	**17,641**
Impairment losses	13	(4,701)	53
Net gain from loans and advances transferred and written off	13	123	519
Cost of risk		**(4,578)**	**572**
Income from share of associated undertakings		248	306
Profit/(loss) attributable to exclusion of companies from consolidation		(40)	55
Gain on a bargain purchase		0	0
Net profits on other assets	14	(15)	17
Profit before income tax		**10,284**	**18,591**
Income tax	15	(1,985)	(3,419)
Net profit for the period	16	**8,299**	**15,172**
Profit attributable to the Non-controlling owners		143	271
Profit attributable to the Group's equity holders		8,156	14,901
Earnings per share/diluted earnings per share (in CZK)	16	**43.19**	**78.90**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

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

(CZKm)	Note	2020	2019
Net profit for the period	16	**8,299**	**15,172**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	39	(15)	(83)
Revaluation of equity securities at FVOCI option*, net of tax	40	(284)	133
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	41	247	533
– Transfer to net profit/(loss), net of tax	41	(255)	(528)
Hedge of a foreign net investment		(24)	9
Foreign exchange difference on translation of a foreign net investment		26	(12)
Revaluation of debt securities at FVOCI**, net of tax	42	73	212
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax	24	24	16
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		**(208)**	**280**
Total comprehensive income for the period, net of tax		**8,091**	**15,452**
Comprehensive income attributable to the Non-controlling owners		146	271
Comprehensive income attributable to the Group's equity holders		7,945	15,181

* Revaluation of equity securities at fair value through other comprehensive income option.
** Revaluation of debt securities at fair value through other comprehensive income.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position as of 31 December 2020

(CZKm)	Note	31 Dec 2020	31 Dec 2019
ASSETS			
Cash and current balances with central banks	18	23,547	17,744
Financial assets held for trading at fair value through profit or loss	19	25,600	22,904
Other assets held for trading at fair value through profit or loss	19	0	494
Non-trading financial assets at fair value through profit or loss	20	279	0
Positive fair value of hedging financial derivatives	43	13,317	9,996
Financial assets at fair value through other comprehensive income	21	40,198	36,204
Financial assets at amortised cost	22	1,035,401	963,401
Revaluation differences on portfolios hedge items		283	(374)
Current tax assets		1,183	30
Deferred tax assets	33	78	70
Prepayments, accrued income, and other assets	23	5,103	5,176
Investments in associates	24	1,587	1,255
Intangible assets	25	6,898	6,018
Tangible assets	26	9,758	10,528
Goodwill	27	3,752	3,752
Assets held for sale	28	147	136
Total assets		**1,167,131**	**1,077,334**

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(CZKm)	Note	31 Dec 2020	31 Dec 2019
LIABILITIES AND EQUITY			
Amounts due to central banks		0	1
Financial liabilities held for trading at fair value through profit or loss	29	25,170	23,725
Negative fair value of hedging financial derivatives	43	8,760	10,283
Financial liabilities at amortised cost	30	996,594	921,725
Revaluation differences on portfolios hedge items		2,721	(4,105)
Current tax liabilities		50	363
Deferred tax liabilities	33	708	840
Accruals and other liabilities	31	11,415	11,976
Provisions	32	2,026	1,345
Subordinated debt	34	2,629	2,546
Total liabilities		**1,050,073**	**968,699**
Share capital	35	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		94,811	86,535
Non-controlling interest		3,242	3,095
Total equity		**117,058**	**108,635**
Total liabilities and equity		**1,167,131**	**1,077,334**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

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

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share based payment	Remeasurement of retirement benefits plan	Revaluation of equity securities at FVOCI option	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities at FVOCI	Shareholders equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 2018	**19,005**	**(577)**	**80,606**	**478**	**(132)**	**157**	**(87)**	**(7)**	**488**	**99,931**	**3,398**	**103,329**
Treasury shares, other	0	0	94	27	0	0	0	0	0	121	2	123
Payment of dividends	0	0	(9,693)	0	0	0	0	0	0	(9,693)	(576)	(10,269)
Transactions with owners	**0**	**0**	**(9,599)**	**27**	**0**	**0**	**0**	**0**	**0**	**(9,572)**	**(574)**	**(10,146)**
Profit for the period	0	0	14,901	0	0	0	0	0	0	14,901	271	15,172
Other comprehensive income for the period, net of tax**	0	0	16	0	(83)	131	5	(1)	212	280	0	280
Comprehensive income for the period	**0**	**0**	**14,917**	**0**	**(83)**	**131**	**5**	**(1)**	**212**	**15,181**	**271**	**15,452**
Balance as of 31 Dec 2019	**19,005**	**(577)**	**85,924**	**505**	**(215)**	**288**	**(82)**	**(8)**	**700**	**105,540**	**3,095**	**108,635**
Treasury shares, other	0	0	310	21	0	0	0	0	0	331	1	332
Payment of dividends	0	0	0	0	0	0	0	0	0	0	0	0
Transactions with owners	**0**	**0**	**310**	**21**	**0**	**0**	**0**	**0**	**0**	**331**	**1**	**332**
Profit for the period	0	0	8,156	0	0	0	0	0	0	8,156	143	8,299
Other comprehensive income for the period, net of tax**	0	0	24	0	(15)	(284)	(8)	(1)	73	(211)	3	(208)
Comprehensive income for the period	**0**	**0**	**8,180**	**0**	**(15)**	**(284)**	**(8)**	**(1)**	**73**	**7,945**	**146**	**8,091**
Balance as of 31 Dec 2020	**19,005**	**(577)**	**94,414**	**526**	**(230)**	**4**	**(90)**	**(9)**	**773**	**113,816**	**3,242**	**117,058**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 5,211 million (2019: CZK 5,211 million), net profit from the period in the amount of CZK 8,156 million (2019: CZK 14,901 million), and retained earnings in the amount of CZK 81,047 million (2019: CZK 65,812 million).

** Amounts in a column Capital funds and retained earnings represent gain from revaluation of debt securities due to the consolidation of an associated company using the equity method.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

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

(CZKm)	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	10,284	18,591
Non-cash and other adjustments		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	4,624	37
Depreciation and amortisation expense on tangible and intangible fixed assets	2,706	2,451
Gains/(losses) from the sale of assets	15	(16)
Revaluation of derivatives	(2,130)	1,345
Accrued interest, amortisation of discount and premium	1,515	1,032
Profit/(loss) on subsidiaries and associates	(214)	(366)
Foreign exchange differences	(361)	183
Other changes	119	(398)
Operating profit before change in operating assets and liabilities	**16,558**	**22,859**
Changes in assets and liabilities from operating activities after non-cash adjustments		
Amounts due from banks (received/paid)	(15,871)	12,593
Loans and advances to customers	(37,010)	(23,338)
Debt securities at amortised cost	(17,683)	(2,481)
Financial assets at fair value through other comprehensive income	(4,974)	(10,973)
Financial assets held for trading at fair value through profit or loss	773	(858)
Other assets held for trading at fair value through profit or loss	494	(250)
Non-trading financial assets at fair value through profit or loss	312	0
Other assets	132	685
Amounts due to banks (received/paid)	(8,561)	(1,849)
Amounts due to customers	83,536	9,191
Financial liabilities held for trading at fair value through profit or loss	(411)	1,299
Other liabilities	(1,223)	(1,293)
Net cash flow from operating assets and liabilities	**(486)**	**(17,274)**
Net cash flow from operating activities before tax	**16,072**	**5,585**
Income tax paid	(3,597)	(3,149)
Net cash flow from operating activities	**12,475**	**2,436**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	6	241
Purchase of tangible and intangible assets	(2,834)	(2,820)
Sale of tangible and intangible assets	41	87
Purchase of investments in subsidiaries and associates	(101)	(34)
Sale/decrease of investments in subsidiaries and associates	0	55
Net cash flow from investment activities	**(2,888)**	**(2,471)**

(CZKm)	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	0	(9,599)
Dividends paid to non-controlling interest	0	(576)
Purchase of own shares	0	0
Securities issued	105	1,068
Securities redeemed	(2,594)	0
Lease liabilities	(474)	(476)
Subordinated debt	83	(33)
Increase in minority equity	0	0
Net cash flow from financing activities	**(2,880)**	**(9,616)**
Net increase/(decrease) in cash and cash equivalents	**6,707**	**(9,651)**
Cash and cash equivalents at the beginning of the year	13,518	23,247
Foreign exchange differences on cash and cash equivalents at the beginning of the year	287	(78)
Adjustment of cash and cash equivalents at the beginning of the year due to acquisition	0	0
Cash and cash equivalents at the end of the year (refer to Note 36)	**20,512**	**13,518**
Interest received	37,258	45,027
Interest paid	(14,383)	(20,404)

The accompanying Notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on 26 February 2021.

Signed on behalf of the Board of Directors:

Jan Juchelka m. p.
Chairman of the Board of Directors
and Chief Executive Officer
Komerční banka, a.s.

Jitka Haubová m. p.
Member of the Board of Directors
and Senior Executive Director, Chief Operations Officer
Komerční banka, a.s.

Notes to the Consolidated Financial Statements as of 31 December 2020

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1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the "Group") consists of Komerční banka, a.s. (the "Bank") along with 14 subsidiaries and 5 associated undertakings. The parent company of the Group is the Bank, which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are Financial services as follow:

I. Providing loans, advances, and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The Bank generates the preponderant proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The address of the Bank's registered office is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky) and its subsidiary ESSOX FINANCE, s.r.o., as well as in Belgium through its subsidiary BASTION EUROPEAN INVESTMENTS S.A.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2019: 60.35%) of the Bank's issued share capital.

The main activities of the Bank's subsidiary companies as of 31 December 2020:

Company's name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
KB penzijní společnost, a.s.	100.00	100.00	Financial services	Prague
Modrá pyramida stavební spořitelna, a.s.	100.00	100.00	Building society	Prague
Protos, uzavřený investiční fond, a.s.	83.65	100.00	Investments	Prague
Factoring KB, a.s.	100.00	100.00	Factoring	Prague
BASTION EUROPEAN INVESTMENTS S.A.	99.98	99.98	Financial services	Brussels
KB Real Estate, s.r.o.	100.00	100.00	Support services	Prague
STD2, s.r.o.	100.00	100.00	Support services	Prague
VN 42, s.r.o.	100.00	100.00	Support services	Prague
KB SmartSolutions, s.r.o.	100.00	100.00	Support services	Prague
KB Advisory, s. r. o.*	0.00	100.00	Support services	Prague
My Smart Living, s.r.o.*	0.00	100.00	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.10	50.10	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice
ESSOX FINANCE, s.r.o.	0.00	50.93	Consumer loans, leasing	Bratislava

* The company is not consolidated due its having no significant impact on the financial statements.

The main activities of the Bank's associated undertakings as of 31 December 2020:

Company's name	Direct holding (%)	Group holding (%)	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.00	49.00	Insurance	Prague
CBCB - Czech Banking Credit Bureau, a.s.	20.00	20.00	Data collection for credit risk assessments	Prague
Worldline Czech Republic s.r.o.*	1.00	1.00	Financial services	Prague
Bankovní identita, a.s.	33.33	33.33	Information technology activities/identification services	Prague
Platební instituce Roger a.s.	0.00	24.83	Providing of payment services	Brno

* This is a share in the company's equity. The Group has 40% of the voting rights and a share in profit of 0.1%.

2 Events for the year ended 31 December 2020

Dividends declared in respect of the year ended 31 December 2019
In accordance with the CNB's recommendation, at the General Meeting held on 29 June 2020 the shareholders approved a dividend for the year ended 31 December 2019 of CZK 0 per share before tax. Net profit for the year ended 31 December 2019 was fully allocated to retained earnings. The Group did not pay out any dividends to non-controlling owners of ESSOX s.r.o. and SG EquipmentFinance Czech Republic s.r.o.

Changes in the Bank's financial group

During 2020, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 129 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

During 2020, KB SmartSolutions, s.r.o. increased the equity of My Smart Living, s.r.o. by CZK 8 million through a financial contribution into other capital funds. My Smart Living, s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

During 2020, KB SmartSolutions, s.r.o. increased the equity of KB Advisory, s. r. o. by CZK 1 million through a financial contribution into other capital funds. KB Advisory, s. r. o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

As of 1 July 2020, KB SmartSolutions, s.r.o. acquired minority interest of 18.9% in upvest s.r.o. in the form of an equity investment. In 2021, KB SmartSolutions, s.r.o. has an option to increase its share in upvest s.r.o. to 30.9%. In the following year, it can reach majority ownership. Upvest s.r.o. is a fintech company that provides real estate crowdfunding investments in the form of participation in debt financing of development projects. Upvest s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

At the beginning of July 2020, it was decided to cease further financing of the Cincink real estate portal, which is operated by My Smart Living, s.r.o. The Bank had funded the project through KB SmartSolutions, s.r.o., which fully owns My Smart Living, s.r.o. The Bank will use the experience it has gained within the Housing tribe. The Bank believes that this will further support efforts to innovate and come to market with unique services complementing the offer for retail clients. During 2020, an allowance was charged for the investment in My Smart Living, s.r.o. in the net amount of CZK 40 million.

As of 15 September 2020, the Bank, together with Česká spořitelna, a.s. and Československá obchodní banka, a. s., incorporated Bankovní identita, a.s. The Bank invested CZK 1 million in the registered capital of Bankovní identita, a.s. and it holds a 33.33% share in the company. Bankovní identita, a.s. is a consolidated unit of KB Group.

In October 2020, the Bank increased its equity in Bankovní identita, a.s. by CZK 20 million through a financial contribution into other capital funds.

As of 20 October 2020, KB SmartSolutions, s.r.o. acquired through an equity investment a minority interest of 11% in MonkeyData s.r.o. MonkeyData s.r.o.'s fully owned subsidiary Lemonero s.r.o., which provides financing to e-shops utilising an AIdriven scoring model. MonkeyData s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

As of 10 December 2020, KB SmartSolutions, s.r.o. acquired with a combined equity investment and purchase of shares a minority interest of 24.83% in Platební instituce Roger a.s. Platební instituce Roger a.s. fully owns two subsidiaries: (i) Invoice Financing s.r.o., and (ii) Roger Finance s.r.o. Platební instituce Roger a.s. connects investors with companies seeking fast financing of their long due date receivables. It also operates a platform providing supply chain financing for large customers. KB SmartSolutions, s.r.o. has a right in 2023 to increase its share in Platební instituce Roger a.s. to 60% and thus acquire a majority. Platební instituce Roger a.s. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

3 Principal accounting policies

The principal accounting policies followed in the preparation of these Consolidated Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union, on the basis of Regulation (EC) No. 1606/2002 on the application of international accounting standards, and effective for the annual period beginning on 1 January 2020.

The Consolidated Financial Statements presented for the year ended 31 December 2020 are prepared on the basis of current best estimates. The management of the Group believes that these present a true and fair view of the Group's financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Consolidated Financial Statements

3.2.1 Accrual basis

The Consolidated Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Consolidated Financial Statements for the period to which they relate).

An exception is the Consolidated Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

3.2.2 Going concern

The Consolidated Financial Statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Reporting period

The Group reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency

The Consolidated Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Group's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost

The Consolidated Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives, and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell, or (ii) carrying amount just prior to reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Consolidated Financial Statements in accordance with IFRS, it is necessary for the Group's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date, and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets, except goodwill (refer to Note 3.5.10);
- The amount of impairment of assets (refer to Notes 3.5.10 and 3.5.11);
- Provisions recognised under liabilities (refer to Note 3.5.12);
- The initial value of goodwill for each business combination (refer to Note 3.5.11);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.8);
- Assessment of the substance of participation interest in Group entities (refer to Note 3.3.4);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current, and prospective data (refer to Note 3.5.5); and
- Lease term for leases of an indefinite time period.

Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

The continuation of the Covid-19 pandemic causes that the current economic environment continues to be subject to increased volatility and uncertainty requiring particularly complex judgements and estimates in certain areas. The Covid-19 pandemic has significant implications especially in the area of credit risk management, as described in a separate section below. In other areas of risk management, such as market risk and liquidity risk, the Group carefully monitors changing conditions and evaluates their impacts.

Covid-19 Pandemic
The Covid-19 pandemic has a significant impact on the Group, in particular on the quality of the loan portfolio and the ability of borrowers to pay their liabilities to the Group on time. The Group quickly prepared and subsequently offered to clients a wide range of activities leading to mitigation of the Covid-19 pandemic's consequences. Among the most significant activities were moratoria of loan instalments, which the Group began to provide in a co-ordinated manner from the end of March 2020 in accordance with its own rules and procedures approved by the Credit Risk Management Committee. Subsequently, moratoria on instalments were granted in accordance with the new Act No. 177/2020 Coll., on certain measures in the area of loan repayments in connection with the Covid-19 pandemic, dated 16 April 2020. Following its issuance, the Group unified the conditions for the two moratoria regimes. As of 31 December 2020, the volume of loans in the moratoria regime during 2020 totalled CZK 70.6 billion for the Group. In cases not covered by the public moratoria (following Act No. 177/2020 Coll.), the Group provided its clients individual tailor-made solutions based on evaluation of their current and estimated situations. In addition to deferring instalments, the Group responded immediately and, in co-operation with state institutions (ČMZRB, EGAP), began offering loan products under COVID programmes created by the government (COVID Prague, COVID Plus, COVID 2, COVID 3). As of 31 December 2020, the government programmes covered exposures of CZK 10.1 billion.

Instalment moratoria were provided by the Group in accordance with the rules and interpretation confirmed by the regulator (CNB) and European institutions (EBA). These moratoria provided by the Group until the end of October 2020 did not, in the vast majority of cases, lead to a reclassification of credit exposures to default. The default classification was triggered, however, by moratoria provided by the Group that were not in accordance with the Act and rules defined by the regulators for loan moratoria. After the end of the public moratoria in October 2020, all client needs for additional relief were addressed by the Group within the standard regime, including the classification rules for the default category.

In terms of granting processes and criteria, the Group did not apply drastic restrictive measures in the form of limiting domestic economy financing. The Group did, however, identify sensitive economic sectors in which more significant impacts associated with Covid-19 are observed, and it has been applying stricter credit assessment rules for these sectors in both retail and non-retail segments. The Group uses in particular its own behavioural models to evaluate the impact of Covid-19.

During 2020, the Group updated its macroeconomic forecasts that are an integral part of the IFRS 9 models for setting allowances and provisions for assets in Stage 1 and Stage 2 (forward-looking concept) with a total impact to cost of risk of CZK 1.23 billion. In accordance with the IFRS 9 methodology, the update was based on the multi-scenario approach, which as of the end of 2020 was founded on four scenarios: a baseline scenario with a probability of 40%, a scenario of prolonged negative development with a probability of 35%, a scenario of severe negative development with a probability of 15%, and an optimistic scenario with a probability of 10%. The baseline scenario anticipates a decrease in GDP of 4.8% in 2020 and GDP growth of 5.9% in 2021. The scenario of prolonged negative development expects a 7.5% decrease in GDP in 2020 and GDP growth of 4% in 2021.

Because the impact of Covid-19 on credit risk is affected and delayed by state support programmes (deferred payments, Antivirus (Kurzarbeit), guarantee schemes, etc.), the Group uses for purposes of IFRS 9 a smoothed version of the scenarios. The smoothed baseline scenario (derived from the baseline scenario described above) assumes a 2.9% year-on-year decrease in GDP for 2020 and a 3.9% year-on-year decrease for 2021, and the smoothed prolonged negative scenario (which is derived from the prolonged negative scenario described above) assumes a 3.2% year-on-year decrease in GDP for 2020 and a 5.8% year-on-year decrease for 2021. The scenarios were developed internally using the best possible estimates and following estimates published by the government, regulatory, or other authorities.

Furthermore, in accordance with the forward-looking concept, the Group has identified a portfolio with a deteriorated credit risk profile, namely the following exposures: (i) exposures of retail clients that were under payment moratorium at the end of September 2020 and identified by the Group based on an expert or model approach as exposures with potentially worsened credit profile after the end of the moratorium, (ii) exposures of SME clients from sectors with a significant negative Covid-19 impact (i.e. hotels, restaurants, spas, catering, travel agencies). These identified exposures were moved to Stage 2 (if they were not already in Stage 2) and a specific loss allowance has been created. As of 31 December 2020, the amount of this specific loss allowance totalled CZK 620 million, of which CZK 24 million was for exposures denoted as (ii) above.

In the subsequent period, the Group will carefully monitor future macroeconomic development and adjust its IFRS 9 models in case new macroeconomic forecasts differ from current ones. The Group uses internal forecasts for its IFRS 9 models, but it also carefully monitors external forecasts (CNB, Ministry of Finance, ECB, etc.). In particular, the Group uses the macroeconomic forecasts published by the Czech National Bank to benchmark its IFRS 9 models. The Group will monitor the current development of the pandemic as well as government measures and assess the impact on the Group's financial situation. In particular, in connection with discontinuation of the moratoria programmes at the end of October 2020, the Group has been carefully monitoring the risk profile of clients and will progressively update the impact on the Group's financial situation.

3.3.4 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries whose financial statements are significant relative to the Group's consolidated financial statements, particularly regarding Group consolidated total assets and gross operating income. A subsidiary is an entity in which the Bank has control, i.e. the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing control, the Group considers all relevant facts and circumstances while taking into account particularly voting rights, potential voting rights, and contractual arrangements. This assessment may require the use of accounting judgements. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the Consolidated Financial Statements were prepared as of the Bank's financial statements date and using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as of the Bank's financial statements date, and their items of income and expense are translated at the monthly average exchange rates for the respective month of a given transaction. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income, and expenses were eliminated in full.

Investments in associates are presented in the Consolidated Financial Statements using the equity method if their financial statements are significant relative to the Group's consolidated financial statements, particularly regarding Group consolidated total assets and gross operating income, or if they are strategic investments. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of voting rights but it does not exercise control. Equity accounting involves recognising in the Consolidated Statement of Income and in the Consolidated Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in an associate is initially recognised at cost in the Statement of Financial Position and adjusted thereafter for the post-acquisition change in the investor's share in the investee's net assets.

3.4 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Group in the current period

The following standards, interpretations, and amendments were newly applied by the Group as from 1 January 2020. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments of whether a transaction should be accounted for as a business combination or as an asset acquisition.
Definition of Material (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.
Conceptual Framework for Financial Reporting Amendments to References to the Conceptual Framework in IFRS Standards	The IASB issued in March 2018 a revised *Conceptual Framework for Financial Reporting* that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework apply the changes from 1 January 2020. Alongside the revised Conceptual Framework, the IASB published Amendments to *References to the Conceptual Framework*, updating in most cases references to previous versions with references to the 2018 revised version. Only the latter was subject to the EU endorsement process.
Covid-19 – Related Rent Concessions (Amendments to IFRS 16)	The amendments provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. A lessee that decides to take advantage of this practical expedient shall account for any change in lease payments consistently with how it would account for the change in applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if meeting certain conditions. In 2020, the Group did not have any rent reliefs consecutive of the Covid-19 crisis.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations, and amendments had been issued by IASB, they are not yet effective for the reporting period beginning on 1 January 2020 and/or they have not yet been approved by the European Commission (highlighted in the table below). The Group has decided not to apply them earlier.

Currently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, unless otherwise described below.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the context of the interest rate benchmark reform
In the context of the financial crisis, the inaccuracy and lack of integrity of interest rate benchmarks (EONIA, EURIBOR, LIBOR, etc.) made it necessary to reform their method of determination.

Within the European Union, regulation 2016/1011 (known as the Benchmark regulation or "BMR regulation") was adopted to implement the principles and recommendations of IOSCO and FSB by creating, as of 1 January 2018, a uniform legal framework regarding the provision and use of indices that are used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, including interest rates. In implementing this regulation, the administrators of benchmarks such as PRIBOR, EONIA, and EURIBOR were required to review and, if necessary, to modify the methodologies used for these indices in order to make them compliant with the new BMR provisions. In July 2017, the UK regulator FCA also announced that from the end of 2021 it will not request contributions for determining LIBOR from participating panel banks.

As a result of international and European regulatory development, several reforms have been initiated to set up and promote the use of new risk-free overnight rates, termed "risk-free rates" (RFRs), whose determination will now be anchored on actual transactions. These include the €STR (Euro Short-Term Rate) for contracts denominated in EUR, SOFR (Secured Overnight Financing Rate) for contracts denominated in USD, SONIA (Sterling Overnight Index Average) for contracts denominated in GBP, etc.

The development in the local currency, the Czech crown, can be summarised as consisting of improvements in the PRIBOR contribution methodology and process while the risk-free rate concept remains under discussion. The PRIBOR administrator, the Czech Financial Benchmark Facility (CFBF), was officially licensed by the CNB in accordance with BMR regulation in December 2018.

Since 2 October 2019, €STR has come to replace EONIA. The latter will nevertheless be published until 31 December 2021 by anchoring it upon €STR (EONIA = €STR + 8.5 bps). The reform of EURIBOR was started in December 2018, and this index was declared compliant with BMR regulation on 3 July 2019. The new SOFR and SONIA benchmarks, intended to replace the LIBOR benchmarks, have been published since 2018, but the publication of LIBOR will continue at least until the end of 2021.

Within the programme, the Bank monitors developments in the interest rate benchmarks (hereinafter the IBOR reform) in order to anticipate the consequences of the transition to the new interest rate benchmarks. The work undertaken aims, on the one hand, to limit exposure to current interbank interest rate benchmarks that might be discontinued in the short or medium term and, on the other hand, to prepare the migration of the outstanding stock of legacy transactions using these current interest rates benchmarks and which will mature after 2021.

To closely monitor key topics, the transition programme has been structured into 5 streams (Market Intelligence, Impact and Risk Assessment, Legal and Communication, RFR Adoption, and Legacy Management).

Uncertainties about the timing and precise methods of transition between the current benchmarks and the new benchmarks, as well as the possible changes in the financial instruments referencing the current benchmarks, may have consequences for hedge accounting and assessment of financial instruments (as a result of applying contractual "Fallback" clauses or of a renegotiation of a contract).

In response to the interest rate benchmark reform, a project in the area of financial reporting according to IFRS ("IBOR reform and its effects on financial reporting") was undertaken by IASB in two phases:

Amendments to IFRS 9, IAS 39 and IFRS 7 – Phase 1
The purpose of the project's Phase 1 is to prevent uncertainties existing before the transition to the new rates from jeopardising the interest rate risk hedge accounting. These amendments introduce reliefs related especially to compliance with the highly probable nature of the cash flows covered; compliance with the separately identifiable nature of risk components; and carrying out of prospective and retrospective effectiveness tests. These reliefs will be applicable until the mentioned uncertainties are eliminated.

The amendments, adopted by the European Union on 15 January 2020, were applied in advance by the Group in its financial statements as of 31 December 2019 and have therefore enabled the accounting treatment of hedging transactions affected by these uncertainties to be maintained since that date, including those linked to the EONIA, EURIBOR, and LIBOR (USD, GBP, CHF, JPY).

The notional amounts of hedging instruments for which the IAS 39 amendment is applied, thus permitting to use exceptions to the hedge accounting requirement in the context of benchmark interest rates reform, are CZK 203,249 million for instruments identifying EURIBOR and CZK 16,981 million for instruments identifying LIBOR USD.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Phase 2
In August 2020, the IASB completed Phase 2 of the project and issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments were adopted by the European Union on 13 January 2021, effective for reporting periods beginning on or after 1 January 2021. The amendments address issues that might affect financial reporting during the implementation of the reform

of interest rate benchmarks, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an existing interest rate benchmark with an alternative one. The Phase 2 amendments provide as a practical expedient in particular for the application of the following treatments: (i) changes brought about by the IBOR reform in the determination of contractual cash flows, when carried out on an economically equivalent basis, should be booked as a revision of the variable interest rate when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income, and lessee's lease liabilities; and (ii) continuation of the hedging relationship when changes are made, in the framework of the IBOR reform, on the hedged item and/or the hedging instrument and leading to a re-documentation of the hedge. The Group is currently assessing the impacts of the amendments' adoption.

Standard	Summarised content	Effective for reporting period beginning on or after
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The Phase 2 amendments complement those issued in 2019 (pre-replacement issues in Phase 1) and focus on the effects of the IBOR reform on financial reporting that arise when, for example, an existing interest rate benchmark is replaced with an alternative one. The amendments include especially a practical expedient for particular changes in the basis for determining contractual cash flows as a result of the IBOR reform, relief from discontinuing hedging relationships for changes required by the IBOR reform, and additional disclosure requirements. With the publication of the Phase 2 amendments, the IASB has completed its project in response to the IBOR reform.	1 January 2021
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	In parallel with the amendment to IFRS 17, an amendment to IFRS 4 has also been published to extend until 1 January 2023 the ability for entities whose primary activity is insurance to delay the application of IFRS 9. The extension maintains the alignment between the expiry date of the temporary exemption from IFRS 9 and the effective date of IFRS 17, which replaces IFRS 4.	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	The amendments clarify the costs to be considered when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract (e.g. direct labour, materials) and an allocation of other costs directly related to fulfilling contracts (e.g. allocation of the depreciation charge of equipment used to fulfil the contract).	1 January 2022 EU not yet endorsed
References to the Conceptual Framework (Amendments to IFRS 3)	The amendments replace in IFRS 3 an outdated reference to the Conceptual Framework with a reference to the current revised version issued in March 2018 without significantly changing the requirements in the standard.	1 January 2022 EU not yet endorsed
Annual Improvements to IFRS 2018–2020 Cycle	As part of the Annual Improvements to IFRS, the IASB has issued minor amendments to four standards (IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, Illustrative Examples to IFRS 16 Leases, and IAS 41 Agriculture).	1 January 2022 EU not yet endorsed
IFRS 17 Insurance Contracts – new standard, issued in May 2017 Amendments to IFRS 17, issued in June 2020	IFRS 17 replaces the current standard for insurance contracts, IFRS 4, and provides new rules for recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard (insurance contracts issued, reinsurance contracts, life and non-life). Similar principles shall be applied also to investment contracts issued with discretionary participation features. To make differences in profitability among insurance contracts visible, IFRS 17 requires entities to divide each portfolio of insurance contracts into a minimum of three groups: (i) loss-making (onerous) contracts at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and (iii) remaining contracts. The groups of insurance contracts will be measured at current values using updated estimates and assumptions about cash flows, discount rates, and risks relating to insurance contracts. Entities will recognise profit allocated to periods when the insurance services are provided. For a loss-making group of contracts, the loss will be recognised immediately. In the statement of income, the insurance service result (comprising insurance revenue and insurance service expenses) will be presented separately from the insurance finance income or expenses. In June 2020, IASB issued an amendment to IFRS 17, including deferral of the effective date by two years to 1 January 2023.	1 January 2023 EU not yet endorsed
Definition of Accounting Estimates (Amendments to IAS 8)	The amendments introduce the definition of accounting estimates and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies.	1 January 2023 EU not yet endorsed

Standard	Summarised content	Effective for reporting period beginning on or after
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	The amendments clarify in IAS 1 Presentation of Financial Statements one of the criteria for classifying a liability as non-current, specifically the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. That right to defer must exist at the end of the reporting period and the classification is unaffected by the likelihood or expectations about exercising the right.	1 January 2023 EU not yet endorsed
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	The aim of the IASB project was to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosure. The amendments to IAS 1 require entities to disclose material accounting policy information rather than significant accounting policies in their financial statements.	1 January 2023 EU not yet endorsed

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency
The functional currency of the Group's entities operating in the Czech Republic (i.e. the currency of the primary economic environment within which the Group operates) is the Czech crown.

The Group has a branch and a subsidiary, ESSOX FINANCE, s.r.o., in the Slovak Republic and a subsidiary, BASTION EUROPEAN INVESTMENTS S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation
Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only the "ECB") for the euro.

At the end of the reporting period, all statement of financial position line items denominated in foreign currency are translated into the functional currency, depending upon their nature, as follows:

I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses arising from the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses for the period in which they occur and are presented in the line *'Net profit/(loss) on financial operations'*.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments for which the Group has decided at initial recognition to use the irrevocable election to measure these at fair value with changes recognised in Other Comprehensive Income without subsequent recycling into profit or loss on realisation. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

For consolidation purposes, the results and financial position of consolidated entities whose functional currency is different from the Group's presentation currency are translated into this currency using the following procedures:

I. Assets and liabilities are translated using the closing rate (exchange rate announced by the CNB at the end of the reporting period);
II. Income and expenses recognised in profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by the CNB during the period);
III. All resulting exchange differences are recognised in other comprehensive income and presented in *'Equity'* in the line *'Hedge of a foreign net investment'*.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income'* and *'Interest expense'* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the asset (i.e. an amount adjusted for expected credit losses over the life of the asset). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income'*.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income'*;
- Fees and commissions for services provided and for the execution of an act, such as deposit service fees, loan service fees, fees income for transaction services provided, commissions income for cross-selling of third-party products (such as insurance and investment products for which the Group is acting as an agent while not taking over control of the products provided and therefore in connection with the net approach for revenues presentation), and specialised financial services fees. Income is recognised as revenue at the point in time when the services are provided or the act has been completed. If related to a longer period, the fees are recognised over time on a straight-line basis. These fees and commissions are presented in the line *'Net fee and commission income'.*

3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains and losses on securities held for trading; security derivatives; currency, interest rate, and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains and losses on financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This line also includes interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term (with a 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. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

3.5.4 Fair value and hierarchy of fair value

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending upon the type of financial instrument and taking into account the classification based on both the business model and contractual cash flow characteristics (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Group recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled, or expires).

3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Group measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs mainly include fees and commissions paid to brokers, dealers, and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *‘Accruals and other liabilities’*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation of revenues recognised in the Statement of Income in accordance with IFRS 15 (in the Statement of Financial Position in the line *‘Accruals and other liabilities’*) or the impairment for expected credit losses from any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *‘Provisions’*). The premium received is recognised in the Statement of Income in the line *‘Net fee and commission income’* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *‘Impairment losses’*.

3.5.5.3 “Day 1” profit or loss

In determining whether the fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets, the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

3.5.5.4 *Financial assets and liabilities classification and subsequent measurement*

The classification of the Group's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Group are after initial recognition subsequently measured at:

I. Amortised costs;
II. Fair value through other comprehensive income; or
III. Fair value through profit or loss.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Group uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

3.5.5.4.1 *Loans and debt instruments*

Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based upon evaluation of:

- The Group's business model for managing financial assets; and
- The financial asset's contractual cash flow characteristics.

Description of business models

The business model is determined on the level at which the financial assets are managed together to achieve a particular business objective. The business model does not depend upon management's intentions for an individual instrument, but reflects the way a certain portfolio of financial assets is managed in order to generate cash flows under standard economic conditions. The Group distinguishes the following business models:

(i) "Hold to collect contractual cash flows";
(ii) "Hold to collect contractual cash flows and sell"; or
(iii) "Held for trading".

(i) "Hold to collect contractual cash flows" business model

Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows" are held in order to collect contractual cash flows over the life of the instrument. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, the Group considers the frequency, value, and timing of sales in prior periods; the reasons for those sales; and expectations about future sales activity for a given portfolio.

The Group admits the following sales that are consistent with the business model "Hold to collect contractual cash flows":

- Sales due to an increase in the assets' credit risk irrespective of their frequency and value;
- Sales made to manage credit risk concentration if those sales are infrequent (even if significant in value) or insignificant in value (even if frequent);
- Sales made close to the maturity of the asset when the proceeds from the sales approximate the collection of the remaining contractual cash flows; and
- Sales made based on a requirement imposed by a third party, such as regulatory bodies, if those sales are infrequent or insignificant in value.

The financial assets that fall into the business model "Hold to collect contractual cash flows" include: (i) all loans and advances; (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards, all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

(ii) "Hold to collect contractual cash flows and sell" business model

Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows and sell" are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Group's everyday liquidity needs. The Group expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets.

As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Group expects greater frequency and value of sales. Selling financial assets is not an incidental activity, but an integral part of achieving the business model's objective. There is no threshold for the frequency or value of sales that must occur in this business model, however, as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model “Hold to collect contractual cash flows and sell” include: (i) all EUR-denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards, all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Group’s internal rules.

(iii) “Held for trading” business model

Loans and debt instruments that fall into the business model “Held for trading” are held with the objective of realising cash flows through the sale of those assets. The Group makes decisions based on the assets’ fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model “Held for trading” include all other loans and debt instruments that are not part of the business model “Hold to collect contractual cash flows” or “Hold to collect contractual cash flows and sell”.

<u>Contractual cash flows characteristics test</u>

Based on assessment of the contractual cash flow characteristics, the Group ascertains whether the contractual cash flows on loans and debt instruments are solely payments of principal and interest on the principal amount outstanding (SPPI test). Principal is the fair value of the financial asset at initial recognition. Interest consists in particular of consideration for the time value of money and credit risk. It can also include consideration for liquidity risk, administrative costs, or profit margin that is consistent with the basic lending arrangement.

<u>Measurement at amortised costs</u>

After initial recognition, loans and debt instruments are subsequently measured at amortised costs if both the following conditions are met: the financial asset is held within the business model “Hold to collect contractual cash flows” and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which the financial instruments are measured at initial recognition minus the principal repayments and using the effective interest method plus or minus the fees that are an integral part of the financial asset, and amortisation of the premium or discount (i.e. any difference between the initial amount and the amount at maturity), and further reduced by any loss allowance for expected credit losses. Interest income is recognised in the line *‘Interest income’* in the Statement of Income. Impairment losses are recognised in the Statement of Income in the line *‘Impairment losses’*.

<u>Measurement at fair value through other comprehensive income</u>

After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in Other Comprehensive Income if both the following conditions are met: the financial asset is held within the business model “Hold to collect contractual cash flows and sell” and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Unrealised gains or losses from fair value changes, as well as gains or losses from changes in fair value resulting from changes in foreign exchange rates are, until their derecognition or reclassification, recognised within Other Comprehensive Income in the line *‘Revaluation of debt securities, net of tax’*.

When holding a financial asset, loss allowances are recognised. Unlike in the case of financial assets measured at amortised costs, however, the loss allowances are not presented separately in the Statement of Financial Position and do not reduce the carrying amount of the financial asset. The loss allowances are recognised directly in Other Comprehensive Income and in the Statement of Income in the line *‘Impairment losses’*.

Gains or losses from changes in foreign exchange rates on loans and debt instruments are recognised in the Statement of Income in the line *‘Net profit/(loss) on financial operations’*, with the exception of exchange rate gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. Accrued interest income is recognised in the Statement of Income in the line *‘Interest income’*.

When a financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income is recognised in the Statement of Income in the line *‘Net profit/(loss) on financial operations’*.

<u>Measurement at fair value through profit or loss</u>

After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in profit or loss if the financial asset falls within the business model “Held for trading” or if the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Group classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses, as well as realised gains or losses arising from the revaluation of these financial assets, interest, and foreign exchange rate differences, are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised.

3.5.5.4.2 ***Equity instruments***

Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for when making the election at initial recognition to measure the equity instrument at fair value with changes being recognised in other comprehensive income and without subsequent recycling into profit or loss on disposal. This election is irrevocable and is made on an instrument-by-instrument basis.

The Group may use the option only for instruments that are not held for trading. When using the option, the disposal will not result in realisation and recognition of the disposal's result in the Statement of Income. Instead, it will remain in the Group's Other Comprehensive Income and, following approval by the General Meeting, will eventually be transferred to retained earnings. Dividend income arising from equity instruments is recognised when the right to dividends is established and presented in the Statement of Income in the line *'Dividend income'*.

The Group applies the option (measurement of equity instruments at fair value through other comprehensive income) for investments of a strategic nature and with an equity interest of less than 20%. This approach is based on the Group's intention to continue holding these investments in the long term or on the existence of a long-term restriction against selling these investments.

3.5.5.4.3 ***Derivatives and hedge accounting***

A derivative is a financial instrument or other contract having 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, market prices of securities, or another market variable;
- 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; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities held for trading at fair value through profit or loss'* based on whether the fair value is positive or negative.

Hedging derivatives are derivatives that the Group uses to hedge interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. In accordance with the transitional provisions of IFRS 9, the Group has elected to apply IAS 39 hedge accounting methods. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- It is compliant with the Group's risk management objective and strategy;
- At the inception of the hedge, the hedging relationship is formally documented, which includes identification of the hedging instrument and hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedging instrument and hedged item or transaction are almost fully offset (within a range of 80% to 125%).

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability, or firm commitment that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and foreign currency risk of financial assets (loans and debt instruments with fixed interest rates) and interest rate risk of deposits, repos, mortgage bonds issued, as well as selected portfolios of building savings. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated, or exercised, then the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

The Group also accounts for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Group applies the IAS 39 "carve-out" as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair values of hedging derivatives classified as cash flow hedges that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with the cash flows of selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated, or exercised, then the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

Using foreign currency deposits as the hedging instrument, the Group additionally hedges the foreign exchange rate risk arising from the net investment in the subsidiaries BASTION EUROPEAN INVESTMENTS S.A. and ESSOX FINANCE, s.r.o. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

3.5.5.4.4 Financial liabilities
The Group classifies financial liabilities into the categories 'Financial liabilities at amortised cost' and 'Financial liabilities held for trading at fair value through profit or loss', depending on the methods of managing the performance of the financial liability.

When the performance of the financial liability is managed based on trading that mostly reflects active and frequent purchases and sales (i.e. financial instruments held for trading are mostly used to generate profit from short-term fluctuations in the price or margin), the Group classifies these financial liabilities after initial recognition as subsequently measured at fair value through profit or loss. Such financial liabilities are only liabilities from disposed securities and trading derivatives with a negative value. They are recognised in the Statement of Financial Position in the line *'Financial liabilities held for trading at fair value through profit or loss'*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

All other financial liabilities are subsequent to initial recognition measured at amortised cost using the effective interest rate method. The Group classifies non-derivative financial liabilities with fixed or determinable payments as subsequently measured at amortised costs. These financial liabilities are recognised depending upon type of counterparty in the lines *'Amounts due to central banks'*, *'Financial liabilities at amortised cost',* and *'Subordinated debt'*.

Interest expense is recognised in the Statement of Income in the line *'Interest expense'*.

In the event of repurchasing its own debt securities, the Group derecognises these securities (i.e. the item *'Securities issued'* is decreased). Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from its own bonds.

3.5.5.4.5 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract.

Derivatives embedded in financial assets, loans, and debt instruments within the scope of IFRS 9 are not separated from the host contract. Instead, the entire hybrid instrument is assessed for classification and measurement based on the Group's business model for managing the hybrid instrument and its contractual cash flow characteristics as disclosed in Note 3.5.5.4 Financial assets and liabilities classification and subsequent measurement.

The embedded derivative is separated from the host contract and accounted for separately if, and only if, all of the following conditions are met:

- The host contract is not a financial asset within the scope of IFRS 9;
- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

If the embedded derivative cannot be measured separately, the entire hybrid contract is designated as at fair value through profit or loss.

3.5.5.5 Reclassification of financial assets and liabilities

Reclassification of loans and debt instruments shall arise when, and only when, the objective of the business model changes for the entire portfolio of financial instruments that are jointly managed with the objective "Hold to collect contractual cash flows", "Hold to collect contractual cash flows and sell", and "Held for trading".

Reclassification is not possible:

- If the Group uses the option to designate a financial asset at initial recognition as an instrument measured at fair value through profit or loss (the "Fair Value Option");
- For equity instruments (measured at fair value through profit or loss or through other comprehensive income); or
- For financial liabilities.

If the Group reclassifies loans and debt instruments, the change in classification is applied prospectively from the first day of the next reporting period following the change in the business model.

Measurement of reclassified financial assets at the reclassification date and subsequently:

- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and, at the reclassification date, a new effective interest rate is determined. Subsequent changes in fair value are recognised in other comprehensive income. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount and a new effective interest rate is determined. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in profit or loss;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

The Group did not reclassify any loans and debt instruments.

3.5.5.6 Determination of a financial instrument's fair value and its hierarchy
For the determination and categorisation of a financial instrument's fair value, the Group treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services, or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:
I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which, in the Group's view, reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models, or option pricing models and are adjusted for the credit risk of the counterparty (CVA) or the Group's own credit risk (DVA), as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held the ask price.

The Group manages a group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing the fair values of offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

3.5.5.7 Effective interest rate method
The effective interest rate is that rate which exactly discounts the estimated future cash payments or receipts throughout the expected life of a financial instrument.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.

3.5.5.8 Forborne loans
Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in the payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Forborne loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The forborne loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

3.5.5.9 Modification of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Group assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of modification is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. If the terms are not substantially different, the renegotiation or modification does not result in derecognition.

3.5.5.10 Derecognition of financial assets other than on modification
The Group derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows from the asset expire or when the Group has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset.

The Group also derecognises financial assets in respect of which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party and for which it has transferred substantially all risks and rewards.

Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises the financial asset and, as appropriately, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the Statement of Income for an amount equal to the difference between the carrying amount of the asset and the consideration received. In respect of financial assets at fair value through other comprehensive income, and with the exception of equity instruments, the cumulative gain or loss previously reported in Other Comprehensive Income is recorded in the Statement of Income.

The Group only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expired. A financial liability is also derecognised and recognised again in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

3.5.5.11 Impairment of financial assets
The impairment of financial assets is based on the expected credit loss model.

All of the following assets are subject to the Group's impairment requirements:
- Financial assets measured at amortised cost;
- Financial assets duly measured at fair value through other comprehensive income (FVOCI) mentioned in 3.5.5.4.1 Loans and debt instruments held in the business model "Hold to collect contractual cash flows and sell";
- Loan commitments if a present commitment to provide credit exists (except for loan commitments measured at fair value through profit or loss);
- Financial guarantee contracts (to which IFRS 9 applies except for those measured at fair value through profit or loss); and
- Finance lease receivables and operating lease receivables in the scope of IFRS 16 Leases.

The Group does not assess impairment on non-client financial assets constituting insignificant credit risk, such as, in particular, receivables from the CNB arising from obligatory minimum reserves, nostro accounts, contract assets within the scope of IFRS 15 Revenue from contracts with customers (i.e. rights to consideration after the transfer of goods or services), intragroup receivables, and others.

In order to determine impairment, financial assets are classified into three stages depending upon the extent of credit deterioration since initial recognition:
- Stage 1 – financial assets are initially recognised in Stage 1, unless they are purchased or originated credit-impaired (subject to a specific treatment). Subsequently, this stage remains unchanged for financial assets for which the credit risk has not increased significantly since initial recognition or that have low credit risk at the reporting date;
- Stage 2 – financial assets with a significant increase in credit risk since initial recognition but in respect of which no objective evidence of impairment exists; or
- Stage 3 – financial assets with objective evidence of impairment at the reporting date.

Transition between the risk stages is assessed on an individual basis by evaluating the risk characteristics specific for the given asset. To this end, the Group uses in particular the relative criteria for an increase of the probability of default, supplemented by absolute criteria, such as days past due and the client's rating.

The Group implemented a new definition of default in the beginning of the second quarter of 2020 to be compliant with EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013. The new definition of default was implemented also in subsidiaries at the end of 2020. The subsidiary ESSOX, s.r.o. will launch the new definition of default during the first quarter of 2021.

Significant increase in credit risk
At each reporting date, the Group assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Group uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after restructuring a loan.

The Group is carefully monitoring the development of exposures that were in loan moratoria regime in order to (i) support clients with targeted measures, (ii) establish recovery capacity for the expected wave of restructuring requests after the moratorium, and (iii) estimate future impacts on the Statement of Income. Activities in 2020 were focused on the following areas: i) dynamic monitoring of risk indicators, ii) client surveys, iii) modernisation of the retail recovery platform (increase of credit restructuring capacity, implementation of artificial intelligence tools), and iv) determination of appropriate size and the seniority of teams of experts dedicated to credit restructuring activities in the corporate segment.

In accordance with the EBA recommendation, the granting of a private or public moratorium is not a reason to worsen the IFRS 9 stage. On the other hand, the stage may deteriorate based on an individual assessment as part of extraordinary or regular monitoring or during the annual renewal of the rating. Exposures under the Group's private moratorium are reported as forborne, but without automatic stage deterioration.

The Group also closely monitors sectors most affected by the impacts of Covid-19 (automotive, car dealers, hospitality and entertainment, transport, etc.). The Group believes that the future expected credit risk in these sectors is included in the forward-looking components and risk classification algorithm used in the IFRS 9 models, and therefore the Group does not apply any additional portfolio adjustments for the selected sectors mentioned with the exception of the exposure to clients in the SME segment and with a significantly negative impact of Covid-19 upon the following sectors (hotels, restaurants, spas, catering, travel agencies).

Credit-impaired financial assets
The Group recognises financial assets as credit-impaired when one or more events have occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data concerning the following events:
- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past due event more than 90 days past due;
- Situation indicating the probability of default as defined by a new regulation for evaluating financial assets in default;
- Concession granted by the lender for reasons of the borrower's financial difficulty that the lender would not otherwise consider;
- Increased probability that the borrower will enter bankruptcy;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Measurement of expected credit losses
With the exception of purchased or originated credit-impaired financial assets, the Group recognises expected credit losses (hereafter only "expected losses") in an amount corresponding to:
- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date) – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Group recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Group reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.

Basis for estimating expected losses
Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Group considers reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Group assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

Purchased or originated credit-impaired financial assets
Purchased or originated credit-impaired financial assets are accounted for differently because the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

Write-off of financial assets
The Group applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon an individual assessment of the client's situation. Write-offs are handled individually or for multiple clients in a batch based on approval by the relevant authority.

Batch write-offs with further recovery are managed by a regular semi-annual process involving only the hard collection portfolio. Subject of write-offs are accounts fulfilling pre-defined criteria for batch write-offs. Recovery continues for those accounts even though they have been written off.

3.5.5.12 Repurchase agreements
The Group accounts for contracts to sell and buy back financial instruments ("repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Group only provides debt instruments held in the business models "Hold to collect contractual cash flows and sell" or "Held for sale" recognised as 'Financial assets at fair value through other comprehensive income' or *'Financial assets held for trading at fair value through profit or loss'*. The corresponding liability arising from a loan taken is recognised in the line *'Financial liabilities at amortised cost'*.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position in the line *'Financial assets at amortised cost'*.

The Group is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan taken is recognised under *'Financial liabilities at amortised cost'*. The Group is nevertheless obliged to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Group as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

If a security acquired as collateral under a reverse repo transaction is sold, the Group derecognises the security acquired under the reverse repo transaction from the off-balance sheet records and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities held for trading at fair value through profit or loss'*.

3.5.6 Emission allowances
The Group is not considered a primary producer of greenhouse gas emissions. Trades with emission allowances are carried out in the role of intermediary in order to generate profit based on market price fluctuations. The emission allowances are recognised in the Statement of Financial Position in the line '*Other assets held for trading at fair value through profit or loss*'.

3.5.7 Assets held for sale
The line *'Assets held for sale'* represents assets for which the Group expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. For this classification to apply, the assets must be available for immediate sale in their present condition and their sale must be highly probable.

For this to be the case, the Group must be committed to a plan to sell the asset and an active programme to locate a buyer must have been initiated. Furthermore, the assets must be actively marketed for sale at a price that is reasonable in relation to their current fair value. The Group expects that the sale of assets will be completed, the market situation permitting, within 1 year from the date of the assets' classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:
- The carrying amount of the respective asset at the date of its classification as *'Assets held for sale'*; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Group recognises an impairment loss on assets held for sale in the line 'Net profits on other assets' if their selling price less estimated costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line 'Assets held for sale' (i.e. during the period when the asset had been held for supplying the Group's services or for administrative purposes).

3.5.8 Income tax

3.5.8.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Group does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.8.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Group expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of financial assets measured at fair value through other comprehensive income or in relation to a cash flow hedge).

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and advances, hedging derivatives, and financial assets measured at fair value through other comprehensive income.

3.5.9 Leases

<u>The Group as lessor</u>
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease (as lessee) and the sublease (as lessor) as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Operating leases
The Group presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them the accounting policies applied to the relevant asset class.

Lease payments received from operating leases are recognised as the Group's income on a straight-line basis over the term of the relevant lease under *'Other income'*.

Finance leases
In respect of assets held under finance leases, the net investment in the lease is recognised as *'Financial assets at amortised cost'* while the assets themselves (or their leased part) are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the lease term, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line *'Interest income'*.

The Group as lessee
In accordance with IFRS 16, from the lessee's point of view, a single on-balance sheet accounting model is used for leases with the optional exceptions for short-term leases and leases of low-value items. The vast majority of lease contracts relates to leases of office buildings and branches.

Initial measurement
At the commencement date of a lease, a right-of-use asset is recognised in the Statement of Financial Position within *'Tangible assets'*, i.e. the line item within which the Group presents underlying assets of the same nature that it owns. Simultaneously, a lease liability is recognised within *'Financial liabilities at amortised cost'* in an amount equal to the present value of the lease payments to be paid over the lease term, discounted at the incremental borrowing rate.

The lease payments considered for the measurement include fixed and variable lease payments based on an index or rate (e.g. inflation indices), plus, where applicable, the funds that are expected to be payable to the lessor under residual value guarantees, purchase options, or early termination penalties. The lease payments are considered net of value-added tax. The lease term determined according to the standard lease contracts comprises the non-cancellable period of a lease, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. For lease contracts with an indefinite period of time the lease term is determined as the expected lease term based on the estimated lease duration.

The contracts may contain both lease and non-lease components, such as supply of additional services. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components and instead account for lease and associated non-lease components as a single lease component. For these contracts in general, the Group has elected not to use this practical expedient.

Subsequent measurement
For the right-of-use asset, the Group uses similar accounting policies as for its own assets of the same nature. The right-of-use asset is measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term and the depreciation is reported in the Statement of Income in the line *'Depreciation, amortisation, and impairment of operating assets'*. If the legal ownership of the asset held under a lease is transferred to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects the exercise price of a purchase option, however, the asset is depreciated on a straight-line basis over the useful life of the underlying asset.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The Group divides lease payments between amortisation recognised as reduction of the outstanding lease liability and a finance charge recognised in the Statement of Income as *'Interest expense'*.

The amount of the lease liability may be adjusted if the lease is amended, the lease term is re-estimated, or to account for contractual changes in future lease payments arising from a change in an index or rate. If the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions
In cases of certain short-term leases and leases of low-value items, the lease payments are recognised on a straight-line basis over the lease term and presented in the line *'General and administrative expenses'*. Short-term leases are leases with a lease term of 12 months or less. Leases of low-value items relate to leases for which the underlying asset when new is of low value, defined by the Group using a materiality threshold of CZK 100,000 per unit of the leased asset. The low-value exception is applied especially to leases of printing devices.

The Group uses the option allowed by the standard to not apply the provisions of IFRS 16 to intangible assets leases.

3.5.10 Tangible and intangible assets (except goodwill)
Intangible assets principally include software and internally generated intangible assets (mainly software). Tangible assets include plant, property, and equipment that are used by the Group in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements, if any. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition, such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Group capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars acquired under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following the expiration of the lease as established in the lease contract. The Group assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income in the line *'Depreciation, amortisation, and impairment of operating assets'*.

The Group does not depreciate land and works of art. Tangible and intangible assets under construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

During the reporting period, the Group used the following useful lives in years:

	2020	2019
Machinery and equipment	4	4
Information technology – notebooks, servers	4/5	4
Information technology – desktop computers	6	6
Fixtures, fittings, and equipment	6	6
Vehicles	5/6	5/6
ATMs	10	10
Selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Right-of-use assets (leases)	According to the lease term	According to the lease term
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licenses – software	5	5
Other intangible assets	According to contract	According to contract

At the end of each reporting period, the Group assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic, or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, amortisation, and impairment of operating assets'*.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

3.5.11 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010, it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired since 2010, it represents the difference between the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary's identifiable net assets at fair value on one side and the net amount of the identifiable assets acquired and the liabilities assumed both at fair value on the other side. Acquisition-related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment losses. Once recognised, impairment losses on goodwill are not reversed.

The Group tests goodwill for impairment on an annual basis as of 30 September or more frequently if there is an indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises impairment of the cash-generating unit that is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount, the Group calculates value in use as the present value of the future cash flow to be generated by a cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of a 3-year financial plan for the cash-generating unit that is approved by management. Cash flows represent income after tax of cash-generating units available for distribution to owners. The discount rate used is the cost of capital calculated using the capital asset pricing model. This method is based on a risk-free interest rate grossed up by a risk premium determined according to the underlying activities of the cash-generating unit. Inasmuch as all respective subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the 3-year financial plan, the projected cash flows are calculated in perpetuity based on constant cash flows being the net operating income after taxes and including a steady growth rate derived as an average from the 3-year financial plan. Key assumptions used in the preparation of the financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

Most acquisitions give rise to positive goodwill. However, occasionally the net amount of the identifiable assets acquired and the liabilities assumed both at fair value may exceed the aggregate of the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets at fair value. The amount is then referred to as gain on bargain purchase (negative goodwill) and the resulting gain is recognised in profit or loss at the acquisition date. Prior to recognising the gain, however, the Group reassess whether it has correctly identified all of the assets acquired and liabilities assumed and reviews the procedures used for their measurement and the measurement of non-controlling interest in the acquiree and the consideration transferred.

3.5.12 Provisions

The Group recognises provisions for contracted commitments (principally comprising the provisions for ongoing contracted potential commitments, legal disputes, self-insurance, and the retirement benefits plan) and for restructuring.

Provisions are recognised when and only when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

A provision for restructuring is recognised when the Group has approved a detailed, formal plan for restructuring and the restructuring has either commenced or the main features of the restructuring plan have been announced to those affected before the end of the reporting period. The restructuring provision shall include only the direct expenditures arising from the restructuring which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The Group also recognises provisions for credit-related commitments into which the Group enters in the normal course of business. These credit-related commitments do not meet the criteria for recognition in the Statement of Financial Position and are recorded in the off-balance sheet. These commitments primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. The provisions represent impairment based on expected losses from any potential financial liabilities arising from these credit-related commitments. Provisions for credit-related commitments are created on the same basis as are loss allowances for financial assets.

3.5.13 Employee benefits

3.5.13.1 General

The Group provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension, but only if they were employed within the Group for a minimum defined period.

Estimated benefit costs are recognised on an accrual basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. The interest expense on the net benefit liability is presented in the line *'Personnel expenses'*; and
III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line *'Remeasurement of retirement benefits plan, net of tax'*.

The use of a provision is presented in the line *'Personnel expenses'*.

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions on an accrual basis in the line *'Personnel expenses'* (refer to Note 10).

The Group has the following share plans and deferred compensation schemes:

3.5.13.2 Deferred bonus payments

For employees with material impact on the Group's risk profile, performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year; and (ii) a deferred component that is spread over following years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Komerční banka, a.s. multiplied by the numbers of shares granted and it is spread over the vesting period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'*.

3.5.13.3 Free share plan

To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Group can award some of its key employees free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of the vesting period) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the deferred share plan provided by Société Générale to the Group's employees are recognised in the Group's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines *'Personnel expenses'* and *'Share premium, funds, retained earnings, revaluation, and net profit for the period'* under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

3.5.14 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

Treasury shares

When the Group acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line *'Share premium, funds, retained earnings, revaluation, and net profit for the period'* under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line *'Share premium, funds, retained earnings, revaluation, and net profit for the period'*.

3.5.15 Contingent assets, contingent liabilities, and off-balance sheet items

In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Group enters into transactions through which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability 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 under the Group's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options, and futures. More information regarding derivative operations is presented in Note 3.5.5.4.3 Derivatives and hedge accounting.

3.5.16 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Group).

The Group has the following operating segments:
- *Retail Banking:* includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, building savings, pension insurance, overdrafts, credit card loans, personal loans, and mortgages);
- *Corporate Banking:* includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leases, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking:* involves trading in financial instruments; and
- *Other:* consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Group nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Group is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Group monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Group does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Group's financial accounting records.

The Group has no client or group of related parties for which the income from transactions would account for more than 10% of the Group's total income.

3.5.17 Regulatory requirements

The Group is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Group's clients, as well as with its liquidity, interest rate, and foreign currency positions.

4 Segment reporting

(CZKm)	Retail banking 2020	Retail banking 2019	Corporate banking 2020	Corporate banking 2019	Investment banking 2020	Investment banking 2019	Other 2020	Other 2019	Total 2020	Total 2019
Net interest income	13,364	15,426	6,291	6,701	659	986	1,046	478	21,360	23,591
Net fee and commission income	3,701	4,162	1,530	1,882	49	(115)	(70)	54	5,210	5,983
Net profit/(loss) on financial operations	1,051	1,297	1,793	1,710	(215)	(458)	255	255	2,884	2,804
Dividend income	0	0	0	0	0	0	6	5	6	5
Other income	133	119	(47)	(46)	133	242	(15)	(125)	204	190
Net operating income	**18,249**	**21,004**	**9,567**	**10,247**	**626**	**655**	**1,222**	**667**	**29,664**	**32,573**

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs, and income tax only for selected segments, rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on the allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Group's income is primarily – more than 98% (2019: more than 98%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2020	2019
Interest income	36,485	44,006
Interest expense	(15,125)	(20,415)
Net interest income	**21,360**	**23,591**
Of which net interest income from		
– Loans and advances at amortised cost	19,855	24,270
– Debt securities at amortised cost	1,706	1,746
– Other debt securities	683	587
– Financial liabilities at amortised cost	(2,630)	(4,193)
– Hedging financial derivatives – income	14,241	17,403
– Hedging financial derivatives – expense	(12,495)	(16,222)
Total	**21,360**	**23,591**

Note: Net interest income is calculated by applying the effective interest rate method, except that in the case of hedging derivatives the contractual interest rate of the corresponding derivative is used.

'Interest income' includes interest on Stage 3 loans due from customers of CZK 329 million (2019: CZK 380 million).

In both 2020 and 2019, the Group recorded as part of *'Net interest income'* also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

'Interest income' includes interest income on the sublease of right-of-use assets in the amount of CZK 0 million (2019: CZK 1 million). *'Interest expense'* includes interest expense on lease liabilities in the amount of CZK 43 million (2019: CZK 49 million).

In 2020, the Group recorded a modification loss in the amount of CZK 177 million (2019: CZK 0 million) from the postponement of instalment payments under the loan moratorium.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2020	2019
Deposit product fee and commission income	872	910
Loan fee and commission income	656	759
Transaction fee and commission income	2,134	2,844
Cross-selling fee income	1,623	1,515
Specialised financial services fee and commission income	923	950
Other fee and commission income	154	158
Total fee and commission income	**6,362**	**7,136**
Deposit product fee and commission expense	(104)	(120)
Loan fee and commission expense	(190)	(217)
Transaction fee and commission expense	(417)	(446)
Cross-selling fee expense	(147)	(135)
Specialised financial services fee and commission expense	(170)	(147)
Other fee and commission expense	(124)	(88)
Total fee and commission expenses	**(1,152)**	**(1,153)**
Total net fee and commission income	**5,210**	**5,983**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities in the amount of CZK 706 million (2019: CZK 689 million) and fee expense for these services in the amount of CZK 87 million (2019: CZK 87 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2020	2019
Net realised gains/(losses) on securities held for trading*	438	221
Net unrealised gains/(losses) on securities held for trading*	(51)	(31)
Net realised gains/(losses) on debt securities at fair value through OCI	0	0
Net realised gains/(losses) on disposal of debt securities at amortised cost	0	8
Net realised and unrealised gains/(losses) on security derivatives**	(79)	1
Net realised and unrealised gains/(losses) on interest rate derivatives	1,241	(102)
Net realised and unrealised gains/(losses) on trading commodity derivatives	0	12
Net realised and unrealised gains/(losses) on foreign exchange operations	538	1,821
Net realised gains/(losses) on foreign exchange from payments	797	874
Total net profit/(loss) on financial operations	**2,884**	**2,804**

* This line also includes trading with emission allowances.
** This line also includes impacts of derivative trades in emission allowances.

A gain of CZK 4,835 million (2019: loss of CZK 3,219 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos, and issued mortgage bonds reported in the same line.

8 Dividend income

'Dividend income' includes dividends received from other financial investments of CZK 6 million (2019: CZK 5 million).

9 Other income

The Group reports *'Other income'* in the amount of CZK 204 million (2019: CZK 190 million). In both 2020 and 2019, *'Other income'* was predominantly composed of income from services provided to the Société Générale Group entities as well as property rental income.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2020	2019
Wages, salaries, and bonuses	5,471	5,573
Social costs	2,179	2,208
Total personnel expenses	**7,650**	**7,781**
Physical number of employees at the end of the period*	8,077	8,351
Average recalculated number of employees during the period*	8,061	8,167
Average cost per employee (CZK)	**948,979**	**952,725**

* Calculation according to Czech Statistical Office methodology.

‘Social costs’ include costs of CZK 113 million (2019: CZK 109 million) paid by the Group to the employees’ retirement pension insurance scheme and costs of CZK 35 million (2019: CZK 40 million) incurred in contributing to the employees’ capital life insurance scheme.

‘Personnel expenses’ include net income of CZK 3 million (2019: net income of CZK 105 million) related to provisions for restructuring. The change in provisions in relation to the transformation project “KB Change“ involves use in the amount of CZK 28 million (2019: CZK 105 million) and release in the amount of CZK 56 million (2019: CZK 0 million). In 2020, the Group created provisions for restructuring related to planned structural changes based upon Covid-19 experience. These provisions include a charge in the amount of CZK 136 million (2019: CZK 0 million) and use of provisions in the amount of CZK 55 million (2019: CZK 0 million). Further information is presented in Note 32.

Indexed bonuses

In 2020, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *‘Personnel expenses’* was CZK 42 million (2019: CZK 40 million) and the total amount of CZK 84 million (2019: CZK 81 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Group. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 9 million (2019: CZK 4 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 152,100 shares (2019: 137,090 shares).

Changes in the numbers of Komerční banka shares were as follow:

(in shares)	2020	2019
Balance as of 1 January	**137,090**	**109,224**
Paid out during the period	(22,556)	(22,746)
Presumed number of newly guaranteed shares	37,566	50,612
Balance as of 31 December	**152,100**	**137,090**

Free shares and deferred share plans

For 2020, the total amount relating to the free shares programme and deferred share plans recognised in *‘Personnel expenses’* is CZK 22 million (2019: CZK 27 million).

Changes in the numbers of Société Générale shares were as follow:

	2020		2019	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**102,146**	**30.79**	**117,888**	**35.62**
Granted during the year	42,887	11.26	52,546	21.40
Forfeited during the year	(1,197)	30.79	(3,481)	35.62
Exercised during the year	(26,213)	30.79	(64,807)	35.62
Balance as of 31 December	**117,623**	**21.51**	**102,146**	**30.79**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2020	2019
Insurance	75	72
Marketing and representation	505	584
Selling and banking products expenses	310	315
Other employees expenses and travelling	79	143
Real estate expenses	694	714
IT support	1,283	1,179
Equipment and supplies	100	127
Telecommunications, postage, and data transfer	220	220
External consultancy and other services	333	420
Resolution and similar funds	941	854
Other expenses	75	65
Total general and administrative expenses	**4,615**	**4,693**

'General administrative expenses' include net income of CZK 29 million (2019: net expense of CZK 12 million) due to provisions for restructuring created in relation to the transformation project “KB Change” in the amount of CZK 1 million (2019: CZK 0 million) and used and release in the amount of CZK 30 million (2019: CZK 12 million). Further information is presented in Note 32.

'General administrative expenses' include the expenses related to leases for which the exemptions from IFRS 16 were applied and variable lease payment expenses not included in the lease liabilities.

Lease payment expenses were as follow:

				2020				2019
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	25	0	6	31	35	0	18	53
Low-value assets	1	25	0	26	0	30	0	30
Variable lease payment expenses	0	0	0	0	0	0	0	0

12 Depreciation, amortisation, and impairment of operating assets

Depreciation, amortisation, and impairment of operating assets comprise the following:

(CZKm)	2020	2019
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	2,706	2,451
Impairment of operating assets	24	7
Total depreciation, amortisation, and impairment of operating assets	**2,730**	**2,458**

The net gain from *'Impairment of operating assets'* mainly includes a net gain from impairment reversal on internal projects (SW).

Depreciation of right-of-use assets according to the underlying asset:

(CZKm)	2020	2019
Real estate	439	411
Hardware	0	0
Other	24	28
Total depreciation of right-of-use assets	**463**	**439**

13 Cost of risk

The net loss in *'Cost of risk'* totalling CZK 4,578 million (2019: net gain of CZK 572 million) includes a net loss from allowances and provisions in the amount of CZK 4,701 million (2019: net gain of CZK 53 million) and a net gain from loans and advances transferred and written off in the amount of CZK 123 million (2019: CZK 519 million).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2020 were as follow:

(CZKm)	As of 1 Jan 2020	Increase due to origin	Decrease due to derecognition*	Change of credit risk (net)	Change of estimation (net)	Decrease due to write-off	Other	As of 31 Dec 2020
Allowances for financial assets (Stage 1)	(813)	(630)	390	(163)	0	0	1	(1,215)
– Debt securities	(7)	0	0	(9)	0	0	0	(16)
– Loans and advances	(806)	(630)	390	(154)	0	0	1	(1,199)
Allowances for financial assets (Stage 2)	(1,142)	0	115	(1,515)	(94)	0	5	(2,631)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(1,142)	0	115	(1,515)	(94)	0	5	(2,631)
Allowances for financial assets (Stage 3)	(8,189)	0	708	(1,981)	(27)	374	(9)	(9,124)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(8,189)	0	708	(1,981)	(27)	374	(9)	(9,124)
Total allowances for financial assets (refer to Notes 22 and 42)	**(10,144)**	**(630)**	**1,213**	**(3,659)**	**(121)**	**374**	**(3)**	**(12,970)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(124)	(167)	103	(32)	0	0	(1)	(221)
Provisions for guarantees and other credit-related commitments (Stage 2)	(94)	0	5	(204)	(2)	0	(5)	(300)
Provisions for guarantees and other credit-related commitments (Stage 3)	(435)	0	64	(463)	(3)	0	(3)	(840)
Total provisions for guarantees and other credit-related commitments (refer to Note 32)	**(653)**	**(167)**	**172**	**(699)**	**(5)**	**0**	**(9)**	**(1,361)**

* This item includes changes in allowances due to full derecognition of financial assets for reasons other than write-offs (e.g. transfers to third parties or expiration of contractual rights due to full repayment). For off-balance sheet exposures, this item also includes decreases in impairment due to an off-balance sheet item's becoming an on-balance sheet asset.

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2019 were as follow:

(CZKm)	As of 1 Jan 2019	Increase due to origin	Decrease due to derecognition*	Change of credit risk (net)	Change of estimation (net)	Decrease due to write-off	Other	As of 31 Dec 2019
Allowances for financial assets (Stage 1)	(738)	(395)	238	10	73	0	(1)	(813)
– Debt securities	(9)	0	0	2	0	0	0	(7)
– Loans and advances	(729)	(395)	238	8	73	0	(1)	(806)
Allowances for financial assets (Stage 2)	(1,192)	0	98	(164)	112	0	4	(1,142)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(1,192)	0	98	(164)	112	0	4	(1,142)
Allowances for financial assets (Stage 3)	(10,252)	0	2,241	(1,307)	(10)	1,121	18	(8,189)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(10,252)	0	2,241	(1,307)	(10)	1,121	18	(8,189)
Total allowances for financial assets (refer to Notes 22 and 42)	**(12,182)**	**(395)**	**2,577**	**(1,461)**	**175**	**1,121**	**21**	**(10,144)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(115)	(102)	245	(155)	10	0	(7)	(124)
Provisions for guarantees and other credit-related commitments (Stage 2)	(85)	0	116	(129)	(1)	0	5	(94)
Provisions for guarantees and other credit-related commitments (Stage 3)	(947)	0	830	(322)	(1)	0	5	(435)
Total provisions for guarantees and other credit-related commitments (refer to Note 32)	**(1,147)**	**(102)**	**1,191**	**(606)**	**8**	**0**	**3**	**(653)**

* This item includes changes in allowances due to full derecognition of financial assets for reasons other than write-offs (e.g. transfers to third parties or expiration of contractual rights due to full repayment). For off-balance sheet exposures, this item also includes decreases in impairment due to an off-balance sheet item's becoming an on-balance sheet asset.

14 Net profits on other assets

Net profits on other assets comprise the following:

(CZKm)	2020	2019
Net profits/(losses) from sale of buildings	19	11
Net profits/(losses) from impairment on assets held for sale	0	16
Net profits/(losses) from sale-and-lease-back transactions	(4)	(1)
Net profits/(losses) from sale/disposal of other assets	(30)	(9)
Total net profits on other assets	**(15)**	**17**

15 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2020	2019
Tax payable – current year, reported in profit or loss	(2,085)	(3,413)
Tax paid – prior year	19	32
Deferred tax (refer to Note 33)	81	(38)
Total income tax	**(1,985)**	**(3,419)**

The items explaining the difference between the Group's theoretical and effective tax rates are as follow:

(CZKm)	2020	2019
Profit before income tax	**10,284**	**18,591**
Theoretical tax calculated at a tax rate of 19% (2019: 19%)	1,954	3,532
Tax on pre-tax profit adjustments	9	34
Non-taxable income (tax effect)	(1,320)	(1,206)
Expenses not deductible for tax purposes (tax effect)	1,484	1,127
Use of tax losses carried forward	5	(1)
Tax allowance	(3)	(3)
Tax credit	0	0
Movement in deferred tax	(81)	38
Tax losses	9	1
Other	7	5
Impact of various tax rates of subsidiary undertakings	(13)	(18)
Tax effect of share of profits of associated undertakings	(47)	(58)
Income tax expense	**2,004**	**3,451**
Prior period tax expense	(19)	(32)
Total income tax	**1,985**	**3,419**
Effective tax rate	19.30%	18.39%

Non-taxable income primarily includes the release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2020 is 19% (2019: 19%). The Group's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

In relation to the interpretation of IFRIC 23, the Group considers it probable that the relevant authority will accept each tax treatment that the Group used or plans to use in its income tax filing.

As of 31 December 2020, the Group records unused tax losses in the amount of CZK 0 million (2019: CZK 2 million).

These tax losses can be used in the following time horizon:

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	0	0	0	0	0

As of 31 December 2020 the Group records unutilised losses, which the Group assumes to utilise in the amount of CZK 0. Further information about deferred tax is presented in Note 33.

16 Distribution of net profit

For the year ended 31 December 2020, the Group generated a net profit of CZK 8,299 million (2019: CZK 15,172 million). Distribution of profits for the year ended 31 December 2020 will be approved by the general meetings of Group companies.

The Bank's Board of Directors will propose to the Supervisory Board, in accordance with the CNB's recommendation, a dividend payment in the amount of CZK 0 per share (2019: CZK 0 per share). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 29 June 2020, the net profit for the year ended 31 December 2019 was fully allocated to retained earnings.

The Group did not pay out any dividends to non-controlling owners of ESSOX s.r.o. and SG EquipmentFinance Czech Republic s.r.o.

17 Earnings per share

Earnings per share of CZK 43.19 (2019: CZK 78.90 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 8,156 million (2019: CZK 14,901 million) by the number of shares in issue, that is, 190,049,260, decreased by the average number of treasury shares held by the Group during the period, which was 1,193,360 (2019: 1,193,360 shares).

18 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Cash and cash values	8,497	10,007
Current balances with central banks	15,050	7,737
Total cash and current balances with central banks (refer to Note 36)	**23,547**	**17,744**

Obligatory minimum reserves in the amount of CZK 13,320 million (2019: CZK 2,619 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2020, the interest rate was 0.25% (2019: 2.00%) in the Czech Republic and 0.00% (2019: 0.00%) in the Slovak Republic.

19 Financial assets held for trading at fair value through profit or loss

Financial assets held for trading at fair value through profit or loss comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Trading equity securities	0	0
Trading debt securities	3,342	4,112
Trading derivatives	22,258	18,792
Total financial assets held for trading at fair value through profit or loss	**25,600**	**22,904**
Emission allowances	0	494
Total other assets held for trading at fair value through profit or loss	**0**	**494**

As of 31 December 2020 and 2019, the *'Financial assets held for trading at fair value through profit or loss'* portfolio included only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as *'Financial assets held for trading at fair value through profit or loss'*.

For detailed information on *'Trading debt securities'*, allocated by sector and currency, refer to Note 43(A).

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 43(C).

As of 31 December 2020, the portfolio of trading securities included securities at fair value of CZK 3,228 million (2019: CZK 3,963 million) that are publicly traded on stock exchanges and securities at fair value of CZK 114 million (2019: CZK 149 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

'Trading debt securities' include securities used as collateral for borrowing securities at fair value of CZK 3,068 million (2019: CZK 2,947 million).

'Trading debt securities' include securities eligible for refinancing with central banks at fair value of CZK 76 million (2019: CZK 936 million).

20 Non-trading financial assets at fair value through profit or loss

As of 31 December 2020, the 'Non-trading financial assets at fair value through profit or loss' portfolio includes financial assets at fair value of CZK 279 million (2019: CZK 0 million) that are issued by foreign financial institutions.

Further information is presented in Note 21.

21 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Equity instruments at FVOCI option	47	522
Debt securities at FVOCI	40,151	35,682
Total financial assets at fair value through other comprehensive income	**40,198**	**36,204**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 40,198 million (2019: CZK 36,204 million) that are publicly traded on stock exchanges.

'Debt securities at FVOCI' include securities eligible for refinancing with central banks at fair value of CZK 40,151 million (2019: CZK 35,682 million).

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 915 million (2019: CZK 897 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,596 million (2019: CZK 1,369 million) that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Group uses Société Générale International Limited as a related broker.

During 2020, the Bank sold 68,000 shares of VISA Inc., which it had acquired through the gradual conversion of VISA Series C Convertible Participating Preferred Stock financial instruments held. In this context, the Bank reassessed the nature and original classification of this investment, which is newly reported in the 'Non-trading financial assets at fair value through profit or loss' portfolio. Due to the insignificance of the impact on the financial statements, the change in classification was made retrospectively without recalculating the comparable periods.

22 Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Loans and advances to banks	262,606	244,561
Loans and advances to customers	679,956	647,259
Debt securities	92,839	71,581
Total financial assets at amortised cost	**1,035,401**	**963,401**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2020, the *'Financial assets at amortised cost'* portfolio includes debt securities in the amount of CZK 92,292 million (2019: CZK 71,241 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 547 million (2019: CZK 340 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 89,032 million (2019: CZK 67,738 million).

As of 31 December 2020, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	216,388	0	0	216,388	0	0	0	0	216,388
General governments	25,607	18	234	25,859	(17)	0	(23)	(40)	25,819
Credit institutions	45,687	533	0	46,220	(2)	0	0	(2)	46,218
Other financial corporations	35,953	26	303	36,282	(80)	(1)	(49)	(130)	36,152
Non-financial corporations	233,965	26,763	10,767	271,495	(783)	(1,556)	(5,470)	(7,809)	263,686
Households*	335,197	17,201	6,874	359,272	(317)	(1,074)	(3,582)	(4,973)	354,299
Total loans	**892,797**	**44,541**	**18,178**	**955,516**	**(1,199)**	**(2,631)**	**(9,124)**	**(12,954)**	**942,562**
Central banks	0	0	0	0	0	0	0	0	0
General governments	89,743	0	0	89,743	(11)	0	0	(11)	89,732
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	348	0	0	348	0	0	0	0	348
Non-financial corporations	2,759	0	0	2,759	0	0	0	0	2,759
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**92,850**	**0**	**0**	**92,850**	**(11)**	**0**	**0**	**(11)**	**92,839**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2019, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	198,738	0	0	198,738	0	0	0	0	198,738
General governments	21,648	1,397	14	23,059	(9)	(1)	(12)	(22)	23,037
Credit institutions	45,151	650	23	45,824	0	(1)	0	(1)	45,823
Other financial corporations	32,110	303	59	32,472	(26)	(1)	(24)	(51)	32,421
Non-financial corporations	235,929	16,375	7,466	259,770	(530)	(536)	(4,320)	(5,386)	254,384
Households*	320,692	14,953	6,449	342,094	(241)	(603)	(3,833)	(4,677)	337,417
Total loans	**854,268**	**33,678**	**14,011**	**901,957**	**(806)**	**(1,142)**	**(8,189)**	**(10,137)**	**891,820**
Central banks	0	0	0	0	0	0	0	0	0
General governments	68,482	0	0	68,482	(5)	0	0	(5)	68,477
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,754	0	0	2,754	0	0	0	0	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**71,586**	**0**	**0**	**71,586**	**(5)**	**0**	**0**	**(5)**	**71,581**

* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2020, the transfers between Stages were as follow:

(CZKm)	Gross carrying value					
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	3	1,200	233	1	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	23	116	199	0	0	0
Non-financial corporations	13,134	3,467	1,051	146	1,558	104
Households*	9,835	5,197	732	431	1,734	270
Total loans	**22,995**	**9,980**	**2,215**	**578**	**3,292**	**374**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**4,985**	**1,617**	**185**	**56**	**716**	**3**

* This item also includes loans granted to individual entrepreneurs.
Note: Reported are exposures that are in a Stage as of the date of the financial statements different from that where they were initially staged (i.e. from the Stage as of the beginning of the period or at their initial recognition). Exposures that had changed Stages multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the date ot the financial statements.

For the year ended 31 December 2019, the transfers between Stages were as follow:

(CZKm)	Gross carrying value					
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	211	60	0	261	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	225	0	0	33	0	0
Non-financial corporations	6,165	1,265	1,019	124	535	28
Households*	6,634	5,914	821	542	714	119
Total loans	**13,235**	**7,239**	**1,840**	**960**	**1,249**	**147**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**2,989**	**912**	**225**	**24**	**120**	**5**

* This item also includes loans granted to individual entrepreneurs.
Note: Reported are exposures that are in a Stage as of the date of the financial statements different from that where they were initially staged (i.e. from the Stage as of the beginning of the period or at their initial recognition). Exposures that had changed Stages multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the date ot the financial statements.

Set out below is a breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2020	31 Dec 2019
Agriculture, forestry, and fishing	12,731	11,713
Mining and quarrying	3,193	3,072
Manufacturing	71,631	65,801
Electricity, gas, steam, and air conditioning supply	14,005	14,633
Water supply, sewerage, waste management, and remediation activities	2,199	2,395
Construction	12,163	10,561
Wholesale and retail trade, repair of motor vehicles and motorcycles	43,792	43,374
Transportation and storage	17,815	14,404
Accommodation and food service activities	2,430	1,896
Information and communication	6,331	6,271
Real estate activities	52,807	49,701
Professional, scientific, and technical activities	9,264	6,668
Administrative and support service activities	6,733	7,021
Public administration and defence, compulsory social security	349	321
Education	565	535
Human health and social work activities	3,061	2,522
Arts, entertainment, and recreation	1,984	4,109
Other service activities	10,442	14,775
Total loans and advances to non-financial corporations	**271,495**	**259,772**

Exposure to the automotive industry and related suppliers is CZK 21,259 million (2019: CZK 20,286 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' as higher risk sector in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgments and estimates).

The majority of loans – more than 97% (2019: more than 97%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2020, loans and advances to customers included accrued interest of CZK 1,382 million (2019: CZK 1,255 million), of which CZK 358 million (2019: CZK 346 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 216,500 million (2019: CZK 198,738 million).

Loans due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Treasury bills	212,322	195,563
Debt securities issued by state institutions	111	0
Emission allowances	0	0
Investment certificates	0	0
Total	**212,433**	**195,563**

As of 31 December 2020, loans provided to customers under reverse repurchase transactions in the amount of CZK 0 million (2019: CZK 2,001 million) are collateralised by securities with a fair value of CZK 0 million (2019: CZK 4,040 million).

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 31 December 2020:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**269,278**	**30,273**	**10,355**	**17,004**	**37,353**
of which:					
– Other financial corporations	70	1,250	0	2,234	8,412
– Non-financial corporations	2,601	25,171	3,087	13,447	24,532
– Households**	266,566	3,843	7,240	1,216	964

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes loans granted to individual entrepreneurs.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 31 December 2019:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**246,568**	**29,747**	**7,380**	**22,122**	**32,013**
of which:					
– Other financial corporations	28	1,332	0	855	9,054
– Non-financial corporations	2,570	24,718	1,279	18,126	17,732
– Households**	243,901	3,680	6,074	3,032	638

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes loans granted to individual entrepreneurs.

Pledges on industrial real estate represent 7% of total pledges on real estate (2019: 8%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2020

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	242	0	0	242	0	1
Other financial corporations	233	0	0	233	1	53
Non-financial corporations	8,762	19	2,531	11,312	1,003	3,276
Households*	11,005	360	1,863	13,228	966	10,091
Total	**20,242**	**379**	**4,394**	**25,015**	**1,970**	**13,421**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 31 December 2019

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	111	3	946	1,060	531	326
Households*	1,194	134	1,306	2,634	600	1,883
Total	**1,305**	**137**	**2,252**	**3,694**	**1,131**	**2,209**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers):

			31 Dec 2020			31 Dec 2019
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
General governments	25,859	242	0.94%	0	0	0.00%
Other financial corporations	36,282	233	0.64%	32,454	0	0.00%
Non-financial corporations	271,495	11,312	4.17%	259,769	1,060	0.41%
Households*	359,272	13,228	3.68%	342,094	2,634	0.77%
Total	**692,908**	**25,015**	**3.61%**	**634,317**	**3,694**	**0.58%**

* This item also includes loans granted to individual entrepreneurs.

Finance lease

Within the Group, ESSOX s.r.o., ESSOX FINANCE, s.r.o., and SG Equipment Finance Czech Republic s.r.o. provide lease services. In 2019, assets leased under lease arrangements at ESSOX s.r.o. primarily included new passenger and utility vehicles with an average lease instalment period of 60 months. In 2020, the contracts were redeemed and essentially fully repaid, with only one lease contract expiring in accordance with the original maturity. At ESSOX FINANCE, s.r.o., leased assets primarily include passenger and utility vehicles with an average lease instalment period of 44 months (2019: 45 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors, and buses with an average lease instalment period of 66 months (2019: 64 months), agricultural vehicles and machines with an average lease instalment period of 58 months (2019: 57 months), machine technology with an average lease instalment period of 67 months (2019: 64 months), hardware and software technology with an average lease instalment period of 48 months (2019: 46 months), and real estate with an average lease instalment period of 8 years (2019: 8 years).

Loans and advances to customers – leasing:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	5,615	5,450
Due from 1 to 2 years	3,872	4,182
Due from 2 to 3 years	2,827	2,885
Due from 3 to 4 years	1,853	1,817
Due from 4 to 5 years	933	870
Due over 5 years	637	731
Total	**15,737**	**15,935**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	334	343
Due from 1 to 2 years	213	221
Due from 2 to 3 years	123	129
Due from 3 to 4 years	61	65
Due from 4 to 5 years	25	29
Due over 5 years	9	23
Total	**765**	**810**

As of 31 December 2020, the provisions recognised against uncollectible lease receivables totalled CZK 420 million (2019: CZK 337 million).

Loans and advances to customers – subleasing of real estate:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	15	20
Due from 1 to 2 years	10	21
Due from 2 to 3 years	6	12
Due from 3 to 4 years	6	6
Due from 4 to 5 years	6	6
Due over 5 years	5	13
Total	**48**	**78**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	0	1
Due from 1 to 2 years	0	1
Due from 2 to 3 years	0	0
Due from 3 to 4 years	0	0
Due from 4 to 5 years	0	0
Due over 5 years	0	0
Total	**0**	**2**

23 Prepayments, accrued income, and other assets

Prepayments, accrued income, and other assets comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Prepayments and accrued income	1,012	814
Settlement balances	314	287
Receivables from securities trading	147	61
Other assets	3,630	4,014
Total prepayments, accrued income, and other assets	**5,103**	**5,176**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 222 million (2019: CZK 226 million), and in particular also advances provided and receivables for other debtors.

24 Investments in associates and non-controlling interests in subsidiaries

Investments in associates comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Investments in subsidiary undertakings*	3	34
Investments in associated undertakings	1,584	1,221
Total investments in associates	**1,587**	**1,255**

* My Smart Living, s.r.o. (CZK 1.25 million) and KB Advisory, s. r. o. (CZK 2.1 million). These companies are currently not consolidated due to their having an insignificant impact on the consolidated financial statements.

The following companies were associated undertakings of the Group as of 31 December 2020:

(CZKm)		31 Dec 2020		31 Dec 2019	
Associates	(%)	Cost of investment	Share of net assets	Cost of investment	Share of net assets
Komerční pojišťovna, a.s.	49.00	837	1,493	837	1,219
CBCB - Czech Banking Credit Bureau, a.s.*	20.00	0	2	0	2
Platební instituce Roger a.s.	24.83	71	71	0	0
Bankovní identita, a.s.	33.33	21	18	0	0
Total investments in associates		**929**	**1,584**	**837**	**1,221**
Associates classified in held for sale portfolio					
Worldline Czech Republic s.r.o.**	1.00	0	9	0	9
Total investments in associates* **		**929**	**1,593**	**837**	**1,230**

* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.
** The cost of investment for Worldline Czech Republic s.r.o. is CZK 418 thousand.
*** Including associates classified in held for sale portfolio.

(CZKm) Associates	Assets	Liabilities	Operating income	Profit
				31 Dec 2020
Komerční pojišťovna, a.s.	56,667	53,619	1,114	510
CBCB - Czech Banking Credit Bureau, a.s.	41	20	125	10
Bankovní identita, a.s.	72	19	0	(10)
Platební instituce Roger a.s.	80	56	17	(3)
Worldline Czech Republic s.r.o.	857	419	1,016	(116)

(CZKm) Associates	Assets	Liabilities	Operating income	Profit
				31 Dec 2019
Komerční pojišťovna, a.s.	52,938	50,398	1,213	622
CBCB - Czech Banking Credit Bureau, a.s.	46	27	128	8
Worldline Czech Republic s.r.o.*	1,051	486	1,146	(127)

* Figures for the year 2019 were corrected according to the final audited financial statements.

Movements in share of associated undertakings:

(CZKm)	Komerční pojišťovna, a.s.	CBCB - Czech Banking Credit Bureau, a.s.	Worldline Czech Republic s.r.o.	Bankovní identita, a.s.	Platební instituce Roger a.s.*	Total
As of 31 December 2018	1,132	2	9	0	0	1,143
Dividend payment	(234)	(2)	0	0	0	(236)
Share of profit	305	2	0	0	0	307
Sale of shares	0	0	0	0	0	0
Revaluation of investment	0	0	0	0	0	0
Share of revaluation on debt securities at FVOCI	16	0	0	0	0	16
As of 31 December 2019	1,219	2	9	0	0	1,230
Acquisition/Establish	0	0	0	21	71	92
Dividend payment	0	(2)	0	0	0	(2)
Share of profit	250	2	0	(3)	0	249
Sale of shares	0	0	0	0	0	0
Revaluation of investment	0	0	0	0	0	0
Share of revaluation on debt securities at FVOCI	24	0	0	0	0	24
As of 31 December 2020	**1,493**	**2**	**9**	**18**	**71**	**1,593**

* The equity method is not applied for this company due to its insignificant impact on the consolidated financial statements.

Main financial information about subsidiaries within which the Group holds non-controlling interests:

	31 Dec 2020			31 Dec 2019		
(CZKm)	Assets	Liabilities	Profit	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	32,518	29,600	91	30,917	28,089	255
ESSOX s.r.o.**	16,745	13,107	186	16,474	13,023	285
ESSOX FINANCE, s.r.o.**	2,241	1,981	13	2,523	2,283	7

* Non-controlling interest in SG Equipment Finance Czech Republic s.r.o. is 49.9%.
** Non-controlling interest in each ESSOX s.r.o. and ESSOX FINANCE, s.r.o. is 49.1%.

Movements in non-controlling interests:

(CZKm)	SG Equipment Finance Czech Republic s.r.o.	ESSOX s.r.o.	ESSOX FINANCE, s.r.o.	Total
As of 31 December 2018	1,671	1,739	(12)	3,398
Dividend payment	(388)	(188)	0	(576)
Profit / loss	128	140	3	271
Share-based payment	0	2	0	2
Revaluation of equity securities in equity	0	1	0	1
Hedge of a foreign net investment	0	0	(1)	(1)
Cash flow hedging	0	0	0	0
As of 31 December 2019	1,411	1,694	(10)	3,095
Dividend payment	0	0	0	0
Profit / loss	45	90	8	143
Share-based payment	0	1	0	1
Revaluation of equity securities in equity	0	0	0	0
Hedge of a foreign net investment	0	0	3	3
Cash flow hedging	0	0	0	0
As of 31 December 2020	**1,456**	**1,785**	**1**	**3,242**

Additional information about the Group's equity investments is presented in Notes 1 and 2.

25 Intangible assets

Movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2019	13,848	3,363	29	1,736	18,976
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	9	0	7	16
Additions	1,759	293	0	2,053	4,105
Disposals/transfers	(195)	(59)	0	(2,053)	(2,307)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2019	15,412	3,606	29	1,743	20,790
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,748	224	0	2,355	4,327
Disposals/transfers	(1)	(7)	(9)	(1,972)	(1,989)
Foreign exchange rate difference	0	1	0	(1)	0
As of 31 December 2020	**17,159**	**3,824**	**20**	**2,125**	**23,128**
Accumulated depreciation and allowances					
As of 1 January 2019	(10,948)	(2,751)	(28)	0	(13,727)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	(1,080)	(212)	0	0	(1,292)
Disposals	195	59	0	0	254
Impairment	0	0	0	(7)	(7)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2019	(11,833)	(2,904)	(28)	(7)	(14,772)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	(1,238)	(215)	0	0	(1,453)
Disposals	1	7	9	0	17
Impairment	(28)	0	0	7	(21)
Foreign exchange rate difference	0	(1)	0	0	(1)
As of 31 December 2020	**(13,098)**	**(3,113)**	**(19)**	**0**	**(16,230)**
Net book value					
As of 31 December 2019	3,579	702	1	1,736	6,018
As of 31 December 2020	**4,061**	**711**	**1**	**2,125**	**6,898**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2020, the Group spent CZK 133 million (2019: CZK 120 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2020, the Group recognised allowances against intangible assets of CZK 49 million (2019: CZK 28 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

26 Tangible assets

Movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures, and other	Acquisition of assets	Right-of-use assets	Total
Cost						
As of 1 January 2019	350	11,695	4,984	837	2,780	20,646
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	0	46	0	0	0	46
Additions	0	602	386	723	829	2,540
Disposals/transfers	0	(325)	(281)	(1,034)	(164)	(1,804)
Foreign exchange rate difference	0	0	0	0	(1)	(1)
As of 31 December 2019	350	12,018	5,089	526	3,444	21,427
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(1)	61	0	0	0	60
Additions	0	253	429	470	449	1,601
Disposals/transfers	0	(298)	(325)	(743)	(457)	(1,823)
Foreign exchange rate difference	0	0	1	0	2	3
As of 31 December 2020	**349**	**12,034**	**5,194**	**253**	**3,438**	**21,268**
Accumulated depreciation and allowances						
As of 1 January 2019	0	(6,457)	(3,881)	0	0	(10,338)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	28	0	0	0	28
Additions	0	(360)	(360)	0	(439)	(1,159)
Disposals	0	279	277	0	15	571
Impairment	0	0	(1)	0	0	(1)
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2019	0	(6,510)	(3,965)	0	(424)	(10,899)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	37	0	0	0	37
Additions	0	(413)	(376)	0	(466)	(1,255)
Disposals	0	234	316	0	61	611
Impairment	0	0	0	0	(3)	(3)
Foreign exchange rate difference	0	0	(1)	0	0	(1)
As of 31 December 2020	**0**	**(6,652)**	**(4,026)**	**0**	**(832)**	**(11,510)**
Net book value						
As of 31 December 2019	350	5,508	1,124	526	3,020	10,528
As of 31 December 2020	**349**	**5,382**	**1,168**	**253**	**2,606**	**9,758**

As of 31 December 2020, the Group recognised allowances against tangible assets of CZK 245 million (2019: CZK 245 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2019: CZK 244 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on the Bank's headquarters optimisation strategy).

For detailed quantitative disclosures about lease contracts refer to Notes 5, 11, 12, 14, 22, 30, 38, 43(D), 43(E), 43(F), and 43(I).

The net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Real estate	2,479	2,867
Hardware	0	0
Other	127	153
Total net value of right-of-use assets	**2,606**	**3,020**

27 Goodwill

Goodwill by individual companies as of 31 December 2020 was as follows:

(CZKm)	31 Dec 2020	31 Dec 2019
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech Republic s.r.o.	201	201
Total goodwill	**3,752**	**3,752**

The management is of the view that reasonable potential changes in the key assumptions for Modrá pyramida stavební spořitelna, a.s. upon which the recoverable amount is based would not cause it to fall below the carrying amount given the fact that the value in use is significantly greater than the carrying amount. Impairment of goodwill is considered unlikely.

28 Assets held for sale

As of 31 December 2020, the Group reported assets held for sale at a carrying amount of CZK 147 million (2019: CZK 136 million) mainly comprising buildings and land owned by the Group which the management of the Group had decided to sell as a component of a plan to optimise the distribution network, equipment obtained by taking possession of leasing collateral, and also confiscated cars. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2020, the Group recognised allowances against assets held for sale of CZK 96 million (2019: CZK 95 million).

As of 31 December 2020, *'Assets held for sale'* also included investments in associates classified as assets held for sale at a carrying amount of CZK 0 million (2019: CZK 0 million). For detail, refer to Note 24.

29 Financial liabilities held for trading at fair value through profit or loss

As of 31 December 2020 and 2019, the *'Financial liabilities held for trading at fair value through profit or loss'* portfolio included only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Group has not designated any financial liabilities as *'Financial liabilities held for trading at fair value through profit or loss'*.

(CZKm)	31 Dec 2020	31 Dec 2019
Short sales	3,132	3,543
Derivative financial instruments	22,038	20,182
Total financial liabilities held for trading at fair value through profit or loss	**25,170**	**23,725**

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 43(C).

30 Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Amounts due to banks	86,572	93,581
Amounts due to customers	906,217	821,507
Securities issued	1,148	3,621
Lease liabilities	2,657	3,016
Total financial liabilities at amortised cost	**996,594**	**921,725**

The total amount of loans from banks and customers received under repurchase transactions was CZK 13,883 million (2019: CZK 10,252 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets held for trading at fair value through profit or loss	0	0	0	0
Other assets held for trading at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	0	0	5,304	5,304
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	13,880	13,880	5,154	5,154
Total	**13,880**	**13,880**	**10,458**	**10,458**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Central banks	0	0
General governments	94,983	91,486
Credit institutions	86,572	93,581
Other financial corporations	47,325	48,958
Non-financial corporations	320,186	277,853
Households*	443,723	403,210
Total amounts due to banks and customers	**992,789**	**915,088**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Mortgage bonds	1,003	1,004
Depository bills of exchange	145	2,617
Total securities issued	**1,148**	**3,621**

The Group issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2019	Cash flow*	Non-cash changes: Amortisation and accrued interest	Non-cash changes: Change of FV hedge of interest rate risk	31 Dec 2020
Mortgage bonds	1,004	(25)	24	0	1,003
Depository bills of exchange	2,617	(2,489)	17	0	145
Total securities issued	**3,621**	**(2,514)**	**41**	**0**	**1,148**

* The item includes the cash flow on principal and interest paid.

(CZKm)	31 Dec 2018	Cash flow*	Non-cash changes: Amortisation and accrued interest	Non-cash changes: Change of FV hedge of interest rate risk	31 Dec 2019
Mortgage bonds	1,008	(27)	23	0	1,004
Depository bills of exchange	1,532	1,068	17	0	2,617
Total securities issued	**2,540**	**1,041**	**40**	**0**	**3,621**

* The item includes the cash flow on principal and interest paid.

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2020	31 Dec 2019
In less than one year	0	0
In one to five years	1,003	1,004
In five to ten years	0	0
In ten to twenty years	0	0
More than twenty years	0	0
Total mortgage bonds	**1,003**	**1,004**

The securities issued detailed above include the following mortgage bonds issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2020 (CZKm)	31 Dec 2019 (CZKm)
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,003	1,004
Total mortgage bonds					**1,003**	**1,004**

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Accruals and deferred income	242	255
Settlement balances and outstanding items	297	212
Payables from securities trading and issues of securities	4,064	3,416
Payables from payment transactions	1,681	2,489
Other liabilities	5,131	5,604
Total accruals and other liabilities	**11,415**	**11,976**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 18 million (2019: CZK 18 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

32 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Provisions for contracted commitments (refer to Note 37)	584	579
Provisions for other credit commitments (refer to Notes 13 and 37)	1,361	653
Provisions for restructuring	81	113
Total provisions	**2,026**	**1,345**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

During 2020, the Group adjusted the amount of provisions for restructuring related to the transformation project "KB Change" and created provisions for restructuring related to the structural changes based upon the Covid-19 experience.

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 31 December 2018	347	129	230	706
Charge	27	32	0	59
Release	(1)	(40)	0	(41)
Use	(11)	(12)	(117)	(140)
Accrual	5	0	0	5
Remeasurement	103	0	0	103
Foreign exchange difference	0	0	0	0
Balance as of 31 December 2019	470	109	113	692
Charge	34	15	231	280
Release	(44)	(3)	(99)	(146)
Use	(8)	(11)	(164)	(183)
Accrual	5	1	0	6
Remeasurement	13	0	0	13
Foreign exchange difference	3	0	0	3
Balance as of 31 December 2020	**473**	**111**	**81**	**665**

33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised.

Net deferred tax assets are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Banking provisions and allowances	5	3
Allowances for assets	0	0
Non-banking provisions	85	63
Difference between accounting and tax net book value of assets	(10)	(4)
Leases	0	0
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 40)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 41)	0	(1)
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	0	2
Other temporary differences	(2)	7
Net deferred tax assets	**78**	**70**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Banking provisions and allowances	162	44
Allowances for assets	66	69
Non-banking provisions	145	85
Difference between accounting and tax net book value of assets	(1,060)	(1,047)
Leases	(75)	(5)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	54	51
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 40)	0	(67)
Revaluation of hedging derivatives – equity impact (refer to Note 41)	20	13
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(181)	(164)
Other temporary differences	161	181
Net deferred tax liabilities	**(708)**	**(840)**

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2020	2019
Balance as of the beginning of the period	**(770)**	**(672)**
Effect of acquisition of companies	0	0
Movement in the net deferred tax – profit and loss impact (refer to Note 15)	81	(38)
Movement in the net deferred tax – equity impact (refer to Notes 39, 40, 41, and 42)	59	(60)
Balance as of the end of the period	**(630)**	**(770)**

34 Subordinated debt

As of 31 December 2020, the Bank reports subordinated debt of CZK 2,629 million (2019: CZK 2,546 million). The subordinated debt was received by the Bank in October 2017 and is part of Tier 2 regulatory capital. The nominal value of the subordinated debt is EUR 100 million. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after 5 years.

35 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, totals CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. A proposal for distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2020:

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
NORTRUST NOMINEES LIMITED	4.26%
CHASE NOMINEES LIMITED	4.11%
CLEARSTREAM BANKING S.A.	2.21%
GIC PRIVATE LIMITED	1.36%
STATE STREET BANK AND TRUST COMPANY	1.08%

Société Générale S.A., being the only entity with a qualified holding in the Group, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2020, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2019: 1,193,360 treasury shares at a cost of CZK 726 million).

Capital management

According to the Basel III rules valid for capital regulation, an additional Pillar 2 buffer of 2.2% was applied to the Group in 2020 in addition to the minimum required capital ratio of 8.0%. That means the total SREP (Supervisory Review and Evaluation Process) capital requirement (TSCR) was 10.2% for the year 2020. On top of the TSCR capital ratio, a combined capital buffer of the final value of 6.0% was applied, consisting of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical buffer reaching a final amount of 0.5% in 2020 for exposures in the Czech Republic (the countercyclical buffer was decreased by the CNB as part of measures against the impact of the Covid-19 pandemic from 1.5% at the end of 2019 to 1.0% from 1 April 2020 and to 0.5% from 1 July 2020). The aforementioned changes resulted in the required overall capital ratio (OCR) of approximately 16.20% from 1 July 2020 (a decrease of 0.4 percentage points in comparison with the previous year, mainly due to a decrease in the countercyclical capital buffer). As its capital ratio stands well above the minimum required level, the Group meets the required level of the overall capital ratio with an adequate reserve.

The required overall capital ratio (OCR) remains unchanged for the Group at approximately 16.20% as of 1 January 2021. It is expected that in the course of 2021 the overall capital ratio may change as a result of the implementation of the Capital Requirement Directive (CRD V), at which time the CNB will establish for banks in place of the systemic risk buffer a capital buffer for other systematically important institutions (O-SII) for the purpose of limiting risks associated with their systemic importance.

The Group manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Group must meet the requirements for evaluating required economic capital, stress testing, and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods mostly close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Group regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's transaction risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Group acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Group's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Group's dividend policy, which is the primary tool for capital adequacy management in such situation that the Group's capital is largely classified as Common Equity Tier 1 capital.

The Group's capital consists principally of the following balances: share capital, reserve funds, retained earnings, and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Group did not purchase its own shares into treasury during 2020. As of 31 December 2020, the Group held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2019: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Group's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (which prospectively move to a regulation known as Basel IV) can vary over time and the regulation itself and its corresponding implementing regulatory rules are still under development, the Group is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Group's capital planning process.

The CNB, as the local regulatory authority, oversees the Group's capital adequacy compliance on both separate and consolidated bases. During the past year, the Group was in compliance with all regulatory requirements. The Group also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

At the same time, the CNB is the local resolution authority that defines the most appropriate crisis resolution strategies for institutions and, among other things, sets the minimum requirement for own funds and eligible liabilities (MREL). The Group received the CNB's decision of 7 July 2020 to determine the minimum MREL requirement. According to this decision, the Bank is obliged to maintain capital and eligible liabilities on a sub-consolidated basis in the amount of at least 8.58% of its total liabilities and capital, and at least 19.2% of the total volume of risk exposure. The minimum requirement is the sum of the loss absorption amount of 9.6% of the total risk exposure volume and the recapitalisation amount of 9.6% of the total risk exposure volume. The Bank is obliged to maintain it no later than 31 December 2023.

36 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2020	31 Dec 2019	Change in the year
Cash and current balances with central banks (refer to Note 18)	23,547	17,744	5,803
Loans and advances to banks – current accounts with other banks	2,923	1,135	1,788
Amounts due to central banks	0	(1)	1
Amounts due to banks – current accounts	(5,958)	(5,360)	(598)
Cash and cash equivalents at the end of the year	**20,512**	**13,518**	**6,994**

The total cash outflow on leases in 2020 was in the amount of CZK 589 million (2019: CZK 608 million).

37 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2020. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 14 million (2019: CZK 24 million) for these legal disputes (refer to Note 32). The Group has also recorded a provision of CZK 5 million (2019: CZK 6 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2020, the Group conducted a review of legal proceedings it had filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2020, the Group had capital commitments of CZK 432 million (2019: CZK 505 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 281 million (2019: CZK 321 million).

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written, irrevocable commitments by the Group on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The Group records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, overdrafts, and approved overdraft loans

Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit, and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Group distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts, and approved overdraft loans ensues from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts, and approved overdraft loans, the Group recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

As of 31 December 2020, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	24,136	5	0	24,141	10	0	0	10
Credit institutions	4,734	8	0	4,742	2	0	0	2
Other financial corporations	11,932	22	0	11,954	21	1	0	22
Non-financial corporations	112,541	7,277	1,722	121,540	146	264	816	1,226
Households*	41,319	855	91	42,265	42	35	24	101
Total commitments and contingencies	**194,662**	**8,167**	**1,813**	**204,642**	**221**	**300**	**840**	**1,361**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2019, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	17,662	473	0	18,135	6	0	0	6
Credit institutions	3,016	0	0	3,016	0	0	0	0
Other financial corporations	5,362	110	0	5,472	4	0	0	4
Non-financial corporations	103,010	4,180	1,177	108,367	86	71	418	575
Households*	38,952	752	32	39,736	28	23	17	68
Total commitments and contingencies	**168,002**	**5,515**	**1,209**	**174,726**	**124**	**94**	**435**	**653**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Non-payment guarantees including commitments to issued non-payment guarantees	39,881	38,447
Payment guarantees including commitments to issued payment guarantees	18,876	18,993
Committed facilities and unutilised overdrafts	16,220	13,710
Undrawn credit commitments	102,603	78,640
Unutilised overdrafts and approved overdraft loans	17,022	14,462
Unutilised limits under framework agreements to provide financial services	6,161	6,371
Open customer/import letters of credit not covered	550	464
Standby letters of credit not covered	3,061	2,907
Confirmed supplier/export letters of credit	268	732
Total commitments and contingencies	**204,642**	**174,726**

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Group issued a given guarantee and the collateral obtained. As of 31 December 2020, the Group recorded provisions for these risks in the amount of CZK 1,361 million (2019: CZK 653 million). Refer to Note 32.

Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:

(CZKm)	31 Dec 2020	31 Dec 2019
Agriculture, forestry, and fishing	3,146	2,813
Mining and quarrying	1,110	1,021
Manufacturing	30,843	23,620
Electricity, gas, steam, and air conditioning supply	6,110	5,320
Water supply, sewerage, waste management, and remediation activities	1,100	715
Construction	34,633	34,454
Wholesale and retail trade, repair of motor vehicles and motorcycles	13,460	10,640
Transportation and storage	6,446	5,398
Accommodation and food service activities	640	614
Information and communication	4,343	4,984
Real estate activities	6,488	4,226
Professional, scientific, and technical activities	9,659	9,270
Administrative and support service activities	1,055	888
Public administration and defence, compulsory social security	253	152
Education	187	122
Human health and social work activities	510	454
Arts, entertainment, and recreation	1,356	796
Other service activities	201	2,880
Total commitments and contingencies to non-financial corporations	**121,540**	**108,367**

Exposure to the automotive industry and related suppliers is CZK 4,256 million (2019: CZK 3,894 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' as higher risk sector in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgments and estimates).

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2020:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**7,270**	**3,930**	**2,166**	**10,442**	**13,737**
of which:					
– Other financial corporations	6	10	0	161	2,660
– Non-financial corporations	726	3,786	2,128	9,400	7,299
– Households**	6,538	134	39	27	81

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2019:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**6,249**	**3,738**	**2,046**	**6,365**	**5,010**
of which:					
– Other financial corporations	32	16	0	1,059	391
– Non-financial corporations	525	3,584	1,998	5,148	1,874
– Households**	5,692	138	48	48	34

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of capital market developments, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2020, the Group was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments, and other types of transactions. These transactions are carried out on an arm's length basis.

Amounts due to and from the Group companies
As of 31 December 2020, the Group had deposits of CZK 1,011 million (2019: CZK 2,116 million) due to the associate Komerční pojišťovna, a.s. and the Bank had provided it a subordinated loan in the amount of CZK 446 million (2019: CZK 0 million). The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. totalled CZK 593 million (2019: CZK 928 million) and the negative fair value CZK 263 million (2019: CZK 61 million). The book value of mortgage bonds issued by the Bank was CZK 802 million (2019: CZK 803 million) and interest expense from mortgage bonds amounted to CZK 20 million (2019: CZK 20 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group totalled CZK 642 million (2019: CZK 1,015 million) and interest expense on financial derivatives totalled CZK 442 million (2019: CZK 819 million). Interest expense from deposits amounted to CZK 14 million (2019: CZK 42 million), fee income of the Group arising from intermediation totalled CZK 449 million (2019: CZK 430 million), fee expense amounted to CZK 90 million (2019: CZK 86 million), insurance expenses totalled CZK 11 million (2019: CZK 10 million), and other income totalled CZK 23 million (2019: CZK 21 million).

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include the following:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,594	0	7,753	0
ALD Automotive Slovakia s.r.o.	31	0	27	0
BRD – Groupe Société Générale SA	22	0	21	0
PJSC Rosbank	170	0	601	0
SG Bruxelles	1	0	0	0
SG Zurich	219	0	202	0
Société Générale China Limited	0	0	41	0
Société Générale International Limited	2	0	2	0
Société Générale Londres	0	0	16	0
Société Générale New York	10	0	0	0
Société Générale oddzial w Polsce	179	0	2	0
Société Générale Paris	18,517	4,317	12,397	4,736
Total	**25,745**	**4,317**	**21,062**	**4,736**

Principal balances owed to Société Générale Group entities include the following:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	371	0	370	0
BRD – Groupe Société Générale SA	3	0	1	0
Crédit du Nord	245	0	75	0
PJSC Rosbank	0	0	4	0
SG Amsterdam	8	0	20	0
SG Banques au Liban	0	0	1	0
SG Bruxelles	0	0	3	0
SG Frankfurt	12	0	0	0
SG ISSUER	0	0	1	0
Société Générale Luxembourg	11	0	0	0
SG Milan	10	0	11	0
SG Option Europe	1	0	1	0
SG Private Banking (Suisse)	116	0	92	0
SG Zurich	12	0	81	0
SGSS Nantes	0	0	3	0
Société Générale Bank & Trust	0	0	64	0
Société Générale Factoring	102	0	774	0
Société Générale Londres	47	0	31	0
Société Générale New York	0	0	10	0
Société Générale oddzial w Polsce	3	2	6	0
Société Générale Paris	47,724	11,295	53,649	9,208
Société Générale Succursal en Espana	31	0	0	0
SOGEPROM Czech Republic s.r.o.	4	0	4	0
Total	**48,700**	**11,297**	**55,201**	**9,208**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty, and fair values of derivatives.

As of 31 December 2020, the Group also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 479,253 million (2019: CZK 491,189 million) and CZK 431,811 million (2019: CZK 438,112 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances, and guarantees for credit exposures.

As of 31 December 2020 and 2019, the Group also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2020, the Group had total income of CZK 61,981 million (2019: CZK 33,057 million) and total expenses of CZK 64,243 million (2019: CZK 33,212 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy, and software services.

In connection with lease contracts the Group records:

	31 Dec 2020				31 Dec 2019			
(CZKm)	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense
ALD Automotive s.r.o.	117	74	22	1	140	92	26	1
ALD Automotive Slovakia s. r. o.	1	1	1	0	2	2	1	0
Total	**118**	**75**	**23**	**1**	**142**	**94**	**27**	**1**

As of 31 December 2020, the Group reported a loss of CZK 3 million (2019: CZK 2 million) on terminated contracts.

Remuneration and amounts due from members of the Board of Directors and Supervisory Board

Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:

(CZKm)	2020	2019
Remuneration to members of the Board of Directors*	74	77
Remuneration to members of the Supervisory Board**	6	6
Total	**80**	**83**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2020 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2020. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement.

** **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2020 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2020	31 Dec 2019
Number of the Board of Directors members at the end of the period	6	6
Number of the Supervisory Board members at the end of the period	9	9

In respect of loans and guarantees as of 31 December 2020, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 47 million (2019: CZK 21 million). During 2020, draw-downs of CZK 30 million (2019: CZK 1 million) were made under the loans granted. Loan repayments during 2020 amounted to CZK 1 million (2019: CZK 3 million). The increase of loans is affected by new members already having loans in the amount of CZK 3 million. Loans to resigning members amounted to CZK 6 million as of 31 December 2019.

39 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2020	2019
Remeasurement of retirement benefits plan as of 1 January	(266)	(163)
Deferred tax asset/(liability) as of 1 January	51	31
Balance as of 1 January	**(215)**	**(132)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(18)	(103)
Deferred tax	3	20
	(15)	**(83)**
Remeasurement of retirement benefits plan as of 31 December	(284)	(266)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	54	51
Balance as of 31 December	**(230)**	**(215)**

40 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2020	2019
Revaluation of equity securities at FVOCI option as of 1 January	355	193
Deferred tax asset/(liability) as of 1 January	(67)	(36)
Balance as of 1 January	**288**	**157**
Movements during the year		
Gains/(losses) from changes in fair value	0	162
Deferred tax	0	(31)
	0	**131**
Reclassification to Non-trading financial assets at fair value through profit or loss (refer to Note 21)	(351)	0
Deferred tax	67	0
	(284)	**0**
Revaluation of equity securities at FVOCI option as of 31 December	4	355
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	0	(67)
Balance as of 31 December	**4**	**288**

41 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2020	2019
Cash flow hedge fair value as of 1 January	(94)	(95)
Deferred tax asset/(liability) as of 1 January	12	8
Balance as of 1 January	**(82)**	**(87)**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 43(C))	301	654
Deferred tax	(54)	(121)
	247	**533**
Transferred to interest income/expense	(332)	(654)
Deferred tax	65	125
	(267)	**(529)**
Transferred to personnel expenses	11	1
Deferred tax	(2)	0
	9	**1**
Transferred to general and administrative expenses	4	0
Deferred tax	(1)	0
	3	**0**
Cash flow hedge fair value as of 31 December	(110)	(94)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	20	12
Balance as of 31 December	**(90)**	**(82)**

42 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2020	2019
Reserve from fair value revaluation as of 1 January	860	595
Deferred tax asset/(liability) as of 1 January	(162)	(109)
Impairment as of 1 January	2	2
Balance as of 1 January	**700**	**488**
Movements during the year		
Gains/(losses) from changes in fair value	89	265
Deferred tax	(19)	(53)
	70	**212**
Impairment	3	0
	3	**0**
Reserve from fair value revaluation as of 31 December	949	860
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(181)	(162)
Impairment as of 31 December	5	2
Balance as of 31 December	**773**	**700**

43 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating
The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Group uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Group's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

The Group focuses on updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Group as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models, and the monitoring process within the Group.

Even more than in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the tested periods and thus optimisation of the Group's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities

For entrepreneurs, corporate clients, and municipalities, the Group uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating that reflects the quality of available guarantees and collaterals and evaluates the potential loss from counterparty transactions. These models are also used for regular estimation of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and a qualitative rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial and personal data, data on client behaviour within the Group, and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Group (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of a qualitative rating acquired through the assessment of non-financial information relating to a specific municipality.

The Group is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors was validated by the regulator and was implemented in 2020.

(b) Ratings for banks and sovereigns

For banks, other financial corporations (namely insurance companies, brokers, and funds) and for sovereigns (central banks and central governments), the Group uses qualitative rating models developed by Société Générale.

(c) Ratings for individual clients

The Group uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which is derived from an evaluation of clients' personal data, data on the behaviour within the Group, and data available from external credit bureaus; and (2) a behavioural rating that is based on evaluating information on the clients' behaviour within the Group. The application rating is primarily used for active clients' applications for new funding transactions, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Group to its existing clients.

(d) Internal register of negative information

The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Group from risky entities.

(e) Credit bureaus

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially in the retail client segments (individuals and small businesses).

(f) Credit fraud prevention

The Group uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds are focused mainly on individual clients and the small business segment. The Group continued in extending this system to the corporate segment during 2020 and it anticipates finalising this activity during 2021.

(g) Granting process

Through 2020, the Group continued to focus upon the simplifying its processes and accelerating credit granting to all client segments (while gradually introducing digital processes). Nevertheless, the main challenge was to react adequately to the Covid-19 crisis. The Group decided not to dramatically change its credit risk appetite and granting policy but to apply a series of targeted measures, such as to limit credit risk appetite for clients from sensitive sectors vulnerable to Covid-19 impacts or participating in the proactive governmental measures (loan moratoria, Covid-19 programmes).

Loan instalment moratoria

The Group was among the first financial institutions to begin offering tailor-made solutions for loan instalment deferrals to its clients as a flexible reaction to the emerging Covid-19 pandemic. The Group continued in this initiative also by providing loan instalment deferrals compliant with the new Czech statutory norm effective from April 2020. These loan instalment deferrals were in line with general European regulatory norms issued by the European Banking Authority (EBA), and the Group also applied the respective classification rules following EBA guidelines. From the end of October 2020, when loan instalment deferrals under the Czech law were ended, the Group was again ready to offer to the clients individual tailor-made solutions. It applied standard classification rules assessing the quality of loan exposures in line with the regulation.

Credit concentration risk

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses, and stress testing. The Group maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors, and collateral providers. A system of internal limits has been established so that the Group complies with the regulatory limits set by law in respect of concentration risk. Refer to Notes 22 and 37 for quantitative information about this type of risk.

The Group's maximum credit exposure as of 31 December 2020:

	Total exposure			Collateral applied		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**15,050**	**x**	**15,050**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**25,600**	**x**	**25,600**	**0**	**x**	**0**
Non-trading financial assets at fair value through profit or loss	**279**	**x**	**279**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,317**	**x**	**13,317**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**40,198**	**x**	**40,198**	**0**	**x**	**0**
Financial assets at amortised cost	**1,048,366**	**191,735**	**1,240,101**	**364,263**	**36,442**	**400,705**
of which:						
– Other financial corporations	36,630	13,378	50,008	11,966	2,837	14,803
– Non-financial corporations	274,254	119,556	393,810	68,838	23,339	92,177
– Households**	359,272	29,932	389,204	279,829	5,715	285,544
Revaluation differences on portfolios hedge items	**283**	**x**	**283**	**0**	**x**	**0**
Total	**1,143,093**	**191,735**	**1,334,828**	**364,263**	**36,442**	**400,705**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Group's maximum credit exposure as of 31 December 2019:

	Total exposure			Collateral applied		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**7,737**	**x**	**7,737**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**23,398**	**x**	**23,398**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**9,996**	**x**	**9,996**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**36,204**	**x**	**36,204**	**0**	**x**	**0**
Financial assets at amortised cost	**973,543**	**164,424**	**1,137,967**	**337,830**	**22,425**	**360,255**
of which:						
– Other financial corporations	32,804	6,168	38,972	11,269	1,498	12,767
– Non-financial corporations	262,523	107,130	369,653	64,425	13,128	77,553
– Households**	342,094	29,977	372,071	257,325	4,978	262,303
Revaluation differences on portfolios hedge items	**(374)**	**x**	**(374)**	**0**	**x**	**0**
Total	**1,050,504**	**164,424**	**1,214,928**	**337,830**	**22,425**	**360,255**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Group's debt securities, allocated by sector and currency, comprised the following as of 31 December 2020:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,246	12	3,258	24,503	15,411	39,914	85,054	4,678	89,732
Credit institutions	81	0	81	0	237	237	0	0	0
Other financial corporations	3	0	3	0	0	0	280	68	348
Non-financial corporations	0	0	0	0	0	0	2,759	0	2,759
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**3,330**	**12**	**3,342**	**24,503**	**15,648**	**40,151**	**88,093**	**4,746**	**92,839**

* This item also includes individual entrepreneurs.

The Group's debt securities, allocated by sector and currency, comprised the following as of 31 December 2019:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	4,021	10	4,031	16,834	16,839	33,673	68,470	7	68,477
Credit institutions	77	0	77	0	2,009	2,009	0	0	0
Other financial corporations	3	0	3	0	0	0	350	0	350
Non-financial corporations	1	0	1	0	0	0	2,342	412	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**4,102**	**10**	**4,112**	**16,834**	**18,848**	**35,682**	**71,162**	**419**	**71,581**

* This item also includes individual entrepreneurs.

Staging of loans and advances

The Group classifies its loans and advances arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Stage 3). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

I. After 12 months, reclassification of the forborne exposures to performing (to Stage 2), and further reclassification to Stage 1 is possible after an additional 12 months based on an analysis of the debtor's financial condition;

II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

The Bank implemented a new definition of default at the beginning of the second quarter of 2020 to be compliant with EBA Guidelines in applying the definition of default under Article 178 of Regulation (EU) No 575/2013. The new definition of default was implemented also in the subsidiaries at the end of 2020. The subsidiary ESSOX will launch the new definition of default during the first quarter of 2021.

Characteristics of financial assets at amortised costs that are not rated

The Group does not rate other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not constitute financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate, and prepayments made.

Allowances for loans and advances

The Group uses the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile, and characteristics of the loans and advances, allowances are created either: (i) individually (for selected non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on the observed history of defaults and losses and forward-looking adjustments. In 2020, the Group updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses, and (ii) the new macroeconomic forecast including predictions of a financial crisis caused by the Covid-19 pandemic. Following the forward-looking concept, the Group also identified the riskiest portfolios (mainly in the retail segment) significantly affected by the Covid-19 pandemic, transferred them to Stage 2, and created appropriate provisions.

The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:

	31 Dec 2020		31 Dec 2019	
(CZKm)	**Individually**	**Statistical model**	**Individually**	**Statistical model**
Central banks	0	0	0	0
General governments	234	0	12	2
Credit institutions	0	0	23	0
Other financial corporations	300	3	57	2
Non-financial corporations	8,568	2,199	5,600	1,866
Households*	1,350	5,524	1,395	5,054
Total	**10,452**	**7,726**	**7,087**	**6,924**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral

The Group uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented within its internal system the rules for assessing collateral's eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014. In compliance with the CNB validation, the Group uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of the sales process, historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules, and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by the Group's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014.

The Group (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Group's pledge right to real estate at risk.

Real estate collateral valuation

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans and advances are independent from the Group's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts. In 2019, the Group started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2020, together with the principal activity involving real estate valuation, the Group focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

Recovery of loans and advances from borrowers

The Group responded progressively to impacts of the Covid-19 pandemic and has adjusted its processes in the collection area in order to react flexibly to the situations of clients impacted by the pandemic. An increased inflow of clients caused by the pandemic was recorded in the second half of 2020. Nevertheless, the Group is still continuing to increase its effectiveness in the collection process (e.g. by digitisation and automation of some activities). These activities also involve improving efficiency in using external recovery capacities. During 2020, the Group continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Group was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and advances from both retail and corporate clients. The Group plays an active role in the insolvency process, from the position of a secured creditor, member of the creditors committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Group depending on the given debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Group may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2020, the Group was exposed to credit exposure of CZK 225,490 million (2019: CZK 227,116 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2020 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Group puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Group monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that a limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

(B) Market risk

Segmentation of the Group's financial operations
For market risk management purposes, the Group's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

Products generating market risk in the Market Book
Products that are traded by the Group and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures, and futures on debt securities), government and corporate bonds, bills of exchange programmes, and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. The market risks associated with these derivatives (e.g. forex risk, interest risk, volatility risk, correlation risk, etc.) arises between closing transactions with Société Générale and client transactions, where we either do not have a CSA collateral agreement with the particular client or the collateral currency differs from the agreed collateral currency under the CSA agreement with Société Générale.

Market risk management in the Market Book
The Group has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as a whole, the Group has been measuring and limiting the market risks for the trading and treasury activities separately.

The Group monitors compliance with all limits on a daily basis. If these are exceeded, the Group takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Group uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK (27) million as of 31 December 2020 (2019: CZK (13) million). The average VaR was CZK (34) million in 2020 (2019: CZK (30) million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Although actual results should not exceed VaR more frequently than on 1% of the days within a given period, the combination of market turmoil due to the Covid-19 outbreak followed by accommodative monetary policy on the part of central banks caused 8 P&L vs. VaR breaches within the past 260 business days, or 4 P&L vs. VaR breaches when measured against the total economic P&L (i.e. beyond the expectation of up to 3 excesses in the past 260 business days).

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate, and CO_2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Group complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

Market risk in the Structural Book
The Group manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Group's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off, and adverse parallel shift of the market yield curve by 0.1% p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2020, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK (97) million (2019: CZK 2 million), the EUR sensitivity was CZK 7 million (2019: CZK 13 million), the USD sensitivity was CZK 1 million (2019: CZK (1) million), and for other currencies it was CZK (0.1) million (2019: CZK (0.4) million).

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Group operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

	31 Dec 2020 Nominal value		31 Dec 2019 Nominal value		31 Dec 2020 Fair value		31 Dec 2019 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	1,252,501	1,252,501	1,036,587	1,036,587	9,387	8,790	8,349	9,086
Interest rate forwards and futures*	157,249	157,249	224,330	224,330	0	0	6	28
Interest rate options	77,836	77,836	82,428	82,428	168	168	372	372
Total interest rate instruments	**1,487,586**	**1,487,586**	**1,343,345**	**1,343,345**	**9,555**	**8,958**	**8,727**	**9,486**
Foreign currency instruments								
Currency swaps	401,447	401,942	363,710	363,726	3,470	3,752	2,645	2,665
Cross currency swaps	227,354	226,821	180,358	180,341	7,123	6,548	4,867	4,400
Currency forwards	91,626	92,848	106,418	108,979	863	1,534	406	1,416
Purchased options	62,846	63,314	50,723	50,272	1,226	0	1,119	0
Sold options	63,314	62,846	50,271	50,722	0	1,226	0	1,119
Total currency instruments	**846,587**	**847,771**	**751,480**	**754,040**	**12,682**	**13,060**	**9,037**	**9,600**
Other instruments								
Forwards on emission allowances	0	0	3,929	4,004	0	0	231	305
Forwards on debt securities	393	393	0	0	0	0	0	0
Commodity forwards	0	0	1,031	1,031	0	0	30	29
Commodity swaps	226	226	5,460	5,460	21	20	767	762
Purchased commodity options	0	0	6	6	0	0	0	0
Sold commodity options	0	0	6	6	0	0	0	0
Total other instruments	**619**	**619**	**10,432**	**10,507**	**21**	**20**	**1,028**	**1,096**
Total	**2,334,792**	**2,335,976**	**2,105,257**	**2,107,892**	**22,258**	**22,038**	**18,792**	**20,182**

* Fair values include only forwards. Regarding futures, the Group places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2020:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	272,562	709,584	270,355	1,252,501
Interest rate forwards and futures*	123,585	33,664	0	157,249
Interest rate options	4,374	67,032	6,430	77,836
Total interest rate instruments	**400,521**	**810,280**	**276,785**	**1,487,586**
Foreign currency instruments				
Currency swaps	385,368	16,079	0	401,447
Cross currency swaps	56,778	134,263	36,313	227,354
Currency forwards	57,326	34,221	79	91,626
Purchased options	37,576	25,270	0	62,846
Sold options	38,084	25,230	0	63,314
Total currency instruments	**575,132**	**235,063**	**36,392**	**846,587**
Other instruments				
Forwards on debt securities	393	0	0	393
Commodity swaps	218	8	0	226
Total other instruments	**611**	**8**	**0**	**619**
Total	**976,264**	**1,045,351**	**313,177**	**2,334,792**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	206,344	513,135	317,108	1,036,587
Interest rate forwards and futures*	207,800	16,530	0	224,330
Interest rate options	5,937	23,059	53,432	82,428
Total interest rate instruments	**420,081**	**552,724**	**370,540**	**1,343,345**
Foreign currency instruments				
Currency swaps	355,690	8,020	0	363,710
Cross currency swaps	28,407	114,283	37,668	180,358
Currency forwards	76,853	29,489	76	106,418
Purchased options	22,556	28,167	0	50,723
Sold options	22,311	27,960	0	50,271
Total currency instruments	**505,817**	**207,919**	**37,744**	**751,480**
Other instruments				
Forwards on emission allowances	3,929	0	0	3,929
Forwards on debt securities	0	0	0	0
Commodity forwards	1,031	0	0	1,031
Commodity swaps	4,653	807	0	5,460
Purchased commodity options	6	0	0	6
Sold commodity options	6	0	0	6
Total other instruments	**9,625**	**807**	**0**	**10,432**
Total	**935,523**	**761,450**	**408,284**	**2,105,257**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2020 Nominal value		31 Dec 2019 Nominal value		31 Dec 2020 Fair value		31 Dec 2019 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Cross currency swaps for cash flows hedging	38,578	38,024	44,209	42,410	656	355	1,608	6
Forwards on stocks for cash flow hedging	51	51	53	53	0	8	1	0
Forwards on stocks for fair value hedging	33	33	27	27	0	4	0	2
Interest rate swaps for fair value hedging	967,953	967,953	1,043,866	1,043,866	12,412	7,922	8,004	10,061
Interest rate swaps for portfolio fair value hedging	30,550	30,550	36,350	36,350	249	471	383	214
Total	**1,037,165**	**1,036,611**	**1,124,505**	**1,122,706**	**13,317**	**8,760**	**9,996**	**10,283**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2020:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	7,973	26,836	3,769	38,578
Forwards on stocks for cash flow hedging	11	40	0	51
Forwards on stocks for fair value hedging	17	16	0	33
Interest rate swaps for fair value hedging	184,330	416,956	366,667	967,953
Interest rate swaps for portfolio fair value hedging	8,250	18,650	3,650	30,550
Total	**200,581**	**462,498**	**374,086**	**1,037,165**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	8,369	31,470	4,370	44,209
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	18	9	0	27
Interest rate swaps for fair value hedging	215,529	426,366	401,971	1,043,866
Interest rate swaps for portfolio fair value hedging	5,800	25,000	5,550	36,350
Total	**229,737**	**482,877**	**411,891**	**1,124,505**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

			31 Dec 2020			31 Dec 2019
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	294	518	15	704	1,614	104

The Group treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met. The Group's strategy remains unchanged in line with IAS 39.

During 2020, the Group recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments in long-term government securities classified into the "Hold to collect contractual cash flows and sell" business model and investments in long-term securities classified into the "Hold to collect contractual cash flows" business model are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the *'Securities issued'* portfolio are hedged by interest rate swaps;
   c. The fair values of fixed-rate deposits, loans taken, or repos are hedged by interest rate swaps;
   d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
   e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
   f. The fair values of a portfolio of current and savings accounts from clients are hedged by a portfolio of interest rate swaps.

2. Foreign exchange risk hedging:
   In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively.

3. Share price risk hedging:

   a. A portion of the bonus of selected Group employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Group hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in foreign subsidiaries:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Group does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

In 2020, the loss from the ineffectiveness of hedging relationships was in the amount of CZK 2 million (2019: gain of CZK 1 million).

Further information on hedges is provided in Notes 3, 5, and 7 to these Consolidated Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category.

The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	23,547	0	0	0	0	23,547
Financial assets and other assets held for trading at fair value through profit or loss	3,342	0	0	0	22,258	25,600
Non-trading financial assets at fair value through profit or loss	0	0	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	0	0	13,317	13,317
Financial assets at fair value through other comprehensive income	3,290	1,694	10,288	24,879	47	40,198
Financial assets at amortised cost	516,326	86,953	278,166	124,101	29,855	1,035,401
– Loans and advances to banks	260,451	1,013	898	37	207	262,606
– Loans and advances to customers	253,054	66,431	251,621	79,202	29,648	679,956
– Debt securities	2,821	19,509	25,647	44,862	0	92,839
Revaluation differences on portfolios hedge items	0	0	0	0	283	283
Current tax assets	0	0	0	0	1,183	1,183
Deferred tax assets	0	0	0	0	78	78
Prepayments, accrued income, and other assets	0	0	0	0	5,103	5,103
Investments in subsidiaries and associates	0	0	0	0	1,587	1,587
Intangible assets	0	0	0	0	6,898	6,898
Tangible assets	0	0	0	0	9,758	9,758
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	15	0	0	132	147
Total assets	**546,505**	**88,662**	**288,454**	**148,980**	**94,530**	**1,167,131**
Liabilities						
Amounts due to central banks	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	3,132	0	0	0	22,038	25,170
Negative fair values of hedging financial derivatives	0	0	0	0	8,760	8,760
Financial liabilities at amortised cost	105,303	16,127	39,048	8,427	827,689	996,594
– Amounts due to banks	52,484	3,469	7,447	4,140	19,032	86,572
– Amounts due to customers*	52,562	12,372	29,275	3,375	808,633	906,217
– Securities issued	147	1	1,000	0	0	1,148
– Lease liabilities	110	285	1,326	912	24	2,657
Revaluation differences on portfolios hedge items	0	0	0	0	2,721	2,721
Current tax liabilities	0	19	0	0	31	50
Deferred tax liabilities	0	0	0	0	708	708
Accruals and other liabilities	0	0	0	0	11,415	11,415
Provisions	0	0	0	0	2,026	2,026
Subordinated debt	2,629	0	0	0	0	2,629
Total liabilities	**111,064**	**16,146**	**39,048**	**8,427**	**875,388**	**1,050,073**
Statement of Financial Position interest rate gap as of 31 December 2020	**435,441**	**72,516**	**249,406**	**140,553**	**(780,858)**	**117,058**
Nominal value of derivatives**	1,195,102	477,025	654,274	425,620	0	2,752,021
Total off-balance sheet assets	**1,195,102**	**477,025**	**654,274**	**425,620**	**0**	**2,752,021**
Nominal value of derivatives**	1,347,320	488,710	657,417	257,487	0	2,750,934
Undrawn portion of loans***	(8,304)	(10,692)	3,772	15,224	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,339,016**	**478,018**	**661,189**	**272,711**	**0**	**2,750,934**
Net off-balance sheet interest rate gap as of 31 December 2020	**(143,914)**	**(993)**	**(6,915)**	**152,909**	**0**	**1,087**
Cumulative interest rate gap as of 31 December 2020	**291,527**	**363,050**	**605,541**	**899,003**	**118,145**	**x**

* This item in column Undefined principally includes client deposits for which there is no information about contractual maturity or repricing date.
** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.
*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	17,744	0	0	0	0	17,744
Financial assets and other assets held for trading at fair value through profit or loss	4,111	0	0	0	19,287	23,398
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	69	0	0	9,927	9,996
Financial assets at fair value through other comprehensive income	3,950	2,760	9,206	19,766	522	36,204
Financial assets at amortised cost	483,754	82,031	276,712	93,652	27,252	963,401
– Loans and advances to banks	240,811	1,922	1,451	114	263	244,561
– Loans and advances to customers	240,321	72,556	245,798	61,595	26,989	647,259
– Debt securities	2,622	7,553	29,463	31,943	0	71,581
Revaluation differences on portfolios hedge items	0	0	0	0	(374)	(374)
Current tax assets	0	0	0	0	30	30
Deferred tax assets	0	0	0	0	70	70
Prepayments, accrued income, and other assets	0	0	0	0	5,176	5,176
Investments in subsidiaries and associates	0	0	0	0	1,255	1,255
Intangible assets	0	0	0	0	6,018	6,018
Tangible assets	0	0	0	0	10,528	10,528
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	10	0	0	126	136
Total assets	**509,559**	**84,870**	**285,918**	**113,418**	**83,569**	**1,077,334**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	3,543	0	0	0	20,182	23,725
Negative fair values of hedging financial derivatives	0	0	0	0	10,283	10,283
Financial liabilities at amortised cost	136,990	27,057	38,322	8,055	711,301	921,725
– Amounts due to banks	58,234	7,491	7,215	3,979	16,662	93,581
– Amounts due to customers*	76,778	18,456	28,743	2,891	694,639	821,507
– Securities issued	1,802	819	1,000	0	0	3,621
– Lease liabilities	176	291	1,364	1,185	0	3,016
Revaluation differences on portfolios hedge items	0	0	0	0	(4,105)	(4,105)
Current tax liabilities	0	0	0	0	363	363
Deferred tax liabilities	0	0	0	0	840	840
Accruals and other liabilities	36	0	0	0	11,940	11,976
Provisions	0	0	0	0	1,345	1,345
Subordinated debt	2,546	0	0	0	0	2,546
Total liabilities	**143,116**	**27,057**	**38,322**	**8,055**	**752,149**	**968,699**
Statement of Financial Position interest rate gap as of 31 December 2019	**366,443**	**57,813**	**247,596**	**105,363**	**(668,580)**	**108,635**
Nominal value of derivatives**	1,067,086	589,772	526,789	464,481	0	2,648,128
Total off-balance sheet assets	**1,067,086**	**589,772**	**526,789**	**464,481**	**0**	**2,648,128**
Nominal value of derivatives**	1,242,225	527,886	577,379	298,822	0	2,646,312
Undrawn portion of loans***	(7,916)	(10,446)	4,877	13,485	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,234,309**	**517,440**	**582,256**	**312,307**	**0**	**2,646,312**
Net off-balance sheet interest rate gap as of 31 December 2019	**(167,223)**	**72,332**	**(55,467)**	**152,174**	**0**	**1,816**
Cumulative interest rate gap as of 31 December 2019	**199,220**	**329,365**	**521,494**	**779,031**	**110,451**	**x**

* This item in column Undefined principally includes client deposits for which there is no information about contractual maturity or repricing date.

** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2020 and 2019 were as follow:

(%)	31 Dec 2020 CZK	31 Dec 2020 USD	31 Dec 2020 EUR	31 Dec 2019 CZK	31 Dec 2019 USD	31 Dec 2019 EUR
Assets						
Cash and current balances with central banks	0.04%	x	x	0.24%	x	x
Financial assets at fair value through other comprehensive income	1.77%	x	2.24%	1.99%	x	2.05%
Financial assets at amortised cost	1.80%	0.88%	0.90%	2.51%	2.40%	1.01%
– Loans and advances to banks	0.37%	0.75%	(0.12%)	1.98%	2.14%	0.19%
– Loans and advances to customers	2.41%	1.34%	1.59%	2.74%	3.20%	1.50%
– Debt securities	2.03%	3.49%	3.99%	2.51%	3.39%	3.98%
Total assets	**1.68%**	**0.77%**	**0.98%**	**2.07%**	**1.92%**	**1.10%**
Total interest-earning assets	**1.79%**	**0.82%**	**1.00%**	**2.66%**	**2.40%**	**1.12%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.18%	0.41%	0.04%	0.38%	1.61%	0.05%
– Amounts due to banks	(0.12%)	0.54%	0.12%	0.04%	2.08%	0.09%
– Amounts due to customers	0.12%	0.17%	0.01%	0.28%	0.59%	0.02%
– Securities issued	2.48%	x	x	2.69%	x	x
– Lease liabilities	1.60%	x	0.67%	1.76%	x	0.69%
Subordinated debt	x	x	0.75%	x	x	0.84%
Total liabilities	**0.19%**	**0.40%**	**0.06%**	**0.37%**	**1.57%**	**0.05%**
Total interest-bearing liabilities	**0.21%**	**0.41%**	**0.06%**	**0.38%**	**1.61%**	**0.04%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.82%	2.81%	0.42%	1.86%	3.09%	0.41%
Undrawn portion of loans	1.76%	x	1.41%	2.43%	x	1.68%
Undrawn portion of revolving loans	4.04%	1.04%	0.43%	5.73%	2.97%	0.36%
Total off-balance sheet assets	**0.91%**	**2.80%**	**0.42%**	**1.96%**	**3.09%**	**0.41%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.67%	2.45%	0.28%	1.90%	3.00%	0.30%
Undrawn portion of loans	1.76%	x	1.41%	2.43%	x	1.68%
Undrawn portion of revolving loans	4.04%	1.04%	0.43%	5.73%	2.97%	0.36%
Total off-balance sheet liabilities	**0.78%**	**2.44%**	**0.29%**	**2.00%**	**2.99%**	**0.31%**

Note: The table above sets out the average interest rates for December 2020 and 2019 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB decreased during 2020 from 2.25% to 0.25%. Czech crown money market rates (PRIBOR) decreased by as much as 1.78% (12M) to 1.82% (3–6M). Interest rates swaps decreased by as much as 0.44% (10Y) to 1.56% (2Y).

Euro money market rates decreased during 2020 by 0.12–0.25% (1–12M), and interest rate swaps decreased by as much as 0.23% (2Y) to 0.46% (10Y).

Dollar money market rates decreased during 2020 by 1.62–1.67% (1–12M), and interest rate swaps decreased by as much as 0.92% (10Y) to 1.46% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2020				31 Dec 2019			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	13,320	10,227	23,547	3,419	2,619	11,706	17,744
Financial assets and other assets held for trading at fair value through profit or loss	2,281	1,061	22,258	25,600	3,362	749	19,287	23,398
Non-trading financial assets at fair value through profit or loss	0	0	279	279	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	13,317	13,317	69	0	9,927	9,996
Financial assets at fair value through other comprehensive income	39,915	236	47	40,198	33,670	2,012	522	36,204
Financial assets at amortised cost	575,977	455,295	4,129	1,035,401	508,005	450,773	4,623	963,401
– Loans and advances to banks	1,702	260,709	195	262,606	3,587	240,701	273	244,561
– Loans and advances to customers	481,436	194,586	3,934	679,956	432,837	210,072	4,350	647,259
– Debt securities	92,839	0	0	92,839	71,581	0	0	71,581
Revaluation differences on portfolios hedge items	0	0	283	283	0	0	(374)	(374)
Liabilities								
Amounts due to central banks	0	0	0	0	1	0	0	1
Financial liabilities held for trading at fair value through profit or loss	0	0	25,170	25,170	0	0	23,725	23,725
Negative fair values of hedging financial derivatives	0	0	8,760	8,760	0	0	10,283	10,283
Financial liabilities at amortised cost	94,019	902,348	227	996,594	110,356	808,808	2,561	921,725
– Amounts due to banks	33,242	53,308	22	86,572	46,920	46,219	442	93,581
– Amounts due to customers*	57,117	848,895	205	906,217	59,379	760,009	2,119	821,507
– Securities issued	1,003	145	0	1,148	1,041	2,580	0	3,621
– Lease liabilities	2,657	0	0	2,657	3,016	0	0	3,016
Revaluation differences on portfolios hedge items	0	0	2,721	2,721	0	0	(4,105)	(4,105)
Subordinated debt	0	2,629	0	2,629	0	2,546	0	2,546

* This item in column Floating interest rate principally includes client deposits where the Group has the option to reset interest rates, and hence they are not sensitive to interest rate changes.

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs, and guarantees. The Group's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities, and equity into relevant maturity groupings based on the remaining period from the date of the financial statements to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	15,050	0	0	0	0	8,497	23,547
Financial assets and other assets held for trading at fair value through profit or loss	0	3	143	1,503	1,495	22,456	25,600
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,317	13,317
Financial assets at fair value through other comprehensive income	2,975	271	1,746	10,281	24,879	46	40,198
Financial assets at amortised cost	117,825	208,380	111,043	269,219	327,685	1,249	1,035,401
– Loans and advances to banks	103,067	155,461	704	2,161	1,213	0	262,606
– Loans and advances to customers	13,751	52,500	96,275	234,861	281,320	1,249	679,956
– Debt securities	1,007	419	14,064	32,197	45,152	0	92,839
Revaluation differences on portfolios hedge items	0	0	0	0	0	283	283
Current tax assets	1,148	0	22	0	0	13	1,183
Deferred tax assets	22	0	0	0	0	56	78
Prepayments, accrued income, and other assets	182	378	928	0	0	3,615	5,103
Investments in subsidiaries and associates	0	0	0	0	0	1,587	1,587
Intangible assets	0	0	0	0	0	6,898	6,898
Tangible assets	0	0	0	0	0	9,758	9,758
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	147	0	0	0	147
Total assets	**137,202**	**209,032**	**114,029**	**281,003**	**354,059**	**71,806**	**1,167,131**
Liabilities							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	3,132	0	0	0	0	22,038	25,170
Negative fair values of hedging financial derivatives	0	0	0	0	0	8,760	8,760
Financial liabilities at amortised cost	839,278	68,014	20,376	57,011	11,764	151	996,594
– Amounts due to banks	23,055	23,432	7,332	25,285	7,468	0	86,572
– Amounts due to customers	816,220	44,327	12,757	29,387	3,375	151	906,217
– Securities issued	3	145	0	1,000	0	0	1,148
– Lease liabilities	0	110	287	1,339	921	0	2,657
Revaluation differences on portfolios hedge items	0	0	0	0	0	2,721	2,721
Current tax liabilities	0	0	19	0	0	31	50
Deferred tax liabilities	148	62	186	248	0	64	708
Accruals and other liabilities	9,568	276	276	0	0	1,295	11,415
Provisions	705	182	558	0	0	581	2,026
Subordinated debt	0	0	0	0	2,629	0	2,629
Equity	0	0	0	0	0	117,058	117,058
Total liabilities	**852,831**	**68,534**	**21,415**	**57,259**	**14,393**	**152,699**	**1,167,131**
Statement of Financial Position liquidity gap as of 31 December 2020	**(715,629)**	**140,498**	**92,614**	**223,744**	**339,666**	**(80,893)**	**0**
Off-balance sheet assets*	209,714	299,602	128,387	211,042	39,505	0	888,250
Off-balance sheet liabilities*	414,109	300,448	128,738	210,775	39,451	0	1,093,521
Net off-balance sheet liquidity gap as of 31 December 2020	**(204,395)**	**(846)**	**(351)**	**267**	**54**	**0**	**(205,271)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixedterm, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	7,737	0	0	0	0	10,007	17,744
Financial assets and other assets held for trading at fair value through profit or loss	0	31	1,125	317	2,575	19,350	23,398
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	69	0	0	9,927	9,996
Financial assets at fair value through other comprehensive income	2,515	305	4,139	9,486	19,751	8	36,204
Financial assets at amortised cost	122,752	179,524	103,006	263,422	294,697	0	963,401
– Loans and advances to banks	111,211	127,643	3,149	2,409	149	0	244,561
– Loans and advances to customers	11,146	51,547	95,715	222,623	266,228	0	647,259
– Debt securities	395	334	4,142	38,390	28,320	0	71,581
Revaluation differences on portfolios hedge items	0	0	0	0	0	(374)	(374)
Current tax assets	14	0	0	3	0	13	30
Deferred tax assets	20	0	0	1	0	49	70
Prepayments, accrued income, and other assets	5	321	836	0	0	4,014	5,176
Investments in subsidiaries and associates	0	0	0	0	0	1,255	1,255
Intangible assets	0	0	0	0	0	6,018	6,018
Tangible assets	0	0	0	0	0	10,528	10,528
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	136	0	0	0	136
Total assets	**133,043**	**180,181**	**109,311**	**273,229**	**317,023**	**64,547**	**1,077,334**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	3,543	0	0	0	0	20,182	23,725
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,283	10,283
Financial liabilities at amortised cost	730,575	98,853	30,931	52,532	8,647	187	921,725
– Amounts due to banks	24,059	32,294	11,441	21,215	4,572	0	93,581
– Amounts due to customers	706,063	64,923	18,491	28,953	2,890	187	821,507
– Securities issued	375	1,538	708	1,000	0	0	3,621
– Lease liabilities	78	98	291	1,364	1,185	0	3,016
Revaluation differences on portfolios hedge items	(3,815)	0	0	0	0	(290)	(4,105)
Current tax liabilities	0	199	149	0	0	15	363
Deferred tax liabilities	202	0	0	0	0	638	840
Accruals and other liabilities	9,746	314	285	0	0	1,631	11,976
Provisions	66	163	540	0	0	576	1,345
Subordinated debt	0	0	0	0	2,546	0	2,546
Equity	0	0	0	0	0	108,635	108,635
Total liabilities	**740,318**	**99,529**	**31,905**	**52,532**	**11,193**	**141,857**	**1,077,334**
Statement of Financial Position liquidity gap as of 31 December 2019	**(607,275)**	**80,652**	**77,406**	**220,697**	**305,830**	**(77,310)**	**0**
Off-balance sheet assets*	162,899	260,059	150,675	182,689	41,998	0	798,320
Off-balance sheet liabilities*	339,109	260,471	150,647	181,659	41,920	0	973,806
Net off-balance sheet liquidity gap as of 31 December 2019	**(176,210)**	**(412)**	**28**	**1,030**	**78**	**0**	**(175,486)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixedterm, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2020:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss (except derivatives)	3,132	0	0	0	0	0	3,132
Financial liabilities at amortised cost	839,287	68,136	20,609	58,323	12,077	151	998,583
– Amounts due to banks	23,063	23,454	7,444	25,665	7,552	0	87,178
– Amounts due to customers	816,221	44,417	12,821	30,208	3,572	151	907,390
– Securities issued	3	146	33	1,028	0	0	1,210
– Lease liabilities	0	119	311	1,422	953	0	2,805
Current tax liabilities	0	0	19	0	0	31	50
Deferred tax liabilities	148	62	186	248	0	64	708
Accruals and other liabilities	9,568	276	276	0	0	1,295	11,415
Provisions	705	182	558	0	0	581	2,026
Subordinated debt	0	0	0	0	2,629	0	2,629
Total non-derivative financial liabilities	**852,840**	**68,656**	**21,648**	**58,571**	**14,706**	**2,122**	**1,018,543**
Other loans commitment granted	145,617	0	0	0	0	0	145,617
Guarantee commitments granted	59,025	0	0	0	0	0	59,025
Total contingent liabilities	**204,642**	**0**	**0**	**0**	**0**	**0**	**204,642**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2019:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss (except derivatives)	3,543	0	0	0	0	0	3,543
Financial liabilities at amortised cost	730,604	99,478	31,116	53,953	8,958	187	924,296
– Amounts due to banks	24,076	32,488	11,514	21,431	4,619	0	94,128
– Amounts due to customers	706,075	65,279	18,535	30,000	3,087	187	823,163
– Securities issued	375	1,600	742	1,028	0	0	3,745
– Lease liabilities	78	111	325	1,494	1,252	0	3,260
Current tax liabilities	0	199	149	0	0	15	363
Deferred tax liabilities	202	0	0	0	0	638	840
Accruals and other liabilities	9,746	314	285	0	0	1,631	11,976
Provisions	66	163	540	0	0	576	1,345
Subordinated debt	0	0	0	0	2,546	0	2,546
Total non-derivative financial liabilities	**744,162**	**100,154**	**32,090**	**53,953**	**11,504**	**3,047**	**944,910**
Other loans commitment granted	116,554	0	0	0	0	0	116,554
Guarantee commitments granted	58,172	0	0	0	0	0	58,172
Total contingent liabilities	**174,726**	**0**	**0**	**0**	**0**	**0**	**174,726**

(F) Foreign exchange position

The table below breaks out the Group's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Group manages its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	22,118	917	241	271	23,547
Financial assets and other assets held for trading at fair value through profit or loss	20,884	4,636	76	4	25,600
Non-trading financial assets at fair value through profit or loss	0	0	279	0	279
Positive fair values of hedging financial derivatives	11,411	1,611	295	0	13,317
Financial assets at fair value through other comprehensive income	24,452	15,746	0	0	40,198
Financial assets at amortised cost	855,920	171,784	6,385	1,312	1,035,401
– Loans and advances to banks	220,781	37,061	3,909	855	262,606
– Loans and advances to customers	542,735	134,292	2,472	457	679,956
– Debt securities	92,404	431	4	0	92,839
Revaluation differences on portfolios hedge items	283	0	0	0	283
Current tax assets	1,175	8	0	0	1,183
Deferred tax assets	54	24	0	0	78
Prepayments, accrued income, and other assets	4,145	948	9	1	5,103
Investments in subsidiaries and associates	1,587	0	0	0	1,587
Intangible assets	6,858	40	0	0	6,898
Tangible assets	9,706	52	0	0	9,758
Goodwill	3,752	0	0	0	3,752
Assets held for sale	147	0	0	0	147
Total assets	**962,492**	**195,766**	**7,285**	**1,588**	**1,167,131**
Liabilities					
Amounts due to central banks	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	20,651	4,388	127	4	25,170
Negative fair values of hedging financial derivatives	7,048	1,712	0	0	8,760
Financial liabilities at amortised cost	799,830	161,693	31,576	3,495	996,594
– Amounts due to banks	6,682	59,242	20,641	7	86,572
– Amounts due to customers	789,899	101,895	10,935	3,488	906,217
– Securities issued	1,043	105	0	0	1,148
– Lease liabilities	2,206	451	0	0	2,657
Revaluation differences on portfolios hedge items	1,777	945	(1)	0	2,721
Current tax liabilities	48	2	0	0	50
Deferred tax liabilities	708	0	0	0	708
Accruals and other liabilities	9,152	1,665	401	197	11,415
Provisions	1,327	578	76	45	2,026
Subordinated debt	0	2,629	0	0	2,629
Equity	116,915	143	0	0	117,058
Total liabilities	**957,456**	**173,755**	**32,179**	**3,741**	**1,167,131**
Net FX position as of 31 December 2020	**5,036**	**22,011**	**(24,894)**	**(2,153)**	**0**
Off-balance sheet assets*	2,228,979	991,030	134,612	24,522	3,379,143
Off-balance sheet liabilities*	2,234,143	1,013,434	109,745	22,450	3,379,772
Net off-balance sheet FX position as of 31 December 2020	**(5,164)**	**(22,404)**	**24,867**	**2,072**	**(629)**
Total net FX position as of 31 December 2020	**(128)**	**(393)**	**(27)**	**(81)**	**(629)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal values of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	15,491	1,660	255	338	17,744
Financial assets and other assets held for trading at fair value through profit or loss	18,025	5,313	59	1	23,398
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0
Positive fair values of hedging financial derivatives	8,169	1,652	175	0	9,996
Financial assets at fair value through other comprehensive income	16,842	18,849	513	0	36,204
Financial assets at amortised cost	786,326	165,934	9,499	1,642	963,401
– Loans and advances to banks	202,871	34,085	6,658	947	244,561
– Loans and advances to customers	512,293	131,437	2,834	695	647,259
– Debt securities	71,162	412	7	0	71,581
Revaluation differences on portfolios hedge items	(374)	0	0	0	(374)
Current tax assets	16	14	0	0	30
Deferred tax assets	48	22	0	0	70
Prepayments, accrued income, and other assets	4,379	734	61	2	5,176
Investments in subsidiaries and associates	1,255	0	0	0	1,255
Intangible assets	5,984	34	0	0	6,018
Tangible assets	10,471	57	0	0	10,528
Goodwill	3,752	0	0	0	3,752
Assets held for sale	136	0	0	0	136
Total assets	**870,520**	**194,269**	**10,562**	**1,983**	**1,077,334**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	18,918	4,762	44	1	23,725
Negative fair values of hedging financial derivatives	8,555	1,724	4	0	10,283
Financial liabilities at amortised cost	737,171	148,788	32,272	3,494	921,725
– Amounts due to banks	6,529	64,981	22,022	49	93,581
– Amounts due to customers	724,523	83,289	10,250	3,445	821,507
– Securities issued	3,621	0	0	0	3,621
– Lease liabilities	2,498	518	0	0	3,016
Revaluation differences on portfolios hedge items	(5,023)	971	(53)	0	(4,105)
Current tax liabilities	361	2	0	0	363
Deferred tax liabilities	840	0	0	0	840
Accruals and other liabilities	8,603	2,557	536	280	11,976
Provisions	950	311	20	64	1,345
Subordinated debt	0	2,546	0	0	2,546
Equity	108,509	126	0	0	108,635
Total liabilities	**878,885**	**161,787**	**32,823**	**3,839**	**1,077,334**
Net FX position as of 31 December 2019	**(8,365)**	**32,482**	**(22,261)**	**(1,856)**	**0**
Off-balance sheet assets*	2,135,265	932,508	142,396	22,225	3,232,394
Off-balance sheet liabilities*	2,128,113	964,663	119,970	20,487	3,233,233
Net off-balance sheet FX position as of 31 December 2019	**7,152**	**(32,155)**	**22,426**	**1,738**	**(839)**
Total net FX position as of 31 December 2019	**(1,213)**	**327**	**165**	**(118)**	**(839)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal values of all derivative deals.

(G) Operational risk

Since 2008, the Group has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI), or Scenario Analysis (SA), the Group has developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are reviewed independently and on a continuous basis within a so-called second level of controls. The Group is continuously developing all the aforementioned operational risk instruments and supporting the continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Group's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in four Group companies, of which two are banking entities (Komerční banka, a.s. and Modrá pyramida stavební spořitelna, a.s.) and two non-banking entities (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.).

(H) Legal risk

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

(I) Estimated fair value of assets and liabilities of the Group

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Financial assets at amortised cost

Loans and advances to banks

The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Loans and advances to customers

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Debt securities

The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the date of the financial statements.

(c) Amounts due to central banks

The reported values of amounts due to central banks are generally deemed to approximate their fair value.

(d) Financial liabilities at amortised cost

Amounts due to banks and Amounts due to customers

The fair value of deposits repayable on demand is represented by the carrying value of amounts repayable on demand as of the date of the financial statements. The carrying value of term deposits at variable interest rates approximates their fair values as of the date of the financial statements. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the date of the financial statements.

Securities issued
The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

(e) Subordinated debt
The fair value of subordinated debt is estimated using a discounted cash flow analysis.

(f) Lease liabilities
The reported values of lease liabilities are deemed to approximate their fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

		31 Dec 2020		31 Dec 2019
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	23,547	23,547	17,744	17,744
Financial assets at amortised cost	1,035,401	1,060,300	963,401	969,302
– Loans and advances to banks	262,606	262,649	244,561	244,417
– Loans and advances to customers	679,956	702,874	647,259	651,828
– Debt securities	92,839	94,777	71,581	73,057
Financial liabilities				
Amounts due to central banks	0	0	1	1
Financial liabilities at amortised cost	996,594	996,426	921,725	921,386
– Amounts due to banks	86,572	86,568	93,581	93,558
– Amounts due to customers	906,217	906,217	821,507	821,502
– Securities issued	1,148	984	3,621	3,310
– Lease liabilities	2,657	2,657	3,016	3,016
Subordinated debt	2,629	2,629	2,546	2,546

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

				31 Dec 2020				31 Dec 2019
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	23,547	8,497	0	15,050	17,744	10,007	0	7,737
Financial assets at amortised cost	1,060,300	91,073	0	969,227	969,302	69,294	0	900,008
– Loans and advances to banks	262,649	0	0	262,649	244,417	0	0	244,417
– Loans and advances to customers	702,874	0	0	702,874	651,828	0	0	651,828
– Debt securities*	94,777	91,073	0	3,704	73,057	69,294	0	3,763
Financial liabilities								
Amounts due to central banks	0	0	0	0	1	0	0	1
Financial liabilities at amortised cost	996,426	0	0	996,426	921,386	0	0	921,386
– Amounts due to banks	86,568	0	0	86,568	93,558	0	0	93,558
– Amounts due to customers	906,217	0	0	906,217	821,502	0	0	821,502
– Securities issued	984	0	0	984	3,310	0	0	3,310
– Lease liabilities	2,657	0	0	2,657	3,016	0	0	3,016
Subordinated debt	2,629	0	0	2,629	2,546	0	0	2,546

* For Debt Securities, the Group adjusted the presentation of the fair value hierarchy, transfer from Level 2 to Level 3, due to clarification of assessment of availability of inputs used to determine fair value. The previous period has been adjusted.

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2020	Level 1	Level 2	Level 3	31 Dec 2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets held for trading at fair value through profit or loss	**25,600**	**3,144**	**22,456**	**0**	**22,904**	**4,114**	**18,790**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	3,342	3,144	198	0	4,112	3,883	229	0
– Derivatives	22,258	0	22,258	0	18,792	231	18,561	0
Other assets held for trading at fair value through profit or loss	**0**	**0**	**0**	**0**	**494**	**494**	**0**	**0**
Non-trading financial assets at fair value through profit or loss	**279**	**0**	**0**	**279**	**0**	**0**	**0**	**0**
Positive fair value of hedging financial derivatives	**13,317**	**0**	**13,317**	**0**	**9,996**	**0**	**9,996**	**0**
Financial assets at fair value through other comprehensive income	**40,198**	**40,151**	**0**	**47**	**36,204**	**33,902**	**1,780**	**522**
Revaluation differences on portfolios hedge items	**283**	**0**	**283**	**0**	**(374)**	**0**	**(374)**	**0**
Financial assets at fair value	**79,677**	**43,295**	**36,056**	**326**	**69,224**	**38,510**	**30,192**	**522**
FINANCIAL LIABILITIES								
Financial liabilities held for trading at fair value through profit or loss	**25,170**	**3,132**	**22,038**	**0**	**23,725**	**3,848**	**19,877**	**0**
of which:								
– Sold securities	3,132	3,132	0	0	3,543	3,543	0	0
– Derivatives	22,038	0	22,038	0	20,182	305	19,877	0
Negative fair value of hedging financial derivatives	**8,760**	**0**	**8,760**	**0**	**10,283**	**0**	**10,283**	**0**
Revaluation differences on portfolios hedge items	**2,721**	**0**	**2,721**	**0**	**(4,105)**	**0**	**(4,105)**	**0**
Financial liabilities at fair value	**36,651**	**3,132**	**33,519**	**0**	**29,903**	**3,848**	**26,055**	**0**

Financial assets at fair value – Level 3:

			2020			2019
(CZKm)	Financial assets at FVOCI option	Non-trading financial assets at fair value through profit or loss	Total	Financial assets at FVOCI option	Non-trading financial assets at fair value through profit or loss	Total
Balance as of 1 January	**522**	**0**	**522**	**356**	**0**	**356**
Reclassification between portfolios (refer to Note 21)	(513)	513	0	0	0	0
Comprehensive income/(loss)			0			
– In the Statement of Income	0	91	91	0	0	0
– In Other Comprehensive Income	0	0	0	163	0	163
Purchases	38	0	38	0	0	0
Sales	0	(309)	(309)	0	0	0
Settlement	0	0	0	0	0	0
Transfer from Level 1	0	0	0	0	0	0
Foreign exchange rate difference	0	(16)	(16)	3	0	3
Balance as of 31 December	**47**	**279**	**326**	**522**	**0**	**522**

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

44 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2020:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	40,245	4,670	35,575	19,279	8,226	8,070
Negative fair value of derivatives	35,468	4,670	30,798	19,279	11,201	318

* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2019:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,756	1,968	28,788	19,011	3,630	6,147
Negative fair value of derivatives	32,433	1,968	30,465	19,011	10,435	1,019

* This item includes also counterparties with only positive or negative fair value of derivatives.

45 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,957	542,388	3,410	505,645
Assets in custody of KB Penzijní společnost, a.s.	0	68,551	0	63,774
Assets under management	0	4,195	0	3,248

46 Post balance sheet events

In the coming period, the Group will carefully monitor future macroeconomic development and adjust its IFRS 9 models if new macroeconomic prognoses will differ from the current ones. The Group uses internal predictions for its IFRS 9 models, but it also closely monitors external forecasts (CNB, Ministry of Finance, ECB, etc.). In particular, the Group uses the CNB's macroeconomic forecasts to benchmark its IFRS 9 models. Likewise, the Group will monitor the current pandemic development and government measures and assess possible impacts upon the Group's financial situation. Especially in connection with discontinuation of the moratorium at the end of October 2020, the Group is carefully monitoring the risk profiles of clients and will gradually update the impact on the Group's financial situation.

Issue of mortgage covered bonds in euros
The Bank issued its inaugural EUR Mortgage Covered Bond (mortgage bonds, ISIN XS2289128162) in the nominal volume of EUR 500 million on the issue date of 20 January 2021. The bond bears a fixed rate of interest, paid annually, until its redemption on the maturity date of 20 January 2026 (the maturity of the bond is extendable by one year according to the terms and conditions of the bond, a so-called soft bullet) and it received an AAA rating from the rating agency Fitch.

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2020

Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2020

Separate Statement of Income for the year ended 31 December 2020

(CZKm)	Note	2020	2019
Interest income	5	32,977	40,173
Interest expense	5	(14,366)	(19,623)
Net interest income		**18,611**	**20,550**
Net fee and commission income	6	4,536	5,313
Net profit/(loss) on financial operations	7	2,878	2,802
Dividend income	8	6	1,688
Other income	9	257	246
Net operating income		**26,288**	**30,599**
Personnel expenses	10	(6,738)	(6,882)
General and administrative expenses	11	(4,331)	(4,313)
Depreciation, amortisation, and impairment of operating assets	12	(2,504)	(2,233)
Total operating expenses		**(13,573)**	**(13,428)**
Operating profit		**12,715**	**17,171**
Impairment losses	13	(4,083)	226
Net gain from loans and advances transferred and written off	13	130	499
Cost of risk		**(3,953)**	**725**
Profit/(loss) on subsidiaries and associates	14	(40)	55
Net profits on other assets	15	(15)	16
Profit before income tax		**8,707**	**17,967**
Income tax	16	(1,778)	(3,151)
Net profit for the period	17	**6,929**	**14,816**

Note: Net interest income is calculated by applying the effective interest rate method, except that in the case of hedging derivatives the contractual interest rate of the corresponding derivative is used.

The accompanying Notes form an integral part of these Separate Financial Statements.

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

(CZKm)	Note	2020	2019
Net profit for the period	17	**6,929**	**14,816**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	38	(15)	(83)
Revaluation of equity securities at FVOCI option*, net of tax	39	(284)	129
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	40	228	511
– Transfer to net profit/(loss), net of tax	40	(268)	(534)
Hedge of a foreign net investment	40	(24)	8
Foreign exchange difference on translation of a foreign net investment		0	(2)
Revaluation of debt securities at FVOCI**, net of tax	41	84	225
Other comprehensive income for the period, net of tax		**(279)**	**254**
Total comprehensive income for the period, net of tax		**6,650**	**15,070**

* Revaluation of equity securities at fair value through other comprehensive income option
** Revaluation of debt securities at fair value through other comprehensive income

The accompanying Notes form an integral part of these Separate Financial Statements.

Separate Statement of Financial Position as of 31 December 2020

(CZKm)	Note	31 Dec 2020	31 Dec 2019
ASSETS			
Cash and current balances with central banks	18	20,980	16,870
Financial assets held for trading at fair value through profit or loss	19	26,321	23,569
Other assets held for trading at fair value through profit or loss	19	0	494
Non-trading financial assets at fair value through profit or loss	20	279	0
Positive fair value of hedging financial derivatives	42	13,068	9,544
Financial assets at fair value through other comprehensive income	21	40,055	34,599
Financial assets at amortised cost	22	957,014	891,913
Current tax assets		1,147	13
Deferred tax assets	32	21	20
Prepayments, accrued income, and other assets	23	3,399	3,525
Investments in subsidiaries and associates	24	17,857	17,747
Intangible assets	25	6,347	5,494
Tangible assets	26	6,897	7,613
Assets held for sale	27	123	118
Total assets		**1,093,508**	**1,011,519**

(CZKm)	Note	31 Dec 2020	31 Dec 2019
LIABILITIES AND EQUITY			
Amounts due to central banks		0	1
Financial liabilities held for trading at fair value through profit or loss	28	25,890	24,390
Negative fair value of hedging financial derivatives	42	8,288	10,069
Financial liabilities at amortised cost	29	937,139	868,278
Revaluation differences on portfolios hedge items		2,548	(3,815)
Current tax liabilities		0	199
Deferred tax liabilities	32	215	266
Accruals and other liabilities	30	9,641	10,076
Provisions	31	1,962	1,291
Subordinated debt	33	2,629	2,546
Total liabilities		**988,312**	**913,301**
Share capital	34	19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		86,191	79,213
Total equity		**105,196**	**98,218**
Total liabilities and equity		**1,093,508**	**1,011,519**

The accompanying Notes form an integral part of these Separate Financial Statements.

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

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share based payment	Remea-surement of retirement benefits plan	Revaluation of equity securities at FVOCI option	Cash flow hedging	Hedge of a foreign net investment	Translation of a foreign net investment	Revaluation of debt securities at FVOCI	Total equity
Balance as of 31 Dec 2018	**19,005**	**(592)**	**73,351**	**430**	**(132)**	**155**	**(22)**	**69**	**(5)**	**462**	**92,721**
Treasury shares, other	0	0	95	25	0	0	0	0	0	0	120
Payment of dividends	0	0	(9,693)	0	0	0	0	0	0	0	(9,693)
Transactions with owners	**0**	**0**	**(9,598)**	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**(9,573)**
Profit for the period	0	0	14,816	0	0	0	0	0	0	0	14,816
Other comprehensive income for the period, net of tax	0	0	0	0	(83)	129	(23)	8	(2)	225	254
Comprehensive income for the period	**0**	**0**	**14,816**	**0**	**(83)**	**129**	**(23)**	**8**	**(2)**	**225**	**15,070**
Balance as of 31 Dec 2019	**19,005**	**(592)**	**78,569**	**455**	**(215)**	**284**	**(45)**	**77**	**(7)**	**687**	**98,218**
Treasury shares, other	0	0	310	18	0	0	0	0	0	0	328
Payment of dividends	0	0	0	0	0	0	0	0	0	0	0
Transactions with owners	**0**	**0**	**310**	**18**	**0**	**0**	**0**	**0**	**0**	**0**	**328**
Profit for the period	0	0	6,929	0	0	0	0	0	0	0	6,929
Other comprehensive income for the period, net of tax	0	0	0	0	(15)	(284)	(40)	(24)	0	84	(279)
Comprehensive income for the period	**0**	**0**	**6,929**	**0**	**(15)**	**(284)**	**(40)**	**(24)**	**0**	**84**	**6,650**
Balance as of 31 Dec 2020	**19,005**	**(592)**	**85,808**	**473**	**(230)**	**0**	**(85)**	**53**	**(7)**	**771**	**105,196**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,189 million (2019: CZK 4,189 million), net profit from the period in the amount of CZK 6,929 million (2019: CZK 14,816 million), and retained earnings in the amount of CZK 74,69 million (2019: CZK 59,564 million).

The accompanying Notes form an integral part of these Separate Financial Statements.

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

(CZKm)	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	8,707	17,967
Non-cash and other adjustments		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	4,115	49
Depreciation and amortisation expense on tangible and intangible fixed assets	2,480	2,226
Gains/(losses) from the sale of assets	15	(16)
Revaluation of debt securities and derivatives	(2,176)	1,350
Accrued interest, amortisation of discount and premium	916	564
Profit/(loss) on subsidiaries and associates (including dividends)	34	(1,743)
Foreign exchange differences	(361)	183
Other changes	485	16
Operating profit before change in operating assets and liabilities	**14,215**	**20,596**
Changes in assets and liabilities from operating activities after non-cash adjustments		
Amounts due from banks (received/paid)	(21,504)	11,512
Loans and advances to customers	(24,320)	(15,104)
Debt securities at amortised cost	(19,188)	(723)
Financial assets at fair value through other comprehensive income	(4,936)	(10,973)
Financial assets held for trading at fair value through profit or loss	773	(858)
Other assets held for trading at fair value through profit or loss	494	(250)
Non-trading financial assets at fair value through profit or loss	312	0
Other assets	199	507
Amounts due to banks (received/paid)	(11,686)	(4,432)
Amounts due to customers	85,761	7,370
Financial liabilities held for trading at fair value through profit or loss	(411)	1,299
Other liabilities	(981)	(1,047)
Net cash flow from operating assets and liabilities	**4,513**	**(12,699)**
Net cash flow from operating activities before tax	**18,728**	**7,897**
Income tax paid	(3,169)	(2,888)
Net cash flow from operating activities	**15,559**	**5,009**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	6	1,688
Purchase of tangible and intangible assets	(2,631)	(2,547)
Sale of tangible and intangible assets	40	85
Purchase of investments in subsidiaries and associates	(149)	(130)
Sale/decrease of investments in subsidiaries and associates	0	235
Net cash flow from investment activities	**(2,734)**	**(669)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	0	(9,599)
Securities issued	0	1,068
Securities redeemed	(7,395)	(3,400)
Lease liabilities	(527)	(541)
Subordinated debt	83	(33)
Net cash flow from financing activities	**(7,839)**	**(12,505)**
Net increase/(decrease) in cash and cash equivalents	**4,986**	**(8,165)**

(CZKm)	2020	2019
Cash and cash equivalents at the beginning of the year	12,566	20,809
Net increase/(decrease) in cash and cash equivalents	4,986	(8,165)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	289	(78)
Cash and cash equivalents at the end of the year (refer to Note 35)	**17,841**	**12,566**
Interest received	33,387	41,058
Interest paid	(13,860)	(19,944)

The accompanying Notes form an integral part of these Separate Financial Statements.

These Separate Financial Statements were approved by the Board of Directors on 26 February 2021.

Signed on behalf of the Board of Directors:

Jan Juchelka m. p.
Chairman of the Board of Directors
and Chief Executive Officer
Komerční banka, a.s.

Jitka Haubová m. p.
Member of the Board of Directors
and Senior Executive Director, Chief Operations Officer
Komerční banka, a.s.

Notes to the Separate Financial Statements as of 31 December 2020

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1 Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

I. Providing loans, advances, and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky).

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2019: 60.35%) of the Bank's issued share capital.

2 Events for the year ended 31 December 2020

Dividends declared in respect of the year ended 31 December 2019
In accordance with the CNB's recommendation, at the General Meeting held on 29 June 2020 the shareholders approved a dividend for the year ended 31 December 2019 of CZK 0 per share before tax. Net profit for the period ended 31 December 2019 was fully allocated to retained earnings.

Changes in the Bank's financial group
During 2020, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 129 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

During 2020, KB SmartSolutions, s.r.o. increased the equity of My Smart Living, s.r.o. by CZK 8 million through a financial contribution into other capital funds. My Smart Living, s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

During 2020, KB SmartSolutions, s.r.o. increased the equity of KB Advisory, s. r. o. by CZK 1 million through a financial contribution into other capital funds. KB Advisory, s. r. o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

As of 1 July 2020, KB SmartSolutions, s.r.o. acquired a minority interest of 18.9% in upvest s.r.o. in the form of an equity investment. In 2021, KB SmartSolutions, s.r.o. has an option to increase its share in upvest s.r.o. to 30.9% and in the following year it can reach the majority in the company. Upvest s.r.o. is a fintech company that provides real estate crowdfunding investments in the form of participation in debt financing of development projects. Upvest s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

At the beginning of July 2020, it was decided to cease further financing of the Cincink real estate portal, which is operated by My Smart Living, s.r.o. The Bank had funded the project through KB SmartSolutions, s.r.o., which fully owns My Smart Living, s.r.o. The Bank will use the experience it has gained within the Housing tribe. The Bank believes that this will further support efforts to innovate and come to market with unique services complementing the offer for retail clients. During 2020, an allowance was charged for the investment in My Smart Living, s.r.o. in the net amount of CZK 40 million.

As of 15 September 2020, the Bank, together with Česká spořitelna, a.s. and Československá obchodní banka, a. s., incorporated Bankovní identita, a.s. The Bank invested CZK 1 million in the registered capital of Bankovní identita, a.s. and holds a 33.33% share in the company. Bankovní identita, a.s. is a consolidated unit of KB Group.

In October 2020, the Bank increased its equity in Bankovní identita, a.s. by CZK 20 million through a financial contribution into other capital funds.

As of 20 October 2020, KB SmartSolutions, s.r.o. acquired through an equity investment a minority interest of 11% in MonkeyData s.r.o. MonkeyData s.r.o.'s fully owned subsidiary Lemonero s.r.o. which provides financing to e-shops utilising an AI-driven scoring model. MonkeyData s.r.o. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

As of 10 December 2020, KB SmartSolutions, s.r.o. acquired with a combined equity investment and purchase of shares a minority interest of 24.83% in Platební instituce Roger a.s. Platební instituce Roger a.s. fully owns two subsidiaries: (i) Invoice Financing s.r.o., and (ii) Roger Finance s.r.o. Platební instituce Roger a.s. connects investors with companies seeking fast financing of their long due date receivables. It also operates a platform providing supply chain financing for large customers. KB SmartSolutions, s.r.o. has a right in 2023 to increase its share in Platební instituce Roger a.s. to 60% and thus gain the majority. Platební instituce Roger a.s. is currently not consolidated due to its insignificant impact on the consolidated financial statements.

3 Principal accounting policies

These are Separate Financial Statements. The Consolidated Financial Statements are issued as of the same date. As of 31 December 2020, the total consolidated equity was CZK 117,058 million (2019: CZK 108,635 million) and for the year ended 31 December 2020 total consolidated profit was CZK 8,299 million (2019: CZK 15,172 million).

The principal accounting policies followed in the preparation of these Separate Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union, on the basis of Regulation (EC) No. 1606/2002 on the application of international accounting standards, and effective for the annual period beginning on 1 January 2020.

The Separate Financial Statements presented for the year ended 31 December 2020 are prepared on the basis of current best estimates. The management of the Bank believes that these present a true and fair view of the Bank's financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Separate Financial Statements

3.2.1 Accrual basis

The Separate Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate).

An exception is the Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Bank's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives, and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell, or (ii) carrying amount just prior to reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Bank's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date, and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets (refer to Note 3.5.10);
- The amount of impairment of assets (refer to Note 3.5.10);
- Provisions recognised under liabilities (refer to Note 3.5.11);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.8);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current, and prospective data (refer to Note 3.5.5); and
- Lease term for leases of an indefinite time period.

Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

The continuation of the Covid-19 pandemic causes that the current economic environment continues to be subject to increased volatility and uncertainty requiring particularly complex judgements and estimates in certain areas. The Covid-19 pandemic has significant implications especially in the area of credit risk management, as described in a separate section below. In other areas of risk management, such as market risk and liquidity risk, the Bank carefully monitors changing conditions and evaluates their impacts.

Covid-19 Pandemic

The Covid-19 pandemic has a significant impact on the Bank, in particular on the quality of the loan portfolio and the ability of borrowers to pay their liabilities to the Bank on time. The Bank quickly prepared and subsequently offered to clients a wide range of activities leading to mitigation of the Covid-19 pandemic's consequences. Among the most significant activities were moratoria of loan instalments, which the Bank began to provide in a co-ordinated manner from the end of March 2020 in accordance with its own rules and procedures approved by the Credit Risk Management Committee. Subsequently, moratoria on instalments were granted in accordance with the new Act No. 177/2020 Coll., on certain measures in the area of loan repayments in connection with the Covid-19 pandemic, dated 16 April 2020. Following its issuance, the Bank unified the conditions of the two moratoria regimes. As of 31 December 2020, the volume of loans in the mortoria regime during 2020 totalled CZK 56.1 billion for the Bank. In cases not covered by the public moratoria (following Act No. 177/2020 Coll.), the Bank provided its clients individual tailor-made solutions based on evaluation of their current and estimated situations. In addition to deferring instalments, the Bank responded immediately and, in co-operation with state institutions (ČMZRB, EGAP), began offering loan products under COVID programmes created by the government (COVID Prague, COVID Plus, COVID 2, COVID 3). As of 31 December 2020, the government programmes covered exposures of CZK 10.1 billion.

Instalment moratoria were provided by the Bank in accordance with the rules and interpretation confirmed by the regulator (CNB) and European institutions (EBA). These moratoria provided by the Bank until the end of October 2020 did not, in the vast majority of cases, lead to a reclassification of credit exposures to default. The default classification was triggered, however, by moratoria provided by the Bank that were not in accordance with the Act and rules defined by the regulators for loan moratoria. After the end of the public moratoria in October 2020, all client needs for additional relief were addressed by the Bank within the standard regime, including the classification rules for the default category.

In terms of granting processes and criteria, the Bank did not apply drastic restrictive measures in the form of limiting domestic economy financing. The Bank did, however, identify sensitive economic sectors in which more significant impacts associated with Covid-19 are observed, and it has been applying stricter credit assessment rules for these sectors in both retail and non-retail segments. The Bank uses in particular its own behavioural models to evaluate the impact of Covid-19.

During 2020, the Bank updated its macroeconomic forecasts that are an integral part of the IFRS 9 models for setting allowances and provisions for assets in Stage 1 and Stage 2 (forward-looking concept) with a total impact to cost of risk of CZK 1.04 billion. In accordance with the IFRS 9 methodology, the update was based on the multi-scenario approach, which as of the end of 2020 was founded on four scenarios: a baseline scenario with a probability of 40%, a scenario of prolonged negative development with a probability of 35%, a scenario of severe negative development with a probability of 15%, and an optimistic scenario with a probability of 10%. The baseline scenario anticipates a decrease in GDP of 4.8% in 2020 and GDP growth of 5.9% in 2021. The scenario of prolonged negative development expects a 7.5% decrease in GDP in 2020 and GDP growth of 4% in 2021.

Because the impact of Covid-19 on credit risk is affected and delayed by state support programmes (deferred payments, Antivirus (Kurzarbeit), guarantee schemes, etc.), the Bank uses for purposes of IFRS 9 a smoothed version of the scenarios. The smoothed baseline scenario (derived from the baseline scenario described above) assumes a 2.9% year-on-year decrease in GDP for 2020 and a 3.9% year-on-year decrease for 2021, and the smoothed prolonged negative scenario (which is derived from the prolonged negative scenario described above) assumes a 3.2% year-on-year decrease in GDP for 2020 and a 5.8% year-on-year decrease for 2021.

The scenarios were developed internally using the best possible estimates and following estimates published by the government, regulatory or other authorities.

Furthermore, in accordance with the forward-looking concept, the Bank has identified a portfolio with a deteriorated credit risk profile, namely the following exposures: (i) exposures of retail clients that were under payment moratorium at the end of September 2020 and identified by the Bank based on an expert or model approach as exposures with potentially worsened credit profile after the end of the moratorium, (ii) exposures of SME clients from sectors with a significant negative Covid-19 impact (i.e. hotels, restaurants, spas, catering, travel agencies). These identified exposures were moved to Stage 2 (if they were not already in Stage 2) and specific loss allowance has been created. As of 31 December 2020, the amount of this specific loss allowance totalled CZK 516 million, of which CZK 24 million was for exposures denoted as (ii) above.

In the subsequent period, the Bank will carefully monitor future macroeconomic development and adjust its IFRS 9 models in case new macroeconomic forecasts differ from current ones. The Bank uses internal forecasts for its IFRS 9 models, but it also carefully monitors external forecasts (CNB, Ministry of Finance, ECB, etc.). In particular, the Bank uses the macroeconomic forecasts published by the Czech National Bank to benchmark its IFRS 9 models. The Bank will monitor the current development of the pandemic as well as government measures and assess the impact on the Bank's financial situation. In particular, in connection with discontinuation of the moratoria programmes at the end of October 2020, the Bank has been carefully monitoring the risk profile of clients and will progressively update the impact on the Bank's financial situation.

3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity in another way. An associate is an entity in which the Bank has significant influence, i.e. it directly or indirectly owns 20% to 50% of the voting rights.

Investments in which the Bank directly or indirectly owns less than 20% of the voting rights are classified as *'Financial assets held for trading at fair value through profit or loss'* and are reported as such, unless the Bank uses the irrevocable election to measure the investments at fair value through other comprehensive income.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the transaction date) decreased by potential accumulated impairment losses. At the end of each reporting period, the Bank regularly assesses whether there is any impairment loss by comparing the carrying values of each investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line *'Investments in subsidiaries and associates'*.

3.4 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Bank in the current period

The following standards, interpretations, and amendments were newly applied by the Bank as from 1 January 2020. Unless otherwise described below, their application has no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments of whether a transaction should be accounted for as a business combination or as an asset acquisition.
Definition of Material (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.
Conceptual Framework for Financial Reporting Amendments to References to the Conceptual Framework in IFRS Standards	The IASB issued in March 2018 a revised *Conceptual Framework for Financial Reporting* that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework apply the changes from 1 January 2020. Alongside the revised Conceptual Framework, the IASB published Amendments to References to the Conceptual Framework, updating in most cases references to previous versions with references to the 2018 revised version. Only the latter was subject to the EU endorsement process.

Standard	Impact/Comments
Covid-19 – Related Rent Concessions (Amendments to IFRS 16)	The amendments provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. A lessee that decides to take advantage of this practical expedient shall account for any change in lease payments consistently with how it would account for the change in applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if meeting certain conditions. In 2020, the Bank did not have any rent reliefs consecutive of the Covid-19 crisis.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations, and amendments had been issued by IASB, they are not yet effective for the reporting period beginning on 1 January 2020 and/or they have not yet been approved by the European Commission (highlighted in the table below). The Bank has decided not to apply them earlier.

Currently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, unless otherwise described below.

<u>Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the context of the interest rate benchmark reform</u>
In the context of the financial crisis, the inaccuracy and lack of integrity of interest rate benchmarks (EONIA, EURIBOR, LIBOR, etc.) made it necessary to reform their method of determination.

Within the European Union, regulation 2016/1011 (known as the Benchmark regulation or "BMR regulation") was adopted to implement the principles and recommendations of IOSCO and FSB by creating, as of 1 January 2018, a uniform legal framework regarding the provision and use of indices that are used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, including interest rates. In implementing this regulation, the administrators of benchmarks such as PRIBOR, EONIA, and EURIBOR were required to review and, if necessary, to modify the methodologies used for these indices in order to make them compliant with the new BMR provisions. In July 2017, the UK regulator FCA also announced that from the end of 2021 it will not request contributions for determining LIBOR from participating panel banks.

As a result of international and European regulatory development, several reforms have been initiated to set up and promote the use of new risk-free overnight rates, termed "risk-free rates" (RFRs), whose determination will now be anchored on actual transactions. These include the €STR (Euro Short-Term Rate) for contracts denominated in EUR, SOFR (Secured Overnight Financing Rate) for contracts denominated in USD, SONIA (Sterling Overnight Index Average) for contracts denominated in GBP, etc.

The development in the local currency, the Czech crown, can be summarised as consisting of improvements in the PRIBOR contribution methodology and process while the risk-free rate concept remains under discussion. The PRIBOR administrator, the Czech Financial Benchmark Facility (CFBF), was officially licensed by the CNB in accordance with BMR regulation in December 2018.

Since 2 October 2019, €STR has come to replace EONIA. The latter will nevertheless be published until 31 December 2021 by anchoring it upon €STR (EONIA = €STR + 8.5 bps). The reform of EURIBOR was started in December 2018, and this index was declared compliant with BMR regulation on 3 July 2019. The new SOFR and SONIA benchmarks, intended to replace the LIBOR benchmarks, have been published since 2018, but the publication of LIBOR will continue at least until the end of 2021.

Within the programme, the Bank monitors developments in the interest rate benchmarks (hereinafter the IBOR reform) in order to anticipate the consequences of the transition to the new interest rate benchmarks. The work undertaken aims, on the one hand, to limit exposure to current interbank interest rate benchmarks that might be discontinued in the short or medium term and, on the other hand, to prepare the migration of the outstanding stock of legacy transactions using these current interest rates benchmarks and which will mature after 2021.

To closely monitor key topics, the transition programme has been structured into 5 streams (Market Intelligence, Impact and Risk Assessment, Legal and Communication, RFR Adoption, and Legacy Management).

Uncertainties about the timing and precise methods of transition between the current benchmarks and the new benchmarks, as well as the possible changes in the financial instruments referencing the current benchmarks, may have consequences for hedge accounting and assessment of financial instruments (as a result of applying contractual "Fallback" clauses or of a renegotiation of a contract).

In response to the interest rate benchmark reform, a project in the area of financial reporting according to IFRS ("IBOR reform and its effects on financial reporting") was undertaken by IASB in two phases:

Amendments to IFRS 9, IAS 39 and IFRS 7 – Phase 1
The purpose of the project's Phase 1 is to prevent uncertainties existing before the transition to the new rates from jeopardising the interest rate risk hedge accounting. These amendments introduce reliefs related especially to compliance with the highly probable nature of the cash flows covered; compliance with the separately identifiable nature of risk components; and carrying out of prospective and retrospective effectiveness tests. These reliefs will be applicable until the mentioned uncertainties are eliminated.

The amendments, adopted by the European Union on 15 January 2020, were applied in advance by the Bank in its financial statements as of 31 December 2019 and have therefore enabled the accounting treatment of hedging transactions affected by these uncertainties to be maintained since that date, including those linked to the EONIA, EURIBOR, and LIBOR (USD, GBP, CHF, JPY).

The notional amounts of hedging instruments for which the IAS 39 amendment is applied, thus permitting to use exceptions to the hedge accounting requirement in the context of benchmark interest rates reform, are CZK 203,249 million for instruments identifying EURIBOR and CZK 16,981 million for instruments identifying LIBOR USD.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Phase 2
In August 2020, the IASB completed Phase 2 of the project and issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments were adopted by the European Union on 13 January 2021, effective for reporting periods beginning on or after 1 January 2021. The amendments address issues that might affect financial reporting during the implementation of the reform of interest rate benchmarks, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an existing interest rate benchmark with an alternative one. The Phase 2 amendments provide as a practical expedient in particular for the application of the following treatments: (i) changes brought about by the IBOR reform in the determination of contractual cash flows, when carried out on an economically equivalent basis, should be booked as a revision of the variable interest rate when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income, and lessee's lease liabilities; and (ii) continuation of the hedging relationship when changes are made, in the framework of the IBOR reform, on the hedged item and/or the hedging instrument and leading to a re-documentation of the hedge. The Bank is currently assessing the impacts of the amendments' adoption.

Standard	Summarised content	Effective for reporting period beginning on or after
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The Phase 2 amendments complement those issued in 2019 (pre-replacement issues in Phase 1) and focus on the effects of the IBOR reform on financial reporting that arise when, for example, an existing interest rate benchmark is replaced with an alternative one. The amendments include especially a practical expedient for particular changes in the basis for determining contractual cash flows as a result of the IBOR reform, relief from discontinuing hedging relationships for changes required by the IBOR reform, and additional disclosure requirements. With the publication of the Phase 2 amendments, the IASB has completed its project in response to the IBOR reform.	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	The amendments clarify the costs to be considered when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract (e.g. direct labour, materials) and an allocation of other costs directly related to fulfilling contracts (e.g. allocation of the depreciation charge of equipment used to fulfil the contract).	1 January 2022 EU not yet endorsed
References to the Conceptual Framework (Amendments to IFRS 3)	The amendments replace in IFRS 3 an outdated reference to the Conceptual Framework with a reference to the current revised version issued in March 2018 without significantly changing the requirements in the standard.	1 January 2022 EU not yet endorsed
Annual Improvements to IFRS 2018–2020 Cycle	As part of the Annual Improvements to IFRS, the IASB has issued minor amendments to four standards (IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, Illustrative Examples to IFRS 16 Leases, and IAS 41 Agriculture).	1 January 2022 EU not yet endorsed
IFRS 17 Insurance Contracts – new standard, issued in May 2017 Amendments to IFRS 17, issued in June 2020	The new standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. It supersedes IFRS 4 Insurance Contracts. The new standard is not applicable to the Bank because the Bank does not issue any insurance contracts or hold any reinsurance contracts.	1 January 2023 EU not yet endorsed
Definition of Accounting Estimates (Amendments to IAS 8)	The amendments introduce the definition of accounting estimates and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies.	1 January 2023 EU not yet endorsed

Standard	Summarised content	Effective for reporting period beginning on or after
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	The amendments clarify in IAS 1 Presentation of Financial Statements one of the criteria for classifying a liability as non-current, specifically the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. That right to defer must exist at the end of the reporting period and the classification is unaffected by the likelihood or expectations about exercising the right.	1 January 2023 EU not yet endorsed
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	The aim of the IASB project was to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosure. The amendments to IAS 1 require entities to disclose material accounting policy information rather than significant accounting policies in their financial statements.	1 January 2023 EU not yet endorsed

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The Bank's functional currency (i.e. the currency of the primary economic environment within which the Bank operates) is the Czech crown.

The Bank has a branch and a subsidiary, ESSOX FINANCE, s.r.o., in the Slovak Republic and a subsidiary, BASTION EUROPEAN INVESTMENTS S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only the "ECB") for the euro.

At the end of the reporting period, all statement of financial position line items denominated in foreign currency are translated into the functional currency, depending upon their nature, as follows:

I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses arising from the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses for the period in which they occur and are presented in the line *'Net profit/(loss) on financial operations'*.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments for which the Bank has decided at initial recognition to use the irrevocable election to measure these at fair value with changes recognised in Other Comprehensive Income without subsequent recycling into profit or loss on realisation. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income'* and *'Interest expense'* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the asset (i.e. an amount adjusted for expected credit losses over the life of the asset). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income'*.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income'*;
- Fees and commissions for services provided and for the execution of an act, such as deposit service fees, loan service fees, fees income for transaction services provided, commissions income for cross-selling of third-party products (such as insurance and investment products for which the Bank is acting as an agent while not taking over control of the products provided and therefore in connection with the net approach for revenues presentation), and specialised financial services fees. Income is recognised as revenue at the point in time when the services are provided or the act has been completed. If related to a longer period, the fees are recognised over time on a straight-line basis. These fees and commissions are presented in the line *'Net fee and commission income'.*

3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains and losses on securities held for trading; security derivatives; currency, interest rate, and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains and losses on financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This line also includes interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term (with a 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. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

3.5.4 Fair value and hierarchy of fair value

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending upon the type of financial instrument and taking into account the classification based on both the business model and contractual cash flow characteristics (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled, or expires).

3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs mainly include fees and commissions paid to brokers, dealers, and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *‘Accruals and other liabilities’*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation of revenues recognised in the Statement of Income in accordance with IFRS 15 (in the Statement of Financial Position in the line *‘Accruals and other liabilities’*) or the impairment for expected credit losses from any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *‘Provisions’*). The premium received is recognised in the Statement of Income in the line *‘Net fee and commission income’* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *‘Impairment losses’*.

3.5.5.3 “Day 1” profit or loss

In determining whether the fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

3.5.5.4 Financial assets and liabilities classification and subsequent measurement
The classification of the Bank's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Bank are after initial recognition subsequently measured at:
I. Amortised costs;
II. Fair value through other comprehensive income; or
III. Fair value through profit or loss.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Bank uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

3.5.5.4.1 Loans and debt instruments
Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based upon evaluation of:
- The Bank's business model for managing financial assets; and
- The financial asset's contractual cash flow characteristics.

Description of business models
The business model is determined on the level at which the financial assets are managed together to achieve a particular business objective. The business model does not depend upon management's intentions for an individual instrument, but reflects the way a certain portfolio of financial assets is managed in order to generate cash flows under standard economic conditions. The Bank distinguishes the following business models:
I. "Hold to collect contractual cash flows";
II. "Hold to collect contractual cash flows and sell"; or
III. "Held for trading".

(i) "Hold to collect contractual cash flows" business model
Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows" are held in order to collect contractual cash flows over the life of the instrument. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, the Bank considers the frequency, value, and timing of sales in prior periods; the reasons for those sales; and expectations about future sales activity for a given portfolio.

The Bank admits the following sales that are consistent with the business model "Hold to collect contractual cash flows":
- Sales due to an increase in the assets' credit risk irrespective of their frequency and value;
- Sales made to manage credit risk concentration if those sales are infrequent (even if significant in value) or insignificant in value (even if frequent);
- Sales made close to the maturity of the asset when the proceeds from the sales approximate the collection of the remaining contractual cash flows; and
- Sales made based on a requirement imposed by a third party, such as regulatory bodies, if those sales are infrequent or insignificant in value.

The financial assets that fall into the business model "Hold to collect contractual cash flows" include: (i) all loans and advances; (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards, all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

(ii) "Hold to collect contractual cash flows and sell" business model
Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows and sell" are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Bank's everyday liquidity needs. The Bank expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets.

As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Bank expects greater frequency and value of sales.

Selling financial assets is not an incidental activity, but an integral part of achieving the business model's objective. There is no threshold for the frequency or value of sales that must occur in this business model, however, as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model "Hold to collect contractual cash flows and sell" include: (i) all EUR-denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards, all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Bank's internal rules.

(iii) "Held for trading" business model

Loans and debt instruments that fall into the business model "Held for trading" are held with the objective of realising cash flows through the sale of those assets. The Bank makes decisions based on the assets' fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model "Held for trading" include all other loans and debt instruments that are not part of the business model "Hold to collect contractual cash flows" or "Hold to collect contractual cash flows and sell".

<u>Contractual cash flows characteristics test</u>

Based on assessment of the contractual cash flow characteristics, the Bank ascertains whether the contractual cash flows on loans and debt instruments are solely payments of principal and interest on the principal amount outstanding (SPPI test). Principal is the fair value of the financial asset at initial recognition. Interest consists in particular of consideration for the time value of money and credit risk. It can also include consideration for liquidity risk, administrative costs, or profit margin that is consistent with the basic lending arrangement.

<u>Measurement at amortised costs</u>

After initial recognition, loans and debt instruments are subsequently measured at amortised costs if both the following conditions are met: the financial asset is held within the business model "Hold to collect contractual cash flows" and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which the financial instruments are measured at initial recognition minus the principal repayments and using the effective interest method plus or minus the fees that are an integral part of the financial asset, and amortisation of the premium or discount (i.e. any difference between the initial amount and the amount at maturity), and further reduced by any loss allowance for expected credit losses. Interest income is recognised in the line *'Interest income'* in the Statement of Income. Impairment losses are recognised in the Statement of Income in the line *'Impairment losses'*.

<u>Measurement at fair value through other comprehensive income</u>

After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in Other Comprehensive Income if both the following conditions are met: the financial asset is held within the business model "Hold to collect contractual cash flows and sell" and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Unrealised gains or losses from fair value changes, as well as gains or losses from changes in fair value resulting from changes in foreign exchange rates are, until their derecognition or reclassification, recognised within Other Comprehensive Income in the line *'Revaluation of debt securities, net of tax'*.

When holding a financial asset, loss allowances are recognised. Unlike in the case of financial assets measured at amortised costs, however, the loss allowances are not presented separately in the Statement of Financial Position and do not reduce the carrying amount of the financial asset. The loss allowances are recognised directly in Other Comprehensive Income and in the Statement of Income in the line *'Impairment losses'*.

Gains or losses from changes in foreign exchange rates on loans and debt instruments are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*, with the exception of exchange rate gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. Accrued interest income is recognised in the Statement of Income in the line *'Interest income'*.

When a financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income is recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

<u>Measurement at fair value through profit or loss</u>

After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in profit or loss if the financial asset falls within the business model "Held for trading" or if the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Bank classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses, as well as realised gains or losses arising from the revaluation of these financial assets, interest, and foreign exchange rate differences, are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised.

3.5.5.4.2 Equity instruments
Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for when making the election at initial recognition to measure the equity instrument at fair value with changes being recognised in other comprehensive income and without subsequent recycling into profit or loss on disposal. This election is irrevocable and is made on an instrument-by-instrument basis.

The Bank may use the option only for instruments that are not held for trading. When using the option, the disposal will not result in realisation and recognition of the disposal's result in the Statement of Income. Instead, it will remain in the Bank's Other Comprehensive Income and, following approval by the General Meeting, will eventually be transferred to retained earnings. Dividend income arising from equity instruments is recognised when the right to dividends is established and presented in the Statement of Income in the line *'Dividend income'*.

The Bank applies the option (measurement of equity instruments at fair value through other comprehensive income) for investments of a strategic nature and with an equity interest of less than 20%. This approach is based on the Bank's intention to continue holding these investments in the long term or on the existence of a long-term restriction against selling these investments.

3.5.5.4.3 Derivatives and hedge accounting
A derivative is a financial instrument or other contract having 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, market prices of securities, or another market variable;
- 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; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities held for trading at fair value through profit or loss'* based on whether the fair value is positive or negative.

Hedging derivatives are derivatives that the Bank uses to hedge interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. In accordance with the transitional provisions of IFRS 9, the Bank has elected to apply IAS 39 hedge accounting methods. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
- It is compliant with the Bank's risk management objective and strategy;
- At the inception of the hedge, the hedging relationship is formally documented, which includes identification of the hedging instrument and hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedging instrument and hedged item or transaction are almost fully offset (within a range of 80% to 125%).

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:
I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability, or firm commitment that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans and debt instruments with fixed interest rates) and interest rate risk of deposits, repos, and mortgage bonds issued. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated, or exercised, then the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

The Bank also accounts for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Bank applies the IAS 39 "carve-out" as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair values of hedging derivatives classified as cash flow hedges that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Bank hedges the interest rate risk and currency risk associated with the cash flows of selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, then the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

Using foreign currency deposits as the hedging instrument, the Bank additionally hedges the foreign exchange rate risk arising from the net investment in the subsidiaries BASTION EUROPEAN INVESTMENTS S.A. and ESSOX FINANCE, s.r.o. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42(C).

3.5.5.4.4 Financial liabilities

The Bank classifies financial liabilities into the categories *'Financial liabilities at amortised cost'* and *'Financial liabilities held for trading at fair value through profit or loss'*, depending on the methods of managing the performance of the financial liability.

When the performance of the financial liability is managed based on trading that mostly reflects active and frequent purchases and sales (i.e. financial instruments held for trading are mostly used to generate profit from short-term fluctuations in the price or margin), the Bank classifies these financial liabilities after initial recognition as subsequently measured at fair value through profit or loss. Such financial liabilities are only liabilities from disposed securities and trading derivatives with a negative value. They are recognised in the Statement of Financial Position in the line *'Financial liabilities held for trading at fair value through profit or loss'*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interest, and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

All other financial liabilities are subsequent to initial recognition measured at amortised cost using the effective interest rate method. The Bank classifies non-derivative financial liabilities with fixed or determinable payments as subsequently measured at amortised costs. These financial liabilities are recognised depending upon type of counterparty in the lines *'Amounts due to central banks', 'Financial liabilities at amortised cost'*, and *'Subordinated debt'*.

Interest expense is recognised in the Statement of Income in the line *'Interest expense'*.

In the event of repurchasing its own debt securities, the Bank derecognises these securities (i.e. the item *'Securities issued'* is decreased). Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from its own bonds.

3.5.5.4.5 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract.

Derivatives embedded in financial assets, loans, and debt instruments within the scope of IFRS 9 are not separated from the host contract. Instead, the entire hybrid instrument is assessed for classification and measurement based on the Bank's business model for managing the hybrid instrument and its contractual cash flow characteristics as disclosed in Note 3.5.5.4 Financial assets and liabilities classification and subsequent measurement.

The embedded derivative is separated from the host contract and accounted for separately if, and only if, all of the following conditions are met:

- The host contract is not a financial asset within the scope of IFRS 9;
- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

If the embedded derivative cannot be measured separately, the entire hybrid contract is designated as at fair value through profit or loss.

3.5.5.5 Reclassification of financial assets and liabilities

Reclassification of loans and debt instruments shall arise when, and only when, the objective of the business model changes for the entire portfolio of financial instruments that are jointly managed with the objective "Hold to collect contractual cash flows", "Hold to collect contractual cash flows and sell", and "Held for trading".

Reclassification is not possible:

- If the Bank uses the option to designate a financial asset at initial recognition as an instrument measured at fair value through profit or loss (the "Fair Value Option");
- For equity instruments (measured at fair value through profit or loss or through other comprehensive income); or
- For financial liabilities.

If the Bank reclassifies loans and debt instruments, the change in classification is applied prospectively from the first day of the next reporting period following the change in the business model.

Measurement of reclassified financial assets at the reclassification date and subsequently:

- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and, at the reclassification date, a new effective interest rate is determined. Subsequent changes in fair value are recognised in other comprehensive income. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount and a new effective interest rate is determined. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in profit or loss;

- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

The Bank did not reclassify any loans and debt instruments.

3.5.5.6 Determination of a financial instrument's fair value and its hierarchy
For the determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services, or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which, in the Bank's view, reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models, or option pricing models and are adjusted for the credit risk of the counterparty (CVA) or the Bank's own credit risk (DVA), as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held the ask price.

The Bank manages a group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing the fair values of offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

3.5.5.7 Effective interest rate method
The effective interest rate is that rate which exactly discounts the estimated future cash payments or receipts throughout the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.

3.5.5.8 Forborne loans
Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in the payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Forborne loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The forborne loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

3.5.5.9 Modification of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Bank assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of modification is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. If the terms are not substantially different, the renegotiation or modification does not result in derecognition.

3.5.5.10 Derecognition of financial assets other than on modification
The Bank derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows from the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset.

The Bank also derecognises financial assets in respect of which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party and for which it has transferred substantially all risks and rewards.

Where the Bank has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Bank derecognises the financial asset and, as appropriately, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Bank has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the Statement of Income for an amount equal to the difference between the carrying amount of the asset and the consideration received. In respect of financial assets at fair value through other comprehensive income, and with the exception of equity instruments, the cumulative gain or loss previously reported in Other Comprehensive Income is recorded in the Statement of Income.

The Bank only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expired. A financial liability is also derecognised and recognised again in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

3.5.5.11 Impairment of financial assets
The impairment of financial assets is based on the expected credit loss model.

All of the following assets are subject to the Bank's impairment requirements:
- Financial assets measured at amortised cost;
- Financial assets duly measured at fair value through other comprehensive income (FVOCI) mentioned in 3.5.5.4.1 Loans and debt instruments held in the business model "Hold to collect contractual cash flows and sell";
- Loan commitments if a present commitment to provide credit exists (except for loan commitments measured at fair value through profit or loss);
- Financial guarantee contracts (to which IFRS 9 applies except for those measured at fair value through profit or loss); and
- Finance lease receivables and operating lease receivables in the scope of IFRS 16 Leases.

The Bank does not assess impairment on non-client financial assets constituting insignificant credit risk, such as, in particular, receivables from the CNB arising from obligatory minimum reserves, nostro accounts, contract assets within the scope of IFRS 15 Revenue from contracts with customers (i.e. rights to consideration after the transfer of goods or services), intragroup receivables, and others.

In order to determine impairment, financial assets are classified into three stages depending upon the extent of credit deterioration since initial recognition:
- Stage 1 – financial assets are initially recognised in Stage 1, unless they are purchased or originated credit-impaired (subject to a specific treatment). Subsequently, this stage remains unchanged for financial assets for which the credit risk has not increased significantly since initial recognition or that have low credit risk at the reporting date;
- Stage 2 – financial assets with a significant increase in credit risk since initial recognition but in respect of which no objective evidence of impairment exists; or
- Stage 3 – financial assets with objective evidence of impairment at the reporting date.

Transition between the risk stages is assessed on an individual basis by evaluating the risk characteristics specific for the given asset. To this end, the Bank uses in particular the relative criteria for an increase of the probability of default, supplemented by absolute criteria, such as days past due and the client's rating.

The Bank implemented a new definition of default in the beginning of the second quarter of 2020 to be compliant with EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013.

Significant increase in credit risk
At each reporting date, the Bank assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Bank uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating), and the 24-month trial period after restructuring a loan.

The Bank is carefully monitoring the development of exposures that were in loan moratoria regime in order to (i) support clients with targeted measures, (ii) establish recovery capacity for the expected wave of restructuring requests after the moratorium, and (iii) estimate future impacts on the Statement of Income. Activities in 2020 were focused on the following areas: i) dynamic monitoring of risk indicators, ii) client surveys, iii) modernisation of the retail recovery platform (increase of credit restructuring capacity, implementation of artificial intelligence tools), and iv) determination of appropriate size and the seniority of teams of experts dedicated to credit restructuring activities in the corporate segment.

In accordance with the EBA recommendation, the granting of a private or public moratorium is not a reason to worsen the IFRS 9 stage. On the other hand, the stage may deteriorate based on an individual assessment as part of extraordinary or regular monitoring or during annual renewal of the rating. Exposures under the Bank's private moratorium are reported as forborne, but without automatic stage deterioration.

The Bank also closely monitors sectors most affected by the impacts of Covid-19 (automotive, car dealers, hospitality and entertainment, transport, etc.). The Bank believes that the future expected credit risk in these sectors is included in the forward-looking components and risk classification algorithm used in the IFRS 9 models, and therefore the Bank does not apply any additional portfolio adjustments for the selected sectors mentioned with the exception of the exposure to clients in the SME segment and with a significantly negative impact of Covid-19 upon the following sectors (hotels, restaurants, spas, catering, travel agencies).

Credit-impaired financial assets
The Bank recognises financial assets as credit-impaired when one or more events have occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data concerning the following events:
- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past due event more than 90 days past due;
- Situation indicating the probability of default as defined by a new regulation for evaluating financial assets in default;
- Concession granted by the lender for reasons of the borrower's financial difficulty that the lender would not otherwise consider;
- Increased probability that the borrower will enter bankruptcy;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Measurement of expected credit losses
With the exception of purchased or originated credit-impaired financial assets, the Bank recognises expected credit losses (hereafter only "expected losses") in an amount corresponding to:
- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date) – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Bank recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Bank reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.

Basis for estimating expected losses
Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Bank considers reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Bank assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Bank applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

Purchased or originated credit-impaired financial assets
Purchased or originated credit-impaired financial assets are accounted for differently because the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

Write-off of financial assets
The Bank applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon an individual assessment of the client's situation. Write-offs are handled individually or for multiple clients in a batch based on approval by the relevant authority.

Batch write-offs with further recovery are managed by a regular semi-annual process involving only the hard collection portfolio. Subject of write-offs are accounts fulfilling pre-defined criteria for batch write-offs. Recovery continues for those accounts even though they have been written off.

3.5.5.12 Repurchase agreements
The Bank accounts for contracts to sell and buy back financial instruments ("repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Bank only provides debt instruments held in the business models "Hold to collect contractual cash flows and sell" or "Held for sale" recognised as *'Financial assets at fair value through other comprehensive income'* or *'Financial assets held for trading at fair value through profit or loss'*. The corresponding liability arising from a loan taken is recognised in the line *'Financial liabilities at amortised cost'*.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position in the line *'Financial assets at amortised cost'*.

The Bank is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan taken is recognised under *'Financial liabilities at amortised cost'*. The Bank is nevertheless obliged to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

If a security acquired as collateral under a reverse repo transaction is sold, the Bank derecognises the security acquired under the reverse repo transaction from the off-balance sheet records and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities held for trading at fair value through profit or loss'*.

3.5.6 Emission allowances
The Bank is not considered a primary producer of greenhouse gas emissions. Trades with emission allowances are carried out in the role of intermediary in order to generate profit based on market price fluctuations. The emission allowances are recognised in the Statement of Financial Position in the line '*Other assets held for trading at fair value through profit or loss*'.

3.5.7 Assets held for sale

The line *'Assets held for sale'* represents assets for which the Bank expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. For this classification to apply, the assets must be available for immediate sale in their present condition and their sale must be highly probable.

For this to be the case, the Bank must be committed to a plan to sell the asset and an active programme to locate a buyer must have been initiated. Furthermore, the assets must be actively marketed for sale at a price that is reasonable in relation to their current fair value. The Bank expects that the sale of assets will be completed, the market situation permitting, within 1 year from the date of the assets' classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:

- The carrying amount of the respective asset at the date of its classification as *'Assets held for sale'*; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line *'Net profits on other assets'* if their selling price less estimated costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line *'Assets held for sale'* (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

3.5.8 Income tax

3.5.8.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Bank does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.8.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of financial assets measured at fair value through other comprehensive income or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and advances, hedging derivatives, and financial assets measured at fair value through other comprehensive income.

3.5.9 Leases

The Bank as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease (as lessee) and the sublease (as lessor) as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Operating leases
The Bank presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them the accounting policies applied to the relevant asset class.

Lease payments received from operating leases are recognised as the Bank's income on a straight-line basis over the term of the relevant lease under *'Other income'*.

Finance leases
In respect of assets held under finance leases, the net investment in the lease is recognised as *'Financial assets at amortised cost'* while the assets themselves (or their leased part) are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the lease term, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line *'Interest income'*.

The Bank as lessee
In accordance with IFRS 16, from the lessee's point of view, a single on-balance sheet accounting model is used for leases with the optional exceptions for short-term leases and leases of low-value items. The vast majority of lease contracts relates to leases of office buildings and branches.

Initial measurement
At the commencement date of a lease, a right-of-use asset is recognised in the Statement of Financial Position within *'Tangible assets'*, i.e. the line item within which the Bank presents underlying assets of the same nature that it owns. Simultaneously, a lease liability is recognised within *'Financial liabilities at amortised cost'* in an amount equal to the present value of the lease payments to be paid over the lease term, discounted at the Bank's incremental borrowing rate.

The lease payments considered for the measurement include fixed and variable lease payments based on an index or rate (e.g. inflation indices), plus, where applicable, the funds that are expected to be payable to the lessor under residual value guarantees, purchase options, or early termination penalties. The lease payments are considered net of value-added tax. The lease term determined according to the standard lease contracts comprises the non-cancellable period of a lease, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option. For lease contracts with an indefinite period of time the lease term is determined as the expected lease term based on the estimated lease duration.

The contracts may contain both lease and non-lease components, such as supply of additional services. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components and instead account for lease and associated non-lease components as a single lease component. For these contracts in general, the Bank has elected not to use this practical expedient.

Subsequent measurement
For the right-of-use asset, the Bank uses similar accounting policies as for its own assets of the same nature. The right-of-use asset is measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term and the depreciation is reported in the Statement of Income in the line *'Depreciation, amortisation, and impairment of operating assets'*. If the legal ownership of the asset held under a lease is transferred to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects the exercise price of a purchase option, however, the asset is depreciated on a straight-line basis over the useful life of the underlying asset.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The Bank divides lease payments between amortisation recognised as reduction of the outstanding lease liability and a finance charge recognised in the Statement of Income as *'Interest expense'*.

The amount of the lease liability may be adjusted if the lease is amended, the lease term is re-estimated, or to account for contractual changes in future lease payments arising from a change in an index or rate. If the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions
In cases of certain short-term leases and leases of low-value items, the lease payments are recognised on a straight-line basis over the lease term and presented in the line *'General and administrative expenses'*. Short-term leases are leases with a lease term of 12 months or less. Leases of low-value items relate to leases for which the underlying asset when new is of low value, defined by the Bank using a materiality threshold of CZK 100,000 per unit of the leased asset. The low-value exception is applied especially to leases of printing devices.

The Bank uses the option allowed by the standard to not apply the provisions of IFRS 16 to intangible assets leases.

3.5.10 Tangible and intangible assets

Intangible assets principally include software and internally generated intangible assets (mainly software). Tangible assets include plant, property, and equipment that are used by the Bank in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements, if any. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition, such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars acquired under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following the expiration of the lease as established in the lease contract. The Bank assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income in the line *'Depreciation, amortisation, and impairment of operating assets'*.

The Bank does not depreciate land and works of art. Tangible and intangible assets under construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

During the reporting period, the Bank used the following useful lives in years:

	2020	2019
Machinery and equipment	4	4
Information technology – notebooks, servers	4/5	4
Information technology – desktop computers	6	6
Fixtures, fittings, and equipment	6	6
Vehicles	5/6	5/6
ATMs	10	10
Selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Right-of-use assets (leases)	According to the lease term	According to the lease term
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licenses – software	5	5
Other intangible assets	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic, or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, amortisation, and impairment of operating assets'*.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

3.5.11 Provisions

The Bank recognises provisions for contracted commitments (principally comprising the provisions for ongoing contracted potential commitments, legal disputes, self-insurance, and the retirement benefits plan) and for restructuring.

Provisions are recognised when and only when:

- The Bank has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

A provision for restructuring is recognised when the Bank has approved a detailed, formal plan for restructuring and the restructuring has either commenced or the main features of the restructuring plan have been announced to those affected before the end of the reporting period. The restructuring provision shall include only the direct expenditures arising from the restructuring which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The Bank also recognises provisions for credit-related commitments into which the Bank enters in the normal course of business. These credit-related commitments do not meet the criteria for recognition in the Statement of Financial Position and are recorded in the off-balance sheet. These commitments primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. The provisions represent impairment based on expected losses from any potential financial liabilities arising from these credit-related commitments. Provisions for credit-related commitments are created on the same basis as are loss allowances for financial assets.

3.5.12 Employee benefits

3.5.12.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension, but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accrual basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. The interest expense on the net benefit liability is presented in the line *'Personnel expenses'*; and
III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line *'Remeasurement of retirement benefits plan, net of tax'*.

The use of a provision is presented in the line *'Personnel expenses'*.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions on an accrual basis in the line *'Personnel expenses'* (refer to Note 10).

The Bank has the following share plans and deferred compensation schemes:

3.5.12.2 Deferred bonus payments

For employees with material impact on the Bank's risk profile, performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year; and (ii) a deferred component that is spread over following years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Komerční banka, a.s. multiplied by the numbers of shares granted and it is spread over the vesting period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'*.

3.5.12.3 Free share plan

To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Bank can award some of its key employees free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of the vesting period) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the deferred share plan provided by Société Générale to the Bank's employees are recognised in the Bank's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines *'Personnel expenses'* and *'Share premium, funds, retained earnings, revaluation, and net profit for the period'* under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

3.5.13 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

Treasury shares

When the Bank acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line *'Share premium, funds, retained earnings, revaluation, and net profit for the period'* under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line *'Share premium, funds, retained earnings, revaluation, and net profit for the period'*.

3.5.14 Contingent assets, contingent liabilities, and off-balance sheet items

In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions through which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability 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 under the Bank's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options, and futures. More information regarding derivative operations is presented in Note 3.5.5.4.3 Derivatives and hedge accounting.

3.5.15 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:
- *Retail Banking:* includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans, and mortgages);
- *Corporate Banking:* includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking:* involves trading in financial instruments; and
- *Other:* consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Bank nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

3.5.16 Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate, and foreign currency positions.

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	11,242	13,052	5,751	6,157	659	986	959	355	18,611	20,550
Net fee and commission income	3,073	3,566	1,478	1,799	48	(115)	(63)	63	4,536	5,313
Net profit/(loss) on financial operations	1,051	1,297	1,787	1,708	(215)	(458)	255	255	2,878	2,802
Dividend income	0	0	0	0	0	0	6	1,688	6	1,688
Other income	179	170	(32)	(34)	134	242	(24)	(132)	257	246
Net operating income	**15,545**	**18,085**	**8,984**	**9,630**	**626**	**655**	**1,133**	**2,229**	**26,288**	**30,599**

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs, and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on the allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily – nearly 98% (2019: more than 98%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2020	2019
Interest income	32,977	40,173
Interest expense	(14,366)	(19,623)
Net interest income	**18,611**	**20,550**
Of which net interest income from:		
– Loans and advances at amortised cost	17,137	21,524
– Debt securities at amortised cost	1,526	1,538
– Other debt securities	671	571
– Financial liabilities at amortised cost	(2,445)	(4,120)
– Hedging financial derivatives – income	13,643	16,540
– Hedging financial derivatives – expense	(11,921)	(15,503)

Note: Net interest income is calculated by applying the effective interest rate method, except that in the case of hedging derivatives the contractual interest rate of the corresponding derivative is used.

'Interest income' includes interest on Stage 3 loans due from customers of CZK 217 million (2019: CZK 278 million).

In both 2020 and 2019, the Bank recorded as part of *'Net interest income'* also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

'Interest income' includes interest income on the sublease of right-of-use assets in the amount of CZK 1 million (2019: CZK 1 million). *'Interest expense'* includes interest expense on lease liabilities in the amount of CZK 45 million (2019: CZK 51 million).

In 2020, the Bank recorded a modification loss in the amount of CZK 127 million (2019: CZK 0 million) from the postponement of instalment payments under the loan moratorium.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2020	2019
Deposit product fee and commission income	726	767
Loan fee and commission income	476	538
Transaction fee and commission income	2,128	2,834
Cross-selling fee income	899	833
Specialised financial services fee and commission income	928	955
Other fee and commission income	150	153
Total fee and commission income	**5,307**	**6,080**
Deposit product fee and commission expense	(105)	(120)
Loan fee and commission expense	(88)	(78)
Transaction fee and commission expense	(400)	(430)
Cross-selling fee expense	(18)	(12)
Specialised financial services fee and commission expense	(110)	(110)
Other fee and commission expense	(50)	(17)
Total fee and commission expenses	**(771)**	**(767)**
Total net fee and commission income	**4,536**	**5,313**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 156 million (2019: CZK 168 million) and fee expense for these services in the amount of CZK 32 million (2019: CZK 32 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2020	2019
Net realised gains/(losses) on securities held for trading*	438	221
Net unrealised gains/(losses) on securities held for trading*	(51)	(31)
Net realised gains/(losses) on debt securities at fair value through OCI	0	0
Net realised gains/(losses) on disposal of debt securities at amortised cost	0	8
Net realised and unrealised gains/(losses) on security derivatives**	(79)	1
Net realised and unrealised gains/(losses) on interest rate derivatives	1,241	(101)
Net realised and unrealised gains/(losses) on trading commodity derivatives	0	12
Net realised and unrealised gains/(losses) on foreign exchange operations	532	1,818
Net realised gains/(losses) on foreign exchange from payments	797	874
Total net profit/(loss) on financial operations	**2,878**	**2,802**

* This line also includes trading with emission allowances.
** This line also includes impacts of derivative trades in emission allowances.

A gain of CZK 5,305 million (2019: loss of CZK 3,188 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos, and issued mortgage bonds reported in the same line.

8 Dividend income

'Dividend income' includes dividends received from subsidiaries and associates of CZK 2 million (2019: CZK 1,685 million) and from other financial investments of CZK 4 million (2019: CZK 3 million). Income from hedging financial derivatives used to hedge cash flows from foreign exchange risk for dividends from subsidiaries and associates was CZK 0 million (2019: CZK 0 million).

9 Other income

The Bank reports *'Other income'* in the amount of CZK 257 million (2019: CZK 246 million). In both 2020 and 2019, *'Other income'* was predominantly composed of income from services provided to the Group's companies and the Société Générale Group entities as well as property rental income.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2020	2019
Wages, salaries, and bonuses	4,816	4,926
Social costs	1,922	1,956
Total personnel expenses	**6,738**	**6,882**
Physical number of employees at the end of the period*	7,094	7,340
Average recalculated number of employees during the period*	7,104	7,210
Average cost per employee (CZK)	**948,441**	**954,508**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 100 million (2019: CZK 97 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 34 million (2019: CZK 39 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net income of CZK 3 million (2019: net income of CZK 105 million) related to provisions for restructuring. The change in provisions in relation to the transformation project "KB Change" involves use in the amount of CZK 28 million (2019: CZK 105 million) and release in the amount of CZK 56 million (2019: CZK 0 million). In 2020, the Bank created provisions for restructuring related to planned structural changes based on the Covid-19 experience. These provisions include a charge in the amount of CZK 136 million (2019: CZK 0 million) and the use of provisions in the amount of CZK 55 million (2019: CZK 0 million). Further information is presented in Note 31.

Indexed bonuses

In 2020, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *'Personnel expenses'* was CZK 42 million (2019: CZK 40 million) and the total amount of CZK 84 million (2019: CZK 81 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 9 million (2019: CZK 4 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 152,100 shares (2019: 137,090 shares).

Changes in the numbers of Komerční banka shares were as follow:

(in shares)	2020	2019
Balance as of 1 January	**137,090**	**109,224**
Paid out during the period	(22,556)	(22,746)
Presumed number of newly guaranteed shares	37,566	50,612
Balance as of 31 December	**152,100**	**137,090**

Free and deferred share plans

For 2020, the total amount relating to the free shares programme and deferred share plans recognised in *'Personnel expenses'* was CZK 19 million (2019: CZK 23 million).

Changes in the numbers of Société Générale shares were as follow:

	2020		2019	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**87,466**	**30.74**	**101,430**	**35.61**
Granted during the year	36,128	11.26	45,196	21.40
Forfeited during the year	(697)	30.74	(3,096)	35.61
Exercised during the year	(21,578)	30.74	(56,064)	35.61
Balance as of 31 December	**101,319**	**21.56**	**87,466**	**30.74**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2020	2019
Insurance	65	63
Marketing and representation	413	464
Selling and banking products expenses	289	291
Other employees expenses and travelling	63	114
Real estate expenses	796	777
IT support	1,167	1,060
Equipment and supplies	87	110
Telecommunications, postage, and data transfer	184	175
External consultancy and other services	303	390
Resolution and similar funds	917	828
Other expenses	47	41
Total general and administrative expenses	**4,331**	**4,313**

'General administrative expenses' include net income of CZK 29 million (2019: net expense of CZK 12 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 1 million (2019: CZK 0 million) and used and released in the amount of CZK 30 million (2019: CZK 12 million). Further information is presented in Note 31.

'General administrative expenses' include the expenses related to leases for which the exemptions from IFRS 16 were applied and variable lease payment expenses not included in the lease liabilities.

Lease payment expenses were as follow:

				2020				2019
(CZKm)	Real estate	Hardware	Other	Total	Real estate	Hardware	Other	Total
Short-term leases	176	0	0	176	172	0	12	184
Low-value assets	0	22	0	22	0	26	0	26
Variable lease payment expenses	0	0	0	0	0	0	0	0

12 Depreciation, amortisation, and impairment of operating assets

Depreciation, amortisation, and impairment of operating assets comprise the following:

(CZKm)	2020	2019
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	2,480	2,226
Impairment of operating assets	24	7
Total depreciation, amortisation, and impairment of operating assets	**2,504**	**2,233**

The net gain from *'Impairment of operating assets'* mainly includes a net gain from impairment reversal on internal projects (SW).

Depreciation of right-of-use assets according to the underlying asset:

(CZKm)	2020	2019
Real estate	508	480
Hardware	0	0
Other	14	18
Total depreciation of right-of-use assets	**522**	**498**

13 Cost of risk

The net loss in *'Cost of risk'* totalling CZK 3,953 million (2019: net gain of CZK 725 million) includes a net loss from allowances and provisions in the amount of CZK 4,083 million (2019: net gain of CZK 226 million) and a net gain from loans and advances transferred and written off in the amount of CZK 130 million (2019: CZK 499 million).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2020 were as follow:

(CZKm)	As of 1 Jan 2020	Increase due to origin	Decrease due to derecognition*	Change of credit risk (net)	Change of estimation (net)	Decrease due to write-off	Other	As of 31 Dec 2020
Allowances for financial assets (Stage 1)	(607)	(534)	372	(177)	0	0	1	(945)
– Debt securities	(6)	0	0	(9)	0	0	0	(15)
– Loans and advances	(601)	(534)	372	(168)	0	0	1	(930)
Allowances for financial assets (Stage 2)	(950)	0	92	(1,194)	(94)	0	5	(2,141)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(950)	0	92	(1,194)	(94)	0	5	(2,141)
Allowances for financial assets (Stage 3)	(6,460)	0	579	(1,637)	(12)	200	(9)	(7,339)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(6,460)	0	579	(1,637)	(12)	200	(9)	(7,339)
Total allowances for financial assets (refer to Notes 22 and 41)	**(8,017)**	**(534)**	**1,043**	**(3,008)**	**(106)**	**200**	**(3)**	**(10,425)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(108)	(148)	88	(26)	0	0	(1)	(195)
Provisions for guarantees and other credit-related commitments (Stage 2)	(67)	0	0	(207)	2	0	0	(272)
Provisions for guarantees and other credit-related commitments (Stage 3)	(434)	0	63	(468)	3	0	(3)	(839)
Total provisions for guarantees and other credit-related commitments (refer to Note 31)	**(609)**	**(148)**	**151**	**(701)**	**5**	**0**	**(4)**	**(1,306)**

* This item includes changes in allowances due to full derecognition of financial assets for reasons other than write-offs (e.g. transfers to third parties or expiration of contractual rights due to full repayment). For off-balance sheet exposures, this item also includes decreases in impairment due to an off-balance sheet item's becoming an on-balance sheet asset.

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2019 were as follow:

(CZKm)	As of 1 Jan 2019	Increase due to origin	Decrease due to derecognition*	Change of credit risk (net)	Change of estimation (net)	Decrease due to write-off	Other	As of 31 Dec 2019
Allowances for financial assets (Stage 1)	(598)	(326)	226	11	81	0	(1)	(607)
– Debt securities	(9)	0	0	3	0	0	0	(6)
– Loans and advances	(589)	(326)	226	8	81	0	(1)	(601)
Allowances for financial assets (Stage 2)	(986)	0	101	(181)	112	0	4	(950)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(986)	0	101	(181)	112	0	4	(950)
Allowances for financial assets (Stage 3)	(8,281)	0	2,121	(1,155)	(29)	874	10	(6,460)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(8,281)	0	2,121	(1,155)	(29)	874	10	(6,460)
Total allowances for financial assets (refer to Notes 22 and 41)	**(9,865)**	**(326)**	**2,448**	**(1,325)**	**164**	**874**	**13**	**(8,017)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(99)	(93)	238	(157)	10	0	(7)	(108)
Provisions for guarantees and other credit-related commitments (Stage 2)	(77)	0	135	(128)	(2)	0	5	(67)
Provisions for guarantees and other credit-related commitments (Stage 3)	(946)	0	830	(322)	(1)	0	5	(434)
Total provisions for guarantees and other credit-related commitments (refer to Note 31)	**(1,122)**	**(93)**	**1,203**	**(607)**	**7**	**0**	**3**	**(609)**

* This item includes changes in allowances due to full derecognition of financial assets for reasons other than write-offs (e.g. transfers to third parties or expiration of contractual rights due to full repayment). For off-balance sheet exposures, this item also includes decreases in impairment due to an off-balance sheet item's becoming an on-balance sheet asset.

14 Profit/(loss) on subsidiaries and associates

Regarding fulfilment of conditions of a share sale agreement in relation to Komerční pojišťovna, a.s. in 2005, financial settlement with SOGECAP S.A. was finalised during the second quarter of 2019. The Bank received a one-off financial settlement of CZK 55 million.

The balances of allowances for subsidiaries and associates are as follow:

(CZKm)	2020	2019
Balance as of 1 January	**0**	**0**
Charge for allowances	(41)	0
Release and use of allowances	1	0
Balance as of 31 December	**(40)**	**0**

15 Net profits on other assets

Net profits on other assets comprise the following:

(CZKm)	2020	2019
Net profits/(losses) from sale of buildings	19	11
Net profits/(losses) from impairment on assets held for sale	0	16
Net profits/(losses) from sale-and-lease-back transactions	(3)	(1)
Net profits/(losses) from sale/disposal of other assets	(31)	(10)
Total net profits on other assets	**(15)**	**16**

16 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2020	2019
Tax payable – current year, reported in profit or loss	(1,796)	(3,031)
Tax paid – prior year	26	62
Deferred tax (refer to Note 32)	(8)	(182)
Total income tax	**(1,778)**	**(3,151)**

The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:

(CZKm)	2020	2019
Profit before income tax	**8,707**	**17,967**
Theoretical tax calculated at a tax rate of 19% (2019: 19%)	1,655	3,414
Tax on pre-tax profit adjustments	8	15
Non-taxable income (tax effect)	(1,140)	(1,298)
Expenses not deductible for tax purposes (tax effect)	1,269	895
Tax allowance	(3)	(3)
Movement in deferred tax	8	182
Other	7	8
Income tax expense	**1,804**	**3,213**
Prior period tax expense	(26)	(62)
Total income tax	**1,778**	**3,151**
Effective tax rate	20.43%	17.53%

Non-taxable income primarily includes the release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2020 is 19% (2019: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

In relation to the interpretation of IFRIC 23, the Bank considers it probable that the relevant authority will accept each tax treatment that the Bank used or plans to use in its income tax filing.

Further information about deferred tax is presented in Note 32.

17 Distribution of net profit

For the year ended 31 December 2020, the Bank generated a net profit of CZK 6,929 million (2019: CZK 14,816 million). The Bank's Board of Directors will propose to the Supervisory Board, in accordance with the CNB's recommendation, a dividend payment in the amount of CZK 0 per share (2019: CZK 0 per share), which means a total amount of CZK 0 million (2019: CZK 0 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with the CNB's recommendation, at the General Meeting held on 29 June 2020 the shareholders approved a dividend for the year ended 31 December 2019 of CZK 0 per share before tax. Net profit for the period ended 31 December 2019 was fully allocated to retained earnings.

18 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Cash and cash values	8,496	10,007
Current balances with central banks	12,484	6,863
Total cash and current balances with central banks (refer to Note 35)	**20,980**	**16,870**

Obligatory minimum reserves in the amount of CZK 10,754 million (2019: CZK 1,746 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2020, the interest rate was 0.25% (2019: 2.00%) in the Czech Republic and 0.00% (2019: 0.00%) in the Slovak Republic.

19 Financial assets and other assets held for trading at fair value through profit or loss

Financial assets and other assets held for trading at fair value through profit or loss comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Trading equity securities	0	0
Trading debt securities	3,342	4,112
Trading derivatives	22,979	19,457
Total financial assets held for trading at fair value through profit or loss	**26,321**	**23,569**
Emission allowances	0	494
Total other assets held for trading at fair value through profit or loss	**0**	**494**

As of 31 December 2020 and 2019, the *'Financial assets held for trading at fair value through profit or loss'* portfolio included only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as *'Financial assets held for trading at fair value through profit or loss'*.

For detailed information on *'Trading debt securities'*, allocated by sector and currency, refer to Note 42(A).

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 42(C).

As of 31 December 2020, the portfolio of trading securities included securities at fair value of CZK 3,228 million (2019: CZK 3,963 million) that are publicly traded on stock exchanges and securities at fair value of CZK 114 million (2019: CZK 149 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

'Trading debt securities' include securities used as collateral for borrowing securities at fair value of CZK 3,068 million (2019: CZK 2,947 million).

'Trading debt securities' include securities eligible for refinancing with central banks at fair value of CZK 76 million (2019: CZK 936 million).

20 Non-trading financial assets at fair value through profit or loss

As of 31 December 2020, the *'Non-trading financial assets at fair value through profit or loss'* portfolio includes financial assets at fair value of CZK 279 million (2019: CZK 0 million) that are issued by foreign financial institutions.

Further information is presented in Note 21.

21 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Equity instruments at FVOCI option	1	514
Debt securities at FVOCI	40,054	34,085
Total financial assets at fair value through other comprehensive income	**40,055**	**34,599**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 42(A).

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 40,055 million (2019: CZK 34,599 million) that are publicly traded on stock exchanges.

'Debt securities at FVOCI' include securities eligible for refinancing with central banks at fair value of CZK 40,054 million (2019: CZK 34,085 million).

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 915 million (2019: CZK 897 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2020, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,596 million (2019: CZK 1,369 million) that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Bank uses Société Générale International Limited as a related broker.

During 2020, the Bank sold 68,000 shares of VISA Inc., which it acquired through the gradual conversion of VISA Series C Convertible Participating Preferred Stock financial instruments held. In this context, the Bank reassessed the nature and original classification of this investment, which is newly reported in the *'Non-trading financial assets at fair value through profit or loss'* portfolio. Due to the insignificance of the impact on the financial statements, the change in classification was made retrospectively without recalculating the comparable periods.

22 Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Loans and advances to banks	283,334	259,681
Loans and advances to customers	589,741	567,805
Debt securities	83,939	64,427
Total financial assets at amortised cost	**957,014**	**891,913**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 42(A).

As of 31 December 2020, the *'Financial assets at amortised cost'* portfolio includes debt securities in the amount of CZK 83,392 million (2019: CZK 64,087 million) that are publicly traded on stock exchanges and debt securities in the amount of CZK 547 million (2019: CZK 340 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with central banks in the amount of CZK 80,132 million (2019: CZK 60,584 million).

As of 31 December 2020, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	216,388	0	0	216,388	0	0	0	0	216,388
General governments	23,066	18	234	23,318	(16)	0	(23)	(39)	23,279
Credit institutions	66,414	533	0	66,947	(1)	0	0	(1)	66,946
Other financial corporations	66,226	26	303	66,555	(80)	(1)	(48)	(129)	66,426
Non-financial corporations	195,848	20,813	8,888	225,549	(634)	(1,338)	(4,711)	(6,683)	218,866
Households*	267,546	12,446	4,736	284,728	(199)	(802)	(2,557)	(3,558)	281,170
Total loans	**835,488**	**33,836**	**14,161**	**883,485**	**(930)**	**(2,141)**	**(7,339)**	**(10,410)**	**873,075**
Central banks	0	0	0	0	0	0	0	0	0
General governments	80,842	0	0	80,842	(10)	0	0	(10)	80,832
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	348	0	0	348	0	0	0	0	348
Non-financial corporations	2,759	0	0	2,759	0	0	0	0	2,759
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**83,949**	**0**	**0**	**83,949**	**(10)**	**0**	**0**	**(10)**	**83,939**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2019, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	198,738	0	0	198,738	0	0	0	0	198,738
General governments	19,083	1,392	14	20,489	(9)	(1)	(12)	(22)	20,467
Credit institutions	60,271	650	23	60,944	0	(1)	0	(1)	60,943
Other financial corporations	64,981	303	59	65,343	(26)	(1)	(24)	(51)	65,292
Non-financial corporations	201,331	13,687	6,585	221,603	(407)	(462)	(3,874)	(4,743)	216,860
Households*	252,720	11,526	4,134	268,380	(159)	(485)	(2,550)	(3,194)	265,186
Total loans	**797,124**	**27,558**	**10,815**	**835,497**	**(601)**	**(950)**	**(6,460)**	**(8,011)**	**827,486**
Central banks	0	0	0	0	0	0	0	0	0
General governments	61,327	0	0	61,327	(4)	0	0	(4)	61,323
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,754	0	0	2,754	0	0	0	0	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**64,431**	**0**	**0**	**64,431**	**(4)**	**0**	**0**	**(4)**	**64,427**

* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2020, the transfers between Stages were as follow:

	Gross carrying value					
(CZKm)	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	3	1,200	233	1	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	23	116	199	0	0	0
Non-financial corporations	12,755	3,196	1,001	57	1,498	10
Households*	7,085	4,576	606	363	1,424	240
Total loans	**19,866**	**9,088**	**2,039**	**421**	**2,922**	**250**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**4,813**	**1,565**	**180**	**56**	**698**	**3**

* This item also includes loans granted to individual entrepreneurs.
Note: Reported are exposures that are in a Stage as of the financial statements date different from that where they were initially staged (i.e. from the Stage as of the beginning of the period or at their initial recognition). Exposures that had changed Stages multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the financial statements date.

For the year ended 31 December 2019, the transfers between Stages were as follow:

	Gross carrying value					
(CZKm)	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	211	60	0	261	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	225	0	0	33	0	0
Non-financial corporations	5,968	1,170	996	94	510	10
Households*	5,432	5,161	623	358	386	54
Total loans	**11,836**	**6,391**	**1,619**	**746**	**896**	**64**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**2,989**	**912**	**225**	**24**	**120**	**5**

* This item also includes loans granted to individual entrepreneurs.
Note: Reported are exposures that are in a Stage as of the financial statements date different from that where they were initially staged (i.e. from the Stage as of the beginning of the period or at their initial recognition). Exposures that had changed Stages multiple times are reported as having been transferred from their initial Stage to the Stage in which they are reported as of the financial statements date.

Set out below is a breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2020	31 Dec 2019
Agriculture, forestry and fishing	10,362	10,263
Mining and quarrying	2,788	2,742
Manufacturing	59,516	54,704
Electricity, gas, steam and air conditioning supply	13,416	14,153
Water supply, sewerage, waste management and remediation activities	1,291	1,550
Construction	8,239	7,509
Wholesale and retail trade, repair of motor vehicles and motorcycles	38,009	38,336
Transportation and storage	8,133	6,938
Accommodation and food service activities	2,250	1,743
Information and communication	5,536	5,536
Real estate activities	52,778	49,744
Professional, scientific and technical activities	8,739	6,314
Administrative and support service activities	5,832	6,155
Public administration and defence, compulsory social security	4	25
Education	535	515
Human health and social work activities	2,433	1,788
Arts, entertainment and recreation	1,939	4,072
Other service activities	3,749	9,516
Total loans and advances to non-financial corporations	**225,549**	**221,603**

Exposure to the automotive industry and related suppliers is CZK 16,219 million (2019: CZK 14,875 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' as higher risk sector in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgments and estimates).

The majority of loans – more than 92% (2019: more than 92%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2020, loans and advances to customers included accrued interest of CZK 1,077 million (2019: CZK 1,033 million), of which CZK 235 million (2019: CZK 235 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 216,500 million (2019: CZK 198,738 million).

Loans due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Treasury bills	212,322	195,563
Debt securities issued by state institutions	111	0
Emission allowances	0	0
Investment certificates	0	0
Total	**212,433**	**195,563**

As of 31 December 2020, loans provided to customers under reverse repurchase transactions in the amount of CZK 0 million (2019: CZK 2,001 million) are collateralised by securities with a fair value of CZK 0 million (2019: CZK 4,040 million).

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position as of 31 December 2020:

	Applied loans and advances to customers collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**224,057**	**30,273**	**2,141**	**17,064**	**32,491**
of which:					
– Other financial corporations	70	1,250	0	4,737	8,410
– Non-financial corporations	2,505	25,171	1,907	11,823	19,782
– Households**	221,441	3,843	208	396	868

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position as of 31 December 2019:

	Applied loans and advances to customers collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**208,144**	**29,747**	**1,396**	**19,163**	**26,927**
of which:					
– Other financial corporations	28	1,332	0	3,406	9,048
– Non-financial corporations	2,447	24,718	1,146	15,233	12,783
– Households**	205,601	3,680	222	417	507

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

Pledges on industrial real estate represent 7% of total pledges on real estate (2019: 9%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2020:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	242	0	0	242	0	1
Other financial corporations	233	0	0	233	1	53
Non-financial corporations	8,586	3	1,926	10,515	809	3,227
Households*	10,089	143	1,333	11,565	779	8,769
Total	**19,150**	**146**	**3,259**	**22,555**	**1,589**	**12,050**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 31 December 2019:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
General governments	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	44	2	896	942	499	321
Households*	1,001	72	961	2,034	487	1,489
Total	**1,045**	**74**	**1,857**	**2,976**	**986**	**1,810**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the Bank's loan portfolio (excluding Debt securities and Other amounts due from customers):

	31 Dec 2020			31 Dec 2019		
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
General governments	23,318	242	1.04%	0	0	0.00%
Other financial corporations	66,555	233	0.35%	65,343	0	0.00%
Non-financial corporations	225,549	10,515	4.66%	221,603	942	0.43%
Households*	284,728	11,565	4.06%	268,380	2,034	0.76%
Total	**600,150**	**22,555**	**3.76%**	**555,326**	**2,976**	**0.54%**

* This item also includes loans granted to individual entrepreneurs.

Finance lease

The subject of finance leasing is subleasing of real estate.

Loans and advances to customers – leasing:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	11	17
Due from 1 to 2 years	5	17
Due from 2 to 3 years	2	8
Due from 3 to 4 years	2	2
Due from 4 to 5 years	1	2
Due over 5 years	3	6
Total	**24**	**52**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2020	31 Dec 2019
Due less than 1 year	0	1
Due from 1 to 2 years	0	1
Due from 2 to 3 years	0	0
Due from 3 to 4 years	0	0
Due from 4 to 5 years	0	0
Due over 5 years	0	0
Total	**0**	**2**

23 Prepayments, accrued income, and other assets

Prepayments, accrued income, and other assets comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Prepayments and accrued income	831	582
Settlement balances	314	287
Receivables from securities trading	147	61
Other assets	2,107	2,595
Total prepayments, accrued income, and other assets	**3,399**	**3,525**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 213 million (2019: CZK 217 million), and in particular also advances provided and receivables for other debtors.

24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Investments in subsidiary undertakings	16,999	16,910
Investments in associated undertakings	858	837
Total investments in subsidiaries and associates	**17,857**	**17,747**

Subsidiary undertakings

The following companies were subsidiary undertakings of the Bank as of 31 December 2020:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
BASTION EUROPEAN INVESTMENTS S.A.	99.98	99.98	Financial services	Brussels	649	0	649
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100.00	100.00	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.	100.00	100.00	Financial services	Prague	550	0	550
KB Real Estate, s.r.o.	100.00	100.00	Support services	Prague	511	0	511
KB SmartSolutions, s.r.o.	100.00	100.00	Support services	Prague	177	(40)	137
Modrá pyramida stavební spořitelna, a.s.	100.00	100.00	Construction savings scheme	Prague	4,873	0	4,873
Protos, uzavřený investiční fond, a.s.	83.65	100.00	Financial services	Prague	5,032	0	5,032
SG Equipment Finance Czech Republic s.r.o.	50.10	50.10	Industry financing	Prague	1,850	0	1,850
STD2, s.r.o.	100.00	100.00	Support services	Prague	358	0	358
VN 42, s.r.o.	100.00	100.00	Support services	Prague	684	0	684
Total					**17,039**	**(40)**	**16,999**

Associated undertakings

The following companies were associated undertakings of the Bank as of 31 December 2020:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bankovní identita, a.s.	33.33	33.33	Digital services	Prague	21	0	21
CBCB - Czech Banking Credit Bureau, a.s.	20.00	20.00	Collection of data for evaluating credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49.00	49.00	Insurance activities	Prague	837	0	837
Total					**858**	**0**	**858**

* The cost of investment for CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

Investments in subsidiaries and associates classified as assets held for sale

The following investments in subsidiaries and associates of the Bank were classified as assets held for sale as of 31 December 2020:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Worldline Czech Republic s.r.o.**	1.00	1.00	Financial services	Prague	0*	0	0
Total					**0**	**0**	**0**

* The cost of investment for Worldline Czech Republic s.r.o. is CZK 418 thousand.
** As of 26 June 2019, Cataps, s.r.o. changed its company name to Worldline Czech Republic s.r.o.

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Cost of investment as of 1 Jan 2020	Additions	Decreases	Reclassification	Cost of investment as of 31 Dec 2020
BASTION EUROPEAN INVESTMENTS S.A.	649	0	0	0	649
ESSOX s.r.o.	1,165	0	0	0	1,165
Factoring KB, a.s.	1,190	0	0	0	1,190
KB Penzijní společnost, a.s.	550	0	0	0	550
KB Real Estate, s.r.o.	511	0	0	0	511
KB SmartSolutions, s.r.o.[1)]	48	129	0	0	177
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	0	4,873
Protos, uzavřený investiční fond, a.s.	5,032	0	0	0	5,032
SG Equipment Finance Czech Republic s.r.o.	1,850	0	0	0	1,850
STD2, s.r.o.	358	0	0	0	358
VN 42, s.r.o.	684	0	0	0	684
Total subsidiaries	**16,910**	**129**	**0**	**0**	**17,039**
Bankovní identita, a.s.[2), 3)]	0	21	0	0	21
CBCB - Czech Banking Credit Bureau, a.s.	0*	0	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	0	837
Total associates	**837**	**21**	**0**	**0**	**858**
Worldline Czech Republic s.r.o.	0**	0	0	0	0**
Total as assets held for sale	**0**	**0**	**0**	**0**	**0**

* The cost of investment for CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.
** The cost of investment for Worldline Czech Republic s.r.o. is CZK 418 thousand.

Changes in equity investments in subsidiaries and associates in 2020

1) During 2020, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 129 million through a financial contribution into other capital funds.

2) As of 15 September 2020, the Bank, together with Česká spořitelna, a.s. and Československá obchodní banka, a. s., incorporated Bankovní identita, a.s. The Bank invested CZK 1 million in the registered capital of Bankovní identita, a.s. and holds a 33.33% share in the company.

3) In October 2020, the Bank increased its equity in Bankovní identita, a.s. by CZK 20 million through a financial contribution into other capital funds.

25 Intangible assets

Movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2019	13,848	1,953	14	1,577	17,392
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,759	52	0	1,929	3,740
Disposals/transfers	(195)	(53)	0	(1,811)	(2,059)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2019	15,412	1,952	14	1,695	19,073
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	1,748	170	0	2,205	4,123
Disposals/transfers	(1)	(6)	0	(1,918)	(1,925)
Foreign exchange rate difference	0	1	0	(1)	0
As of 31 December 2020	**17,159**	**2,117**	**14**	**1,981**	**21,271**
Accumulated depreciation and allowances					
As of 1 January 2019	(10,948)	(1,693)	(14)	0	(12,655)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	(1,079)	(86)	0	0	(1,165)
Disposals	195	53	0	0	248
Impairment	0	0	0	(7)	(7)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2019	(11,832)	(1,726)	(14)	(7)	(13,579)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	(1,237)	(93)	0	0	(1,330)
Disposals	1	6	0	0	7
Impairment	(28)	0	0	7	(21)
Foreign exchange rate difference	0	(1)	0	0	(1)
As of 31 December 2020	**(13,096)**	**(1,814)**	**(14)**	**0**	**(14,924)**
Net book value					
As of 31 December 2019	3,580	226	0	1,688	5,494
As of 31 December 2020	**4,063**	**303**	**0**	**1,981**	**6,347**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2020, the Bank spent CZK 133 million (2019: CZK 120 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2020, the Bank recognised allowances against intangible assets of CZK 45 million (2019: CZK 24 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

26 Tangible assets

Movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures, and other	Acquisition of assets	Right-of-use assets	Total
Cost						
As of 1 January 2019	95	7,670	4,453	457	2,922	15,597
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	0	46	0	0	0	46
Additions	0	146	367	583	800	1,896
Disposals/transfers	0	(110)	(273)	(559)	(170)	(1,112)
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2019	95	7,752	4,547	481	3,552	16,427
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation from/to assets held for sale	(1)	61	0	0	0	60
Additions	0	227	383	427	430	1,467
Disposals/transfers	0	(298)	(318)	(671)	(432)	(1,719)
Foreign exchange rate difference	0	0	0	0	2	2
As of 31 December 2020	**94**	**7,742**	**4,612**	**237**	**3,552**	**16,237**
Accumulated depreciation and allowances						
As of 1 January 2019	0	(4,671)	(3,457)	0	0	(8,128)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	28	0	0	0	28
Additions	0	(235)	(327)	0	(499)	(1,061)
Disposals	0	64	270	0	14	348
Impairment	0	0	(1)	0	0	(1)
Foreign exchange rate difference	0	0	0	0	0	0
As of 31 December 2019	0	(4,814)	(3,515)	0	(485)	(8,814)
Effect of acquisition of companies	0	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	37	0	0	0	37
Additions	0	(283)	(344)	0	(522)	(1,149)
Disposals	0	234	309	0	47	590
Impairment	0	0	0	0	(3)	(3)
Foreign exchange rate difference	0	0	0	0	(1)	(1)
As of 31 December 2020	**0**	**(4,826)**	**(3,550)**	**0**	**(964)**	**(9,340)**
Net book value						
As of 31 December 2019	95	2,938	1,032	481	3,067	7,613
As of 31 December 2020	**94**	**2,916**	**1,062**	**237**	**2,588**	**6,897**

As of 31 December 2020, the Bank recognised allowances against tangible assets of CZK 245 million (2019: CZK 245 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2019: CZK 244 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on the Bank's headquarters optimisation strategy).

For detailed quantitative disclosures about lease contracts refer to Notes 5, 11, 12, 15, 22, 29, 37, 42(D), 42(E), 42(F), and 42(I).

The net book values of right-of-use assets were as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Real estate	2,481	2,934
Hardware	0	0
Other	107	133
Total net value of right-of-use assets	**2,588**	**3,067**

27 Assets held for sale

As of 31 December 2020, the Bank reported assets held for sale at a carrying amount of CZK 123 million (2019: CZK 118 million) comprising buildings and land owned by the Bank which the management of the Bank had decided to sell as a component of a plan to optimise the distribution network. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2020, the Bank recognised allowances against assets held for sale of CZK 96 million (2019: CZK 95 million).

As of 31 December 2020, *'Assets held for sale'* also included investments in subsidiaries and associates classified as assets held for sale at a carrying amount of CZK 0 million (2019: CZK 0 million). For detail, refer to Note 24.

28 Financial liabilities held for trading at fair value through profit or loss

As of 31 December 2020 and 2019, the *'Financial liabilities held for trading at fair value through profit or loss'* portfolio included only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any financial liabilities as *'Financial liabilities held for trading at fair value through profit or loss'*.

(CZKm)	31 Dec 2020	31 Dec 2019
Short sales	3,132	3,543
Derivative financial instruments	22,758	20,847
Financial liabilities held for trading at fair value through profit or loss	**25,890**	**24,390**

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 42(C).

29 Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Amounts due to banks	64,844	75,071
Amounts due to customers	849,029	762,157
Securities issued	20,625	27,964
Lease liabilities	2,641	3,086
Total financial liabilities at amortised cost	**937,139**	**868,278**

The total amount of loans from banks and customers received under repurchase transactions was CZK 13,883 million (2019: CZK 10,252 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets held for trading at fair value through profit or loss	0	0	0	0
Other assets held for trading at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	0	0	5,304	5,304
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	13,880	13,880	5,154	5,154
Total	**13,880**	**13,880**	**10,458**	**10,458**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Central banks	0	0
General governments	94,979	91,485
Credit institutions	64,844	75,071
Other financial corporations	51,613	52,559
Non-financial corporations	319,437	276,691
Households*	383,000	341,422
Total amounts due to banks and customers	**913,873**	**837,228**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Mortgage bonds	20,584	25,347
Depository bills of exchange	41	2,617
Total securities issued	**20,625**	**27,964**

The Bank issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

			Non-cash changes		
(CZKm)	31 Dec 2019	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2020
Mortgage bonds	25,347	(5,479)	578	138	20,584
Depository bills of exchange	2,617	(2,594)	18	0	41
Total securities issued	**27,964**	**(8,073)**	**596**	**138**	**20,625**

* The item includes the cash flow on principal and interest paid.

			Non-cash changes		
(CZKm)	31 Dec 2018	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2019
Mortgage bonds	28,809	(4,250)	803	(15)	25,347
Depository bills of exchange	1,532	1,068	17	0	2,617
Total securities issued	**30,341**	**(3,182)**	**820**	**(15)**	**27,964**

* The item includes the cash flow on principal and interest paid.

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2020	31 Dec 2019
In less than one year	0	0
In one to five years	5,977	4,781
In five to ten years	4,021	5,127
In ten to twenty years	10,586	15,439
More than twenty years	0	0
Total mortgage bonds	**20,584**	**25,347**

The securities issued detailed above include the following mortgage bonds issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2020 (CZKm)	31 Dec 2019 (CZKm)
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,966	1,944
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,528	3,490
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	5,092	5,074
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	0	4,931
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,009	3,011
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	853	858
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,207	1,219
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	937	940
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	824	830
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	780	748
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	787	757
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	797	769
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	804	776
Total mortgage bonds					**20,584**	**25,347**

* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for 2 to 30 years.
Six-month PRIBOR as of 31 December 2020 was 40 bps (2019: 222 bps).
The value of the interest rate swap CZK sale average for 5 years as of 31 December 2020 was 113 bps (2019: 208 bps).
The value of the interest rate swap CZK sale average for 10 years as of 31 December 2020 was 130 bps (2019: 174 bps).

30 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Accruals and deferred income	112	116
Settlement balances and outstanding items	296	210
Payables from securities trading and issues of securities	4,064	3,416
Payables from payment transactions	1,650	2,453
Other liabilities	3,519	3,881
Total accruals and other liabilities	**9,641**	**10,076**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 18 million (2019: CZK 18 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

31 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2020	31 Dec 2019
Provisions for contracted commitments (refer to Note 36)	575	569
Provisions for other credit commitments (refer to Notes 13 and 36)	1,306	609
Provisions for restructuring	81	113
Total provisions	**1,962**	**1,291**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

In 2020, the Bank adjusted provisions for restructuring related to the transformation project "KB Change" and recognised a restructuring provision in connection with planned structural changes based upon experience with Covid-19.

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 31 December 2018	343	121	230	694
Charge	25	30	0	55
Release	0	(35)	0	(35)
Use	(11)	(12)	(117)	(140)
Accrual	5	0	0	5
Remeasurement	103	0	0	103
Foreign exchange difference	0	0	0	0
Balance as of 31 December 2019	465	104	113	682
Charge	33	12	231	276
Release	(43)	(3)	(99)	(145)
Use	(8)	(9)	(164)	(181)
Accrual	4	0	0	4
Remeasurement	18	0	0	18
Foreign exchange difference	0	2	0	2
Balance as of 31 December 2020	**469**	**106**	**81**	**656**

32 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised. The Bank offsets deferred income tax assets and deferred income tax liabilities, then reports deferred tax in relation to taxes levied by the taxation authorities in the Czech Republic and Slovakia.

Net deferred tax assets are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	20	19
Difference between accounting and tax net book value of assets	1	1
Leases	0	0
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	0	0
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	0	0
Revaluation of debt securities at FVOCI – equity impact (refer to Note 41)	0	0
Other temporary differences	0	0
Net deferred tax assets	**21**	**20**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2020	31 Dec 2019
Banking provisions and allowances	162	44
Allowances for assets	71	69
Non-banking provisions and allowances	18	24
Difference between accounting and tax net book value of assets	(538)	(431)
Leases	14	3
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	54	51
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 39)	0	(67)
Revaluation of hedging derivatives – equity impact (refer to Note 40)	20	10
Revaluation of debt securities at FVOCI – equity impact (refer to Note 41)	(181)	(161)
Other temporary differences	165	192
Net deferred tax liabilities	**(215)**	**(266)**

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2020	2019
Balance as of the beginning of the period	**(246)**	**(5)**
Effect of acquisition of companies	0	0
Movement in the net deferred tax – profit and loss impact (refer to Note 16)	(8)	(182)
Movement in the net deferred tax – equity impact (refer to Notes 38, 39, 40, and 41)	60	(59)
Balance as of the end of the period	**(194)**	**(246)**

33 Subordinated debt

As of 31 December 2020, the Bank reports subordinated debt of CZK 2,629 million (2019: CZK 2,546 million). The subordinated debt was received by the Bank in October 2017 and is part of Tier 2 regulatory capital. The nominal value of the subordinated debt is EUR 100 million. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after 5 years.

34 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, totals CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. A proposal for distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2020:

Name of the entity	Ownership percentage
Société Générale S.A.	60.35%
NORTRUST NOMINEES LIMITED	4.26%
CHASE NOMINEES LIMITED	4.11%
CLEARSTREAM BANKING S.A.	2.21%
GIC PRIVATE LIMITED	1.36%
STATE STREET BANK AND TRUST COMPANY	1.08%

Société Générale S.A., being the only entity with a qualified holding in the Bank, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2020, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2019: 1,193,360 treasury shares at a cost of CZK 726 million).

Capital management

According to the Basel III rules valid for capital regulation, an additional Pillar 2 buffer of 2.2% was applied to the Bank in 2020 in addition to the minimum required capital ratio of 8.0%. That means the total SREP (Supervisory Review and Evaluation Process) capital requirement (TSCR) was 10.2% for the year 2020. On top of the TSCR capital ratio, a combined capital buffer of the final value of 6.0% was applied, consisting of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and the countercyclical buffer reaching a final amount of 0.5% in 2020 for exposures in the Czech Republic (the countercyclical buffer was decreased by the CNB as part of measures against the impact of the Covid-19 pandemic from 1.5% at the end of 2019 to 1.0% from 1 April 2020 and to 0.5% from 1 July 2020). The aforementioned changes resulted in the required overall capital ratio (OCR) of approximately 16.20% from 1 July 2020 (a decrease of 0.4 percentage points in comparison with the previous year, mainly due to a decrease in the countercyclical capital buffer). As its capital ratio stands well above the minimum required level, the Bank meets the required level of the overall capital ratio with an adequate reserve.

The required overall capital ratio (OCR) remains unchanged for the Bank at approximately 16.20% as of 1 January 2021. It is expected that in the course of 2021 the overall capital ratio may change as a result of implementation of the Capital Requirement Directive (CRD V), at which time the CNB will establish for banks in place of the systemic risk buffer a capital buffer for other systematically important institutions (O-SII) for the purpose of limiting risks associated with their systemic importance.

The Bank manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Bank must meet the requirements for evaluating required economic capital, stress testing, and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods mostly close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Bank regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's transaction risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Bank acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is largely classified as Common Equity Tier 1 capital.

The Bank's capital consists principally of the following balances: share capital, reserve funds, retained earnings, and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Bank did not purchase its own shares into treasury during 2020. As of 31 December 2020, the Bank held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2019: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Bank's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (which prospectively move to a regulation known as Basel IV) can vary over time and the regulation itself and its corresponding implementing regulatory rules are still under development, the Bank is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Bank's capital planning process.

The CNB, as the local regulatory authority, oversees the Bank's capital adequacy compliance on both separate and consolidated bases. During the past year, the Bank was in compliance with all regulatory requirements. The Bank also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

At the same time, the CNB is the local resolution authority that defines the most appropriate crisis resolution strategies for institutions and, among other things, sets the minimum requirement for own funds and eligible liabilities (MREL). The Bank received the CNB's decision of 7 July 2020 to determine the minimum MREL requirement. According to this decision, the Bank is obliged to maintain capital and eligible liabilities on a sub-consolidated basis in the amount of at least 8.58% of its total liabilities and capital and at least 19.2% of the total volume of risk exposure. The minimum requirement is the sum of the loss absorption amount of 9.6% of the total risk exposure volume and the recapitalisation amount of 9.6% of the total risk exposure volume. The Bank is obliged to maintain it no later than 31 December 2023.

35 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2020	31 Dec 2019	Change in the year
Cash and current balances with central banks (refer to Note 18)	20,980	16,870	4,110
Loans and advances to banks – current accounts with other banks	2,824	1,061	1,763
Amounts due to central banks	0	(1)	1
Amounts due to banks – current accounts	(5,963)	(5,364)	(599)
Cash and cash equivalents at the end of the year	**17,841**	**12,566**	**5,275**

The total cash outflow on leases in 2020 was in the amount of CZK 770 million (2019: CZK 802 million).

36 Commitments and contingent liabilities

Legal disputes
The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2020. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 13 million (2019: CZK 19 million) for these legal disputes (refer to Note 31). The Bank has also recorded a provision of CZK 5 million (2019: CZK 6 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2020, the Bank conducted a review of legal proceedings it had filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees
Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments
As of 31 December 2020, the Bank had capital commitments of CZK 432 million (2019: CZK 505 million), which include capital commitments in respect of current capital investment activities in the amount of CZK 281 million (2019: CZK 321 million).

Commitments arising from the issuance of letters of credit
Documentary letters of credit are written, irrevocable commitments by the Bank on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, overdrafts, and approved overdraft loans
Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit, and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Bank distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts, and approved overdraft loans ensues from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts, and approved overdraft loans, the Bank recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

As of 31 December 2020, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central banks	0	0	0	0	0	0	0	0
General governments	24,127	0	0	24,127	10	0	0	10
Credit institutions	4,734	8	0	4,742	2	0	0	2
Other financial corporations	13,356	22	0	13,378	21	1	0	22
Non-financial corporations	111,040	6,803	1,713	119,556	141	244	816	1,201
Households*	29,280	613	39	29,932	21	27	23	71
Total commitments and contingencies	**182,537**	**7,446**	**1,752**	**191,735**	**195**	**272**	**839**	**1,306**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2019, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central banks	0	0	0	0	0	0	0	0
General governments	17,661	473	0	18,134	6	0	0	6
Credit institutions	3,015	0	0	3,015	0	0	0	0
Other financial corporations	6,058	110	0	6,168	4	0	0	4
Non-financial corporations	102,008	3,947	1,175	107,130	83	51	418	552
Households*	29,369	584	24	29,977	15	16	16	47
Total commitments and contingencies	**158,111**	**5,114**	**1,199**	**164,424**	**108**	**67**	**434**	**609**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Financial commitments and contingencies comprise the following:

(CZKm)	**31 Dec 2020**	**31 Dec 2019**
Non-payment guarantees including commitments to issued non-payment guarantees	39,881	38,447
Payment guarantees including commitments to issued payment guarantees	19,519	19,624
Committed facilities and unutilised overdrafts	13,016	10,176
Undrawn credit commitments	92,257	71,241
Unutilised overdrafts and approved overdraft loans	17,022	14,462
Unutilised limits under framework agreements to provide financial services	6,161	6,371
Open customer/import letters of credit not covered	550	464
Standby letters of credit not covered	3,061	2,907
Confirmed supplier/export letters of credit	268	732
Total commitments and contingencies	**191,735**	**164,424**

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued a given guarantee and the collateral obtained. As of 31 December 2020, the Bank recorded provisions for these risks in the amount of CZK 1,306 million (2019: CZK 609 million). Refer to Note 31.

Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:

(CZKm)	31 Dec 2020	31 Dec 2019
Agriculture, forestry, and fishing	3,055	2,753
Mining and quarrying	1,105	1,002
Manufacturing	29,686	22,894
Electricity, gas, steam, and air conditioning supply	6,110	5,320
Water supply, sewerage, waste management, and remediation activities	1,059	707
Construction	34,590	34,288
Wholesale and retail trade, repair of motor vehicles and motorcycles	13,074	10,439
Transportation and storage	6,252	5,354
Accommodation and food service activities	636	614
Information and communication	4,335	4,984
Real estate activities	6,488	4,225
Professional, scientific, and technical activities	9,655	9,270
Administrative and support service activities	1,014	887
Public administration and defence, compulsory social security	253	152
Education	187	122
Human health and social work activities	509	444
Arts, entertainment, and recreation	1,356	796
Other service activities	192	2,879
Total commitments and contingencies to non-financial corporations	**119,556**	**107,130**

Exposure to the automotive industry and related suppliers is CZK 3,568 million (2019: CZK 3,415 million).

The Bank considers the exposures in the sector 'Accommodation and food service activities' as higher risk sector in view of the Covid-19 pandemic (refer to Note 3.3.3 Significant accounting judgments and estimates).

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2020:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**6,185**	**3,930**	**2,148**	**10,442**	**13,737**
of which:					
– Other financial corporations	6	10	0	161	2,660
– Non-financial corporations	726	3,786	2,128	9,400	7,299
– Households**	5,453	134	20	27	81

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2019:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**5,293**	**3,738**	**2,019**	**6,365**	**5,010**
of which:					
– Other financial corporations	32	16	0	1,059	391
– Non-financial corporations	525	3,584	1,997	5,148	1,874
– Households**	4,736	138	22	48	34

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at the latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of capital market developments, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

37 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2020, the Bank was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments, and other types of transactions. These transactions are carried out on an arm's length basis.

Amounts due to and from the Group subsidiaries

The following table summarises loans issued to the Group subsidiaries and their deposits with the Bank:

(CZKm)	31 Dec 2020	31 Dec 2019
BASTION EUROPEAN INVESTMENTS S.A.	2,503	2,550
ESSOX s.r.o.	12,535	12,272
ESSOX FINANCE, s.r.o.	732	2,243
Factoring KB, a.s.	5,896	6,912
KB Real Estate, s.r.o.	362	392
Modrá pyramida stavební spořitelna, a.s.	21,243	15,842
SG Equipment Finance Czech Republic s.r.o.	8,616	8,880
STD2, s.r.o.	340	365
Total loans	**52,227**	**49,456**
BASTION EUROPEAN INVESTMENTS S.A.	625	604
ESSOX s.r.o.	815	763
ESSOX FINANCE, s.r.o.	0	0
Factoring KB, a.s.	24	23
KB Penzijní společnost, a.s.	195	634
KB Real Estate, s.r.o.	54	39
KB SmartSolutions, s.r.o.	5	9
Modrá pyramida stavební spořitelna, a.s.	4	4
Protos, uzavřený investiční fond, a.s.	11	161
SG Equipment Finance Czech Republic s.r.o.	1,909	1,416
STD2, s.r.o.	26	23
VN 42, s.r.o.	196	31
Total deposits	**3,864**	**3,707**

The following table summarises the fair value of financial derivatives to which the Bank is a party and in relation to the Group subsidiaries:

(CZKm)	31 Dec 2020	31 Dec 2019
Modrá pyramida stavební spořitelna, a.s.	471	214
Protos, uzavřený investiční fond, a.s.	1	0
SG Equipment Finance Czech Republic s.r.o.	0	0
Total positive fair value of financial derivatives	**472**	**214**
Modrá pyramida stavební spořitelna, a.s.	249	382
Protos, uzavřený investiční fond, a.s.	0	68
SG Equipment Finance Czech Republic s.r.o.	1	0
Total negative fair value of financial derivatives	**250**	**450**

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 18,500 million (2019: CZK 23,200 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 400 million (2019: CZK 500 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2019: CZK 417 million).

As of 31 December 2020 and 2019, other amounts due to and from the Group subsidiaries were not significant.

Interest income from loans granted to the Group subsidiaries:

(CZKm)	2020	2019
BASTION EUROPEAN INVESTMENTS S.A.	99	101
ESSOX s.r.o.	160	200
ESSOX FINANCE, s.r.o.	7	9
Factoring KB, a.s.	34	83
KB Real Estate, s.r.o.	12	13
Modrá pyramida stavební spořitelna, a.s.	319	290
SG Equipment Finance Czech Republic s.r.o.	116	114
STD2, s.r.o.	7	7
Total interest from loans granted by the Bank	**754**	**817**

In connection with lease contracts, the Bank records:

	31 Dec 2020					31 Dec 2019				
(CZKm)	Right-of-use assets	Sub-lease receivables	Lease liabilities	Depreciation expense	Interest expense	Right-of-use assets	Sub-lease receivables	Lease liabilities	Depreciation expense	Interest expense
ESSOX s.r.o.	0	0	0	(2)	0	(10)	10	0	(3)	0
Factoring KB, a.s.	(4)	4	0	(2)	0	(6)	7	0	(2)	0
KB Penzijní společnost, a.s.	(6)	6	0	(3)	0	(11)	11	0	(4)	0
KB Real Estate, s.r.o.	92	0	67	65	2	153	0	154	63	4
Modrá pyramida stavební spořitelna, a.s.	1	0	1	0	0	1	0	1	0	0
SG Equipment Finance Czech Republic s.r.o.	(11)	11	0	(6)	0	(18)	18	0	(6)	0
STD2, s.r.o.	42	0	43	42	1	82	0	83	41	2
Total	**114**	**21**	**111**	**94**	**3**	**191**	**46**	**238**	**89**	**6**

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2020 amounted to CZK 967 million (2019: CZK 444 million) and total expenses other than depreciation and interest expenses related to lease contracts amounted to CZK 1,307 million (2019: CZK 1,389 million), mainly represented by financial derivatives transactions.

As of 31 December 2020, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 1,424 million (2019: CZK 696 million).

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include the following:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,594	0	7,753	0
ALD Automotive Slovakia s. r. o.	31	0	27	0
BRD - GROUPE Société Générale	22	0	21	0
Komerční pojišťovna, a.s.	1,116	593	999	928
PJSC Rosbank	170	0	601	0
SG Zurich	219	0	202	0
Société Générale New York	10	0	0	0
Société Générale Londres	0	0	16	0
Société Générale China	0	0	41	0
Société Générale International Limited	2	0	2	0
Société Générale Paris	18,128	4,317	11,772	4,736
Société Générale oddzial w Polsce	179	0	2	0
Total	**26,471**	**4,910**	**21,436**	**5,664**

Principal balances owed to Société Générale Group entities include the following:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	371	0	370	0
BRD - GROUPE Société Générale	3	0	1	0
Crédit du Nord	245	0	75	0
Komerční pojišťovna, a.s.	2,085	263	2,984	61
PJSC Rosbank	0	0	4	0
SG Amsterdam	8	0	20	0
Société Générale Bank & Trust	0	0	52	0
SG Banques au Liban	0	0	1	0
SG Bruxelles	0	0	3	0
Société Générale Factoring	102	0	774	0
SG Frankfurt	12	0	0	0
SG ISSUER	0	0	1	0
Société Générale Londres	47	0	31	0
Société Générale Luxembourg	7	0	0	0
SG Milan	10	0	11	0
Société Générale New York	0	0	10	0
Société Générale oddzial w Polsce	3	2	6	0
SG Option Europe	1	0	1	0
Société Générale Paris	43,503	11,295	50,472	9,208
SG Private Banking (Suisse)	116	0	92	0
Société Générale Succursal en Espana	31	0	0	0
SG Zurich	12	0	81	0
SGSS Nantes	0	0	3	0
SOGEPROM Česká republika s.r.o.	4	0	4	0
Total	**46,560**	**11,560**	**54,996**	**9,269**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty, and fair values of derivatives.

As of 31 December 2020, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 498,807 million (2019: CZK 510,909 million) and CZK 449,238 million (2019: CZK 455,891 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances, and guarantees for credit exposures.

As of 31 December 2020 and 2019, the Bank also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2020, the Bank had total income of CZK 61,924 million (2019: CZK 34,457 million) and total expenses of CZK 64,216 million (2019: CZK 34,157 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy, and software services.

In connection with lease contracts, the Bank records:

	31 Dec 2020				31 Dec 2019			
(CZKm)	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense
ALD Automotive s.r.o.	105	62	14	1	122	74	17	1
ALD Automotive Slovakia s. r. o.	1	0	0	0	0	0	0	0

As of 31 December 2020, the Bank reported a loss of CZK 3 million (2019: CZK 2 million) on terminated contracts.

Remuneration and amounts due from members of the Board of Directors and Supervisory Board

Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:

(CZKm)	2020	2019
Remuneration to members of the Board of Directors*	74	77
Remuneration to members of the Supervisory Board**	6	6
Total	**80**	**83**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2020 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2020. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement.

** **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2020 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2020	31 Dec 2019
Number of the Board of Directors members at the end of the period	6	6
Number of the Supervisory Board members at the end of the period	9	9

In respect of loans and guarantees as of 31 December 2020, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 47 million (2019: CZK 21 million). During 2020, draw-downs of CZK 30 million (2019: CZK 1 million) were made under the loans granted. Loan repayments during 2020 amounted to CZK 1 million (2019: CZK 3 million). The increase of loans in 2020 is affected by new members already having loans in the amount of CZK 3 million. Loans to resigning members amounted to CZK 6 million as of 31 December 2019.

38 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2020	2019
Remeasurement of retirement benefits plan as of 1 January	(266)	(163)
Deferred tax asset/(liability) as of 1 January	51	31
Balance as of 1 January	**(215)**	**(132)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(18)	(103)
Deferred tax	3	20
	(15)	**(83)**
Remeasurement of retirement benefits plan as of 31 December	(284)	(266)
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	54	51
Balance as of 31 December	**(230)**	**(215)**

39 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2020	2019
Revaluation of equity securities at FVOCI option as of 1 January	351	191
Deferred tax asset/(liability) as of 1 January	(67)	(36)
Balance as of 1 January	**284**	**155**
Movements during the year		
Gains/(losses) from changes in fair value	0	160
Deferred tax	0	(31)
	0	**129**
Reclassification to Non-trading financial assets at fair value through profit or loss (refer to Note 21)	(351)	0
Deferred tax	67	0
	(284)	**0**
Revaluation of equity securities at FVOCI option as of 31 December	0	351
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	0	(67)
Balance as of 31 December	**0**	**284**

40 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges and in the hedge of foreign currency risk of foreign net investment are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2020	2019
Cash flow hedge fair value as of 1 January	(55)	(27)
Deferred tax asset/(liability) as of 1 January	10	5
Hedge of foreign currency risk of foreign net investment	77	69
Balance as of 1 January	**32**	**47**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 42(C))	281	631
Deferred tax	(53)	(120)
	228	**511**
Transferred to interest income/expense	(346)	(660)
Deferred tax	66	125
	(280)	**(535)**
Transferred to personnel expenses	11	1
Deferred tax	(2)	0
	9	**1**
Transferred to general and administrative expenses	4	0
Deferred tax	(1)	0
	3	**0**
Change in the hedge of foreign currency risk of foreign net investment	(24)	8
	(24)	**8**
Cash flow hedge fair value as of 31 December	(105)	(55)
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	20	10
Hedge of foreign currency risk of foreign net investment	53	77
Balance as of 31 December	**(32)**	**32**

41 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2020	2019
Reserve from fair value revaluation as of 1 January	846	568
Deferred tax asset/(liability) as of 1 January	(161)	(108)
Impairment as of 1 January	2	2
Balance as of 1 January	**687**	**462**
Movements during the year		
Gains/(losses) from changes in fair value	101	278
Deferred tax	(20)	(53)
	81	**225**
Impairment	3	0
	3	**0**
Reserve from fair value revaluation as of 31 December	947	846
Deferred tax asset/(liability) as of 31 December (refer to Note 32)	(181)	(161)
Impairment as of 31 December	5	2
Balance as of 31 December	**771**	**687**

42 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating
The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Bank uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Bank's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

The Bank focuses on updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Bank as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models, and the monitoring process within the Group.

Even more than in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the tested periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities
For entrepreneurs, corporate clients, and municipalities, the Bank uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating that reflects the quality of available guarantees and collaterals and evaluates the potential loss from counterparty transactions. These models are also used for regular estimation of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements. For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and a qualitative rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial, and personal data, data on client behaviour within the Bank, and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Bank (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of a qualitative rating acquired through the assessment of non-financial information relating to a specific municipality.

The Bank is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors was validated by the regulator and was implemented in 2020.

(b) Ratings for banks and sovereigns

For banks, other financial corporations (namely insurance companies, brokers, and funds), and for sovereigns (central banks and central governments), the Bank uses qualitative rating models developed by Société Générale.

(c) Ratings for individual clients

The Bank uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which is derived from an evaluation of clients' personal data, data on the behaviour within the Bank, and data available from external credit bureaus; and (2) a behavioural rating that is based on evaluating information on the clients' behaviour within the Bank. The application rating is primarily used for active clients' applications for new funding transactions, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Bank to its existing clients.

(d) Internal register of negative information

The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Bank and the Group from risky entities.

(e) Credit bureaus

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially in the retail client segments (individuals and small businesses).

(f) Credit fraud prevention

The Bank uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds are focused mainly on individual clients and the small business segment. The Bank continued in extending this system to the corporate segment during 2020 and anticipates finalising this activity in 2021.

(g) Granting process

Through 2020, the Bank continued to focus upon simplifying its processes and accelerating credit granting to all client segments (while gradually introducing digital processes). Nevertheless, the main challenge was to react adequately to the Covid-19 crisis. The Bank decided not to dramatically change its credit risk appetite and granting policy but to apply a series of targeted measures, such as to limit credit risk appetite for clients from sensitive sectors vulnerable to Covid-19 impacts or participating in the proactive governmental measures (loan moratoria, Covid-19 programmes).

Loan instalment moratoria

The Bank was among the first financial institutions to begin offering tailor-made solutions for loan instalment deferrals to its clients as a flexible reaction to the emerging Covid-19 pandemic. The Bank continued this initiative also by providing loan instalment deferrals compliant with the new Czech statutory norm effective from April 2020. These loan instalment deferrals were in line with general European regulatory norms issued by the European Banking Authority (EBA) and the Bank also applied the respective classification rules following EBA guidelines. From the end of October 2020, when loan instalment deferrals under the Czech law were ended, the Bank was again ready to offer the clients individual tailor-made solutions. The Bank applied standard classification rules assessing the quality of loan exposures in line with the regulation.

Credit concentration risk

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses, and stress testing. The Bank maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors, and collateral providers. A system of internal limits has been established so that the Bank complies with the regulatory limits set by law in respect of concentration risk. Refer to Notes 22 and 36 for quantitative information about this type of risk.

The Bank's maximum credit exposure as of 31 December 2020:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Collateral applied: Statement of financial position	Collateral applied: Off-balance sheet*	Collateral applied: Total collateral
Current balances with central banks	**12,484**	**x**	**12,484**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**26,321**	**x**	**26,321**	**0**	**x**	**0**
Non-trading financial assets at fair value through profit or loss	**279**	**x**	**279**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,068**	**x**	**13,068**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**40,055**	**x**	**40,055**	**0**	**x**	**0**
Financial assets at amortised cost	**967,434**	**191,735**	**1,159,169**	**306,026**	**36,442**	**342,468**
of which:						
– Other financial corporations	66,903	13,378	80,281	14,467	2,837	17,304
– Non-financial corporations	228,308	119,556	347,864	61,188	23,339	84,527
– Households**	284,728	29,932	314,660	226,756	5,715	232,471
Revaluation differences on portfolios hedge items	**0**	**0**	**0**	**0**	**x**	**0**
Total	**1,059,641**	**191,735**	**1,251,376**	**306,026**	**36,442**	**342,468**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Bank's maximum credit exposure as of 31 December 2019:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Collateral applied: Statement of financial position	Collateral applied: Off-balance sheet*	Collateral applied: Total collateral
Current balances with central banks	**6,863**	**x**	**6,863**	**0**	**x**	**0**
Financial assets held for trading at fair value through profit or loss	**24,063**	**x**	**24,063**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**9,544**	**x**	**9,544**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**34,599**	**x**	**34,599**	**0**	**x**	**0**
Financial assets at amortised cost	**899,928**	**164,424**	**1,064,352**	**285,377**	**22,425**	**307,802**
of which:						
– Other financial corporations	65,693	6,168	76,021	13,814	1,498	15,312
– Non-financial corporations	224,357	107,130	327,075	56,327	13,128	69,455
– Households**	268,380	29,977	298,357	210,427	4,978	215,405
Revaluation differences on portfolios hedge items	**0**	**0**	**0**	**0**	**x**	**0**
Total	**974,997**	**164,424**	**1,139,421**	**285,377**	**22,425**	**307,802**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Bank's debt securities, allocated by sector and currency, comprised the following as of 31 December 2020:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,246	12	3,258	24,406	15,411	39,817	80,828	4	80,832
Credit institutions	81	0	81	0	237	237	0	0	0
Other financial corporations	3	0	3	0	0	0	280	68	348
Non-financial corporations	0	0	0	0	0	0	2,759	0	2,759
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**3,330**	**12**	**3,342**	**24,406**	**15,648**	**40,054**	**83,867**	**72**	**83,939**

* This item also includes individual entrepreneurs.

The Bank's debt securities, allocated by sector and currency, comprised the following as of 31 December 2019:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	4,021	10	4,031	16,834	15,242	32,076	61,316	7	61,323
Credit institutions	77	0	77	0	2,009	2,009	0	0	0
Other financial corporations	3	0	3	0	0	0	350	0	350
Non-financial corporations	1	0	1	0	0	0	2,342	412	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**4,102**	**10**	**4,112**	**16,834**	**17,251**	**34,085**	**64,008**	**419**	**64,427**

* This item also includes individual entrepreneurs.

Staging of loans and advances

The Bank classifies its loans and advances arising from financial activities into three categories (Stages 1, 2, and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Stage 3).
The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

I. After 12 months, reclassification of the forborne exposures to performing (to Stage 2), and further reclassification to Stage 1 is possible after an additional 12 months based on an analysis of the debtor's financial condition;
II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

The Bank implemented a new definition of default at the beginning of the second quarter of 2020 to be compliant with EBA Guidelines in applying the definition of default under Article 178 of Regulation (EU) No 575/2013. The new definition of default was implemented also in the subsidiaries at the end of 2020. The Bank's subsidiary ESSOX will launch the new definition of default during the first quarter of 2021.

Characteristics of financial assets at amortised costs that are not rated

The Bank does not rate other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not constitute financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate, and prepayments made.

Allowances for loans and advances

The Bank uses the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile, and characteristics of the loans and advances, allowances are created either: (i) individually (for selected non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on the observed history of defaults and losses and forward-looking adjustments. In 2020, the Bank updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses, and (ii) the new macroeconomic forecast including predictions of a financial crisis caused by the Covid-19 pandemic. Following the forward-looking concept, the Bank also identified the riskiest portfolios (mainly in the retail segment) significantly affected by the Covid-19 pandemic, transferred them to Stage 2, and created appropriate provisions.

The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Individually	Statistical model	Individually	Statistical model
Central banks	0	0	0	0
General governments	234	0	12	2
Credit institutions	0	0	23	0
Other financial corporations	300	3	57	2
Non-financial corporations	6,690	2,198	4,719	1,866
Households*	292	4,444	0	4,134
Total	**7,516**	**6,645**	**4,811**	**6,004**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral

The Bank uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented within its internal system the rules for assessing collateral's eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of the sales process, historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules, and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by the Bank's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to Regulation (EU) No. 575/2013 and CNB Regulation No. 163/2014.

The Bank (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

Real estate collateral valuation

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans and advances are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts. In 2019, the Bank started to use statistical valuation models for limited numbers (maximum 20%) of residential real estate valuations.

In 2020, together with the principal activity involving real estate valuation, the Bank focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

Recovery of loans and advances from borrowers
The Bank responded progressively to impacts of the Covid-19 pandemic and has adjusted its processes in the collection area in order to be able to react flexibly to the situation of clients impacted by this pandemic. An increased inflow of clients caused by the pandemic was recorded in the second half of 2020. Nevertheless, the Bank is still continuing to increase its effectiveness in the collection process, (e.g. by digitisation and automation of some activities). These activities also involve improving efficiency in using external recovery capacities. During 2020, the Bank continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Bank was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and advances from both retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of a secured creditor, member of the creditors' committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Bank depending on the given debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments
The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives
The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2020, the Bank was exposed to credit exposure of CZK 255,257 million (2019: CZK 226,854 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2020 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that a limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

(B) Market risk

Segmentation of the Bank's financial operations
For market risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

Products generating market risk in the Market Book
Products that are traded by the Bank and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures, and futures on debt securities), government and corporate bonds, bills of exchange programmes, and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. The market risks associated with these derivatives (e.g. forex risk, interest risk, volatility risk, correlation risk, etc.) arises between closing transactions with Société Générale and client transactions where we either do not have a CSA collateral agreement with the particular client or the collateral currency differs from the agreed collateral currency under the CSA agreement with Société Générale.

Market risk management in the Market Book
The Bank has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as a whole, the Bank has been measuring and limiting the market risks for the trading and treasury activities separately.

The Bank monitors compliance with all limits on a daily basis. If these are exceeded, the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Bank uses the one-day historical 99% Value-at-Risk (hereafter only “VaR”) concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK (27) million as of 31 December 2020 (2019: CZK (13) million). The average VaR was CZK (34) million in 2020 (2019: CZK (30) million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Although actual results should not exceed VaR more frequently than on 1% of the days within a given period, the combination of market turmoil due to the Covid-19 outbreak followed by accommodative monetary policy on the part of central banks caused 8 P&L vs. VaR breaches within the past 260 business days, or 4 P&L vs. VaR breaches when measured against the total economic P&L (i.e. beyond the expectation of up to 3 excesses in the past 260 business days).

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate, and CO_2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Bank complies with Société Générale Group’s VaR and stress tests methodology and uses the Group’s software for market risk management.

Market risk in the Structural Book

The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank’s sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off, and adverse parallel shift of the market yield curve by 0.1% p.a. It is determined as the present value of the costs of closing out the Bank’s open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2020, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK (71) million (2019: CZK 3 million), the EUR sensitivity was CZK 5 million (2019: CZK 7 million), the USD sensitivity was CZK 1 million (2019: CZK (1) million), and for other currencies, it was CZK (0.1) million (2019: CZK (0.3) million).

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

	31 Dec 2020 Nominal value		31 Dec 2019 Nominal value		31 Dec 2020 Fair value		31 Dec 2019 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	1,313,601	1,313,601	1,109,287	1,109,287	10,107	9,509	8,946	9,681
Interest rate forwards and futures*	157,249	157,249	224,330	224,330	0	0	6	28
Interest rate options	77,836	77,836	82,428	82,428	168	168	372	372
Total interest rate instruments	**1,548,686**	**1,548,686**	**1,416,045**	**1,416,045**	**10,275**	**9,677**	**9,324**	**10,081**
Foreign currency instruments								
Currency swaps	401,447	401,942	363,710	363,726	3,470	3,752	2,645	2,665
Cross currency swaps	227,515	226,982	183,506	183,489	7,124	6,549	4,935	4,469
Currency forwards	91,677	92,900	106,471	109,035	863	1,534	406	1,417
Purchased options	62,846	63,314	50,723	50,272	1,226	0	1,119	0
Sold options	63,314	62,846	50,271	50,722	0	1,226	0	1,119
Total currency instruments	**846,799**	**847,984**	**754,681**	**757,244**	**12,683**	**13,061**	**9,105**	**9,670**
Other instruments								
Forwards on emission allowances	0	0	3,929	4,004	0	0	231	305
Forwards on debt securities	393	393	0	0	0	0	0	0
Commodity forwards	0	0	1,031	1,031	0	0	30	29
Commodity swaps	226	226	5,460	5,460	21	20	767	762
Purchased commodity options	0	0	6	6	0	0	0	0
Sold commodity options	0	0	6	6	0	0	0	0
Total other instruments	**619**	**619**	**10,432**	**10,507**	**21**	**20**	**1,028**	**1,096**
Total	**2,396,104**	**2,397,289**	**2,181,158**	**2,183,796**	**22,979**	**22,758**	**19,457**	**20,847**

* Fair values include only forwards. Regarding futures, the Group places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2020:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	289,062	746,884	277,655	1,313,601
Interest rate forwards and futures*	123,585	33,664	0	157,249
Interest rate options	4,374	67,032	6,430	77,836
Total interest rate instruments	**417,021**	**847,580**	**284,085**	**1,548,686**
Foreign currency instruments				
Currency swaps	385,368	16,079	0	401,447
Cross currency swaps	56,778	134,263	36,474	227,515
Currency forwards	57,336	34,262	79	91,677
Purchased options	37,576	25,270	0	62,846
Sold options	38,084	25,230	0	63,314
Total currency instruments	**575,142**	**235,104**	**36,553**	**846,799**
Other instruments				
Forwards on debt securities	393	0	0	393
Commodity swaps	218	8	0	226
Total other instruments	**611**	**8**	**0**	**619**
Total	**992,774**	**1,082,692**	**320,638**	**2,396,104**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	217,944	563,135	328,208	1,109,287
Interest rate forwards and futures*	207,800	16,530	0	224,330
Interest rate options	5,937	23,059	53,432	82,428
Total interest rate instruments	**431,681**	**602,724**	**381,640**	**1,416,045**
Foreign currency instruments				
Currency swaps	355,690	8,020	0	363,710
Cross currency swaps	31,555	114,283	37,668	183,506
Currency forwards	76,860	29,535	76	106,471
Purchased options	22,556	28,167	0	50,723
Sold options	22,311	27,960	0	50,271
Total currency instruments	**508,972**	**207,965**	**37,744**	**754,681**
Other instruments				
Forwards on emission allowances	3,929	0	0	3,929
Commodity forwards	1,031	0	0	1,031
Commodity swaps	4,653	807	0	5,460
Purchased commodity options	6	0	0	6
Sold commodity options	6	0	0	6
Total other instruments	**9,625**	**807**	**0**	**10,432**
Total	**950,278**	**811,496**	**419,384**	**2,181,158**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2020 Nominal value		31 Dec 2019 Nominal value		31 Dec 2020 Fair value		31 Dec 2019 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for fair value hedging	967,953	967,953	1,043,866	1,043,866	12,412	7,922	8,004	10,061
Cross currency swaps for cash flows hedging	38,496	37,946	42,586	40,885	656	354	1,539	6
Forwards on stocks for cash flow hedging	51	51	53	53	0	8	1	0
Forwards on stocks for fair value hedging	33	33	27	27	0	4	0	2
Total	**1,006,533**	**1,005,983**	**1,086,532**	**1,084,831**	**13,068**	**8,288**	**9,544**	**10,069**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2020:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	184,330	416,956	366,667	967,953
Cross currency swaps for cash flows hedging	7,973	26,836	3,687	38,496
Forwards on stocks for cash flow hedging	11	40	0	51
Forwards on stocks for fair value hedging	17	16	0	33
Total	**192,331**	**443,848**	**370,354**	**1,006,533**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2019:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	215,529	426,366	401,971	1,043,866
Cross currency swaps for cash flows hedging	6,746	31,470	4,370	42,586
Forwards on stocks for cash flow hedging	21	32	0	53
Forwards on stocks for fair value hedging	18	9	0	27
Total	**222,314**	**457,877**	**406,341**	**1,086,532**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2020			31 Dec 2019		
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	464	807	18	704	1,614	104

The Bank treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met. The Bank's strategy remains unchanged in line with IAS 39.

During 2020, the Bank recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments in long-term government securities classified into the "Hold to collect contractual cash flows and sell" business model and investments in long-term securities classified into the "Hold to collect contractual cash flows" business model are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the 'Securities issued' portfolio are hedged by interest rate swaps;
   c. The fair values of fixed-rate deposits, loans taken, or repos are hedged by interest rate swaps;
   d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
   e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
   f. The fair values of a portfolio of current accounts from clients are hedged by a portfolio of interest rate swaps.

2. Foreign exchange risk hedging:
   a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively.

3. Share price risk hedging:
   a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in foreign subsidiaries:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

In 2020, the loss from the ineffectiveness of hedging relationships was in the amount of CZK 2 million (2019: gain of CZK 1 million).

Further information on hedges is provided in Notes 3, 5, and 7 to these Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	20,980	0	0	0	0	20,980
Financial assets and other assets held for trading at fair value through profit or loss	3,342	0	0	0	22,979	26,321
Non-trading financial assets at fair value through profit or loss	0	0	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	0	0	13,068	13,068
Financial assets at fair value through other comprehensive income	3,290	1,694	10,288	24,782	1	40,055
Financial assets at amortised cost	511,840	83,695	254,209	107,270	0	957,014
– Loans and advances to banks	260,554	2,896	11,984	7,900	0	283,334
– Loans and advances to customers	248,465	61,942	218,457	60,877	0	589,741
– Debt securities	2,821	18,857	23,768	38,493	0	83,939
Current tax assets	0	0	0	0	1,147	1,147
Deferred tax assets	0	0	0	0	21	21
Prepayments, accrued income, and other assets	0	0	0	0	3,399	3,399
Investments in subsidiaries and associates	0	0	0	0	17,857	17,857
Intangible assets	0	0	0	0	6,347	6,347
Tangible assets	0	0	0	0	6,897	6,897
Assets held for sale	0	0	0	0	123	123
Total assets	**539,452**	**85,389**	**264,497**	**132,052**	**72,118**	**1,093,508**
Liabilities						
Amounts due to central banks	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	3,132	0	0	0	22,758	25,890
Negative fair values of hedging financial derivatives	0	0	0	0	8,288	8,288
Financial liabilities at amortised cost	81,409	15,856	22,298	8,838	808,738	937,139
– Amounts due to banks	50,181	3,127	7,395	4,141	0	64,844
– Amounts due to customers*	30,872	8,701	718	0	808,738	849,029
– Securities issued	226	3,682	12,917	3,800	0	20,625
– Lease liabilities	130	346	1,268	897	0	2,641
Revaluation differences on portfolios hedge items	0	0	0	0	2,548	2,548
Current tax liabilities	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	215	215
Accruals and other liabilities	0	0	0	0	9,641	9,641
Provisions	0	0	0	0	1,962	1,962
Subordinated debt	2,629	0	0	0	0	2,629
Total liabilities	**87,170**	**15,856**	**22,298**	**8,838**	**854,150**	**988,312**
Statement of Financial Position interest rate gap as of 31 December 2020	**452,282**	**69,533**	**242,199**	**123,214**	**(782,032)**	**105,196**
Nominal value of derivatives**	1,201,452	487,025	667,374	426,799	0	2,782,650
Total off-balance sheet assets	**1,201,452**	**487,025**	**667,374**	**426,799**	**0**	**2,782,650**
Nominal value of derivatives**	1,359,971	498,510	662,967	260,119	0	2,781,567
Undrawn portion of loans***	(8,304)	(10,692)	3,772	15,224	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,351,667**	**487,818**	**666,739**	**275,343**	**0**	**2,781,567**
Net off-balance sheet interest rate gap as of 31 December 2020	**(150,215)**	**(793)**	**635**	**151,456**	**0**	**1,083**
Cumulative interest rate gap as of 31 December 2020	**302,067**	**370,807**	**613,641**	**888,311**	**106,279**	**x**

* This item in column Undefined principally includes client deposits for which there is no information about contractual maturity or repricing date.

** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.

*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	16,870	0	0	0	0	16,870
Financial assets and other assets held for trading at fair value through profit or loss	4,112	0	0	0	19,951	24,063
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	0	0	9,544	9,544
Financial assets at fair value through other comprehensive income	3,950	1,163	9,206	19,766	514	34,599
Financial assets at amortised cost	480,460	76,296	252,739	82,418	0	891,913
– Loans and advances to banks	240,859	4,222	10,600	4,000	0	259,681
– Loans and advances to customers	236,981	66,179	215,187	49,458	0	567,805
– Debt securities	2,620	5,895	26,952	28,960	0	64,427
Current tax assets	0	0	0	0	13	13
Deferred tax assets	0	0	0	0	20	20
Prepayments, accrued income, and other assets	0	0	0	0	3,525	3,525
Investments in subsidiaries and associates	0	0	0	0	17,747	17,747
Intangible assets	0	0	0	0	5,494	5,494
Tangible assets	0	0	0	0	7,613	7,613
Assets held for sale	0	0	0	0	118	118
Total assets	**505,392**	**77,459**	**261,945**	**102,184**	**64,539**	**1,011,519**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	3,543	0	0	0	20,847	24,390
Negative fair values of hedging financial derivatives	0	0	0	0	10,069	10,069
Financial liabilities at amortised cost	113,470	25,471	24,763	10,043	694,531	868,278
– Amounts due to banks	56,385	7,491	7,215	3,980	0	75,071
– Amounts due to customers*	52,463	14,414	749	0	694,531	762,157
– Securities issued	4,428	3,219	15,400	4,917	0	27,964
– Lease liabilities	194	347	1,399	1,146	0	3,086
Revaluation differences on portfolios hedge items	0	0	0	0	(3,815)	(3,815)
Current tax liabilities	0	0	0	0	199	199
Deferred tax liabilities	0	0	0	0	266	266
Accruals and other liabilities	0	0	0	0	10,076	10,076
Provisions	0	0	0	0	1,291	1,291
Subordinated debt	2,546	0	0	0	0	2,546
Total liabilities	**119,560**	**25,471**	**24,763**	**10,043**	**733,464**	**913,301**
Statement of Financial Position interest rate gap as of 31 December 2019	**385,832**	**51,988**	**237,182**	**92,141**	**(668,925)**	**98,218**
Nominal value of derivatives**	1,071,985	601,798	545,939	466,281	0	2,686,003
Total off-balance sheet assets	**1,071,985**	**601,798**	**545,939**	**466,281**	**0**	**2,686,003**
Nominal value of derivatives**	1,255,875	542,609	583,229	302,572	0	2,684,285
Undrawn portion of loans***	(7,916)	(10,446)	4,877	13,485	0	0
Undrawn portion of revolving loans***	0	0	0	0	0	0
Total off-balance sheet liabilities	**1,247,959**	**532,163**	**588,106**	**316,057**	**0**	**2,684,285**
Net off-balance sheet interest rate gap as of 31 December 2019	**(175,974)**	**69,635**	**(42,167)**	**150,224**	**0**	**1,718**
Cumulative interest rate gap as of 31 December 2019	**209,858**	**331,481**	**526,496**	**768,861**	**99,936**	**x**

* This item in column Undefined principally includes client deposits for which there is no information about contractual maturity or repricing date.
** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options, and cross currency swaps.
*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2020 and 2019 were as follow:

(%)	31 Dec 2020 CZK	USD	EUR	31 Dec 2019 CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.04%	x	x	0.24%	x	x
Financial assets at fair value through other comprehensive income	1.77%	x	2.24%	1.99%	x	2.05%
Financial assets at amortised cost	1.74%	0.88%	0.90%	2.49%	2.40%	1.01%
– Loans and advances to banks	0.37%	0.75%	(0.12%)	1.98%	2.14%	0.19%
– Loans and advances to customers	2.39%	1.34%	1.59%	2.74%	3.20%	1.50%
– Debt securities	2.03%	3.49%	3.99%	2.51%	3.39%	3.98%
Total assets	**1.61%**	**0.77%**	**0.98%**	**2.02%**	**1.92%**	**1.10%**
Total interest-earning assets	**1.73%**	**0.82%**	**1.00%**	**2.66%**	**2.40%**	**1.12%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.11%	0.41%	0.04%	0.31%	1.61%	0.05%
– Amounts due to banks	(0.12%)	0.54%	0.12%	0.04%	2.08%	0.09%
– Amounts due to customers	0.05%	0.17%	0.01%	0.21%	0.59%	0.02%
– Securities issued	2.48%	x	x	2.69%	x	x
– Lease liabilities	1.60%	x	0.67%	1.76%	x	0.69%
Subordinated debt	x	x	0.75%	x	x	0.84%
Total liabilities	**0.14%**	**0.40%**	**0.06%**	**0.30%**	**1.57%**	**0.05%**
Total interest-bearing liabilities	**0.15%**	**0.41%**	**0.06%**	**0.31%**	**1.61%**	**0.04%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.82%	2.81%	0.42%	1.86%	3.09%	0.41%
Undrawn portion of loans	1.76%	x	1.41%	2.43%	x	1.68%
Undrawn portion of revolving loans	4.04%	1.04%	0.43%	5.73%	2.97%	0.36%
Total off-balance sheet assets	**0.91%**	**2.80%**	**0.42%**	**1.96%**	**3.09%**	**0.41%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.67%	2.45%	0.28%	1.90%	3.00%	0.30%
Undrawn portion of loans	1.76%	x	1.41%	2.43%	x	1.68%
Undrawn portion of revolving loans	4.04%	1.04%	0.43%	5.73%	2.97%	0.36%
Total off-balance sheet liabilities	**0.78%**	**2.44%**	**0.29%**	**2.00%**	**2.99%**	**0.31%**

Note: The table above sets out the average interest rates for December 2020 and 2019 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB decreased during 2020 from 2.25% to 0.25%. Czech crown money market rates (PRIBOR) decreased by as much as 1.78% (12M) to 1.82% (3–6M). Interest rates swaps decreased by as much as 0.44% (10Y) to 1.56% (2Y).

Euro money market rates decreased during 2020 by 0.12–0.25% (1–12M), and interest rate swaps decreased by as much as 0.23% (2Y) to 0.46% (10Y).

Dollar money market rates decreased during 2020 by 1.62–1.67% (1–12M), and interest rate swaps decreased by as much as 0.92% (10Y) to 1.46% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2020 Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2019 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	10,754	10,226	20,980	3,419	1,746	11,705	16,870
Financial assets and other assets held for trading at fair value through profit or loss	2,281	1,061	22,979	26,321	3,363	749	19,951	24,063
Non-trading financial assets at fair value through profit or loss	0	0	279	279	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	13,068	13,068	0	0	9,544	9,544
Financial assets at fair value through other comprehensive income	39,818	236	1	40,055	32,072	2,013	514	34,599
Financial assets at amortised cost	500,244	452,853	3,917	957,014	437,611	449,728	4,574	891,913
– Loans and advances to banks	22,502	260,670	162	283,334	18,605	240,814	262	259,681
– Loans and advances to customers	393,803	192,183	3,755	589,741	354,579	208,914	4,312	567,805
– Debt securities	83,939	0	0	83,939	64,427	0	0	64,427
Liabilities								
Amounts due to central banks	0	0	0	0	1	0	0	1
Financial liabilities held for trading at fair value through profit or loss	0	0	25,890	25,890	0	0	24,390	24,390
Negative fair values of hedging financial derivatives	0	0	8,288	8,288	0	0	10,069	10,069
Financial liabilities at amortised cost	26,406	910,659	74	937,139	43,215	822,611	2,452	868,278
– Amounts due to banks	13,504	51,320	20	64,844	29,626	45,005	440	75,071
– Amounts due to customers*	263	848,712	54	849,029	558	759,587	2,012	762,157
– Securities issued	9,998	10,627	0	20,625	9,945	18,019	0	27,964
– Lease liabilities	2,641	0	0	2,641	3,086	0	0	3,086
Revaluation differences on portfolios hedge items	0	0	2,548	2,548	0	0	(3,815)	(3,815)
Subordinated debt	0	2,629	0	2,629	0	2,546	0	2,546

* This item in column Floating interest rate principally includes client deposits where the Bank has the option to reset interest rates, and hence they are not sensitive to interest rate changes.

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs, and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities, and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	12,484	0	0	0	0	8,496	20,980
Financial assets and other assets held for trading at fair value through profit or loss	0	3	144	1,503	1,495	23,176	26,321
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	279	279
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,068	13,068
Financial assets at fair value through other comprehensive income	2,975	271	1,746	10,281	24,782	0	40,055
Financial assets at amortised cost	118,317	204,100	101,902	251,979	280,716	0	957,014
– Loans and advances to banks	103,142	155,420	2,462	13,235	9,075	0	283,334
– Loans and advances to customers	14,168	48,261	86,028	208,426	232,858	0	589,741
– Debt securities	1,007	419	13,412	30,318	38,783	0	83,939
Current tax assets	1,147	0	0	0	0	0	1,147
Deferred tax assets	21	0	0	0	0	0	21
Prepayments, accrued income, and other assets	182	0	0	0	0	3,217	3,399
Investments in subsidiaries and associates	0	0	0	0	0	17,857	17,857
Intangible assets	0	0	0	0	0	6,347	6,347
Tangible assets	0	0	0	0	0	6,897	6,897
Assets held for sale	0	0	123	0	0	0	123
Total assets	**135,126**	**204,374**	**103,915**	**263,763**	**306,993**	**79,337**	**1,093,508**
Liabilities							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	3,132	0	0	0	0	22,758	25,890
Negative fair values of hedging financial derivatives	0	0	0	0	0	8,288	8,288
Financial liabilities at amortised cost	839,837	43,647	11,201	20,684	21,770	0	937,139
– Amounts due to banks	23,059	20,365	2,166	12,881	6,373	0	64,844
– Amounts due to customers	816,510	23,112	8,689	718	0	0	849,029
– Securities issued	268	40	0	5,817	14,500	0	20,625
– Lease liabilities	0	130	346	1,268	897	0	2,641
Revaluation differences on portfolios hedge items	0	0	0	0	0	2,548	2,548
Current tax liabilities	0	0	0	0	0	0	0
Deferred tax liabilities	215	0	0	0	0	0	215
Accruals and other liabilities	9,568	0	0	0	0	73	9,641
Provisions	706	182	558	0	0	516	1,962
Subordinated debt	0	0	0	0	2,629	0	2,629
Equity	0	0	0	0	0	105,196	105,196
Total liabilities	**853,458**	**43,829**	**11,759**	**20,684**	**24,399**	**139,379**	**1,093,508**
Statement of Financial Position liquidity gap as of 31 December 2020	**(718,332)**	**160,545**	**92,156**	**243,079**	**282,594**	**(60,042)**	**0**
Off-balance sheet assets*	209,714	299,604	128,395	211,083	39,584	0	888,380
Off-balance sheet liabilities*	401,202	300,450	128,746	210,817	39,533	0	1,080,748
Net off-balance sheet liquidity gap as of 31 December 2020	**(191,488)**	**(846)**	**(351)**	**266**	**51**	**0**	**(192,368)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed-term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	6,863	0	0	0	0	10,007	16,870
Financial assets and other assets held for trading at fair value through profit or loss	0	31	1,125	317	2,575	20,015	24,063
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	0	0	0	9,544	9,544
Financial assets at fair value through other comprehensive income	2,515	305	2,541	9,487	19,751	0	34,599
Financial assets at amortised cost	122,857	175,681	93,668	242,632	257,075	0	891,913
– Loans and advances to banks	111,262	127,619	5,326	11,439	4,035	0	259,681
– Loans and advances to customers	11,199	47,729	85,859	198,089	224,929	0	567,805
– Debt securities	396	333	2,483	33,104	28,111	0	64,427
Current tax assets	13	0	0	0	0	0	13
Deferred tax assets	20	0	0	0	0	0	20
Prepayments, accrued income, and other assets	5	6	0	0	0	3,514	3,525
Investments in subsidiaries and associates	0	0	0	0	0	17,747	17,747
Intangible assets	0	0	0	0	0	5,494	5,494
Tangible assets	0	0	0	0	0	7,613	7,613
Assets held for sale	0	0	118	0	0	0	118
Total assets	**132,273**	**176,023**	**97,452**	**252,436**	**279,401**	**73,934**	**1,011,519**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	3,543	0	0	0	0	20,847	24,390
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,069	10,069
Financial liabilities at amortised cost	731,494	71,591	22,532	17,118	25,543	0	868,278
– Amounts due to banks	24,062	29,696	7,063	10,270	3,980	0	75,071
– Amounts due to customers	707,111	39,883	14,414	749	0	0	762,157
– Securities issued	244	1,895	708	4,700	20,417	0	27,964
– Lease liabilities	77	117	347	1,399	1,146	0	3,086
Revaluation differences on portfolios hedge items	(3,815)	0	0	0	0	0	(3,815)
Current tax liabilities	0	199	0	0	0	0	199
Deferred tax liabilities	266	0	0	0	0	0	266
Accruals and other liabilities	9,745	0	0	0	0	331	10,076
Provisions	66	163	540	0	0	522	1,291
Subordinated debt	0	0	0	0	2,546	0	2,546
Equity	0	0	0	0	0	98,218	98,218
Total liabilities	**741,300**	**71,953**	**23,072**	**17,118**	**28,089**	**129,987**	**1,011,519**
Statement of Financial Position liquidity gap as of 31 December 2019	**(609,027)**	**104,070**	**74,380**	**235,318**	**251,312**	**(56,053)**	**0**
Off-balance sheet assets*	162,899	260,065	152,201	182,735	41,998	0	799,898
Off-balance sheet liabilities*	328,807	260,477	152,272	181,708	41,920	0	965,184
Net off-balance sheet liquidity gap as of 31 December 2019	**(165,908)**	**(412)**	**(71)**	**1,027**	**78**	**0**	**(165,286)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed-term, and option contracts, as well as payables under guarantees, letters of credit, and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2020:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	0	0	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss (except derivatives)	3,132	0	0	0	0	0	3,132
Financial liabilities at amortised cost	839,848	43,753	11,726	22,078	22,080	0	939,485
– Amounts due to banks	23,068	20,379	2,259	13,234	6,456	0	65,396
– Amounts due to customers	816,512	23,143	8,717	722	0	0	849,094
– Securities issued	268	91	378	6,769	14,695	0	22,201
– Lease liabilities	0	140	372	1,353	929	0	2,794
Current tax liabilities	0	0	0	0	0	0	0
Deferred tax liabilities	215	0	0	0	0	0	215
Accruals and other liabilities	9,568	0	0	0	0	73	9,641
Provisions	705	182	558	0	0	517	1,962
Subordinated debt	0	0	0	0	2,629	0	2,629
Total non-derivative financial liabilities	**853,468**	**43,935**	**12,284**	**22,078**	**24,709**	**590**	**957,064**
Other loans commitment granted	132,067	0	0	0	0	0	132,067
Guarantee commitments granted	59,668	0	0	0	0	0	59,668
Total contingent liabilities	**191,735**	**0**	**0**	**0**	**0**	**0**	**191,735**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2019:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss (except derivatives)	3,543	0	0	0	0	0	3,543
Financial liabilities at amortised cost	731,524	72,868	22,967	18,351	25,849	0	871,559
– Amounts due to banks	24,079	29,878	7,105	10,432	4,025	0	75,519
– Amounts due to customers	707,124	40,170	14,415	754	0	0	762,463
– Securities issued	244	2,690	1,063	5,631	20,611	0	30,239
– Lease liabilities	77	130	384	1,534	1,213	0	3,338
Current tax liabilities	0	199	0	0	0	0	199
Deferred tax liabilities	266	0	0	0	0	0	266
Accruals and other liabilities	9,745	0	0	0	0	331	10,076
Provisions	66	163	540	0	0	522	1,291
Subordinated debt	0	0	0	0	2,546	0	2,546
Total non-derivative financial liabilities	**745,145**	**73,230**	**23,507**	**18,351**	**28,395**	**853**	**889,481**
Other loans commitment granted	105,621	0	0	0	0	0	105,621
Guarantee commitments granted	58,803	0	0	0	0	0	58,803
Total contingent liabilities	**164,424**	**0**	**0**	**0**	**0**	**0**	**164,424**

(F) Foreign exchange position

The table below breaks out the Bank's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	19,551	917	241	271	20,980
Financial assets and other assets held for trading at fair value through profit or loss	21,604	4,636	77	4	26,321
Non-trading financial assets at fair value through profit or loss	0	0	279	0	279
Positive fair values of hedging financial derivatives	11,163	1,611	294	0	13,068
Financial assets at fair value through other comprehensive income	24,406	15,649	0	0	40,055
Financial assets at amortised cost	798,731	151,127	5,882	1,274	957,014
– Loans and advances to banks	241,560	37,010	3,909	855	283,334
– Loans and advances to customers	473,667	113,686	1,969	419	589,741
– Debt securities	83,504	431	4	0	83,939
Current tax assets	1,139	8	0	0	1,147
Deferred tax assets	0	21	0	0	21
Prepayments, accrued income, and other assets	2,914	478	6	1	3,399
Investments in subsidiaries and associates	17,208	649	0	0	17,857
Intangible assets	6,312	35	0	0	6,347
Tangible assets	6,858	39	0	0	6,897
Assets held for sale	123	0	0	0	123
Total assets	**910,009**	**175,170**	**6,779**	**1,550**	**1,093,508**
Liabilities					
Amounts due to central banks	0	0	0	0	0
Financial liabilities held for trading at fair value through profit or loss	21,372	4,387	127	4	25,890
Negative fair values of hedging financial derivatives	6,576	1,712	0	0	8,288
Financial liabilities at amortised cost	760,840	141,769	31,073	3,457	937,139
– Amounts due to banks	6,121	38,573	20,143	7	64,844
– Amounts due to customers	731,852	102,797	10,930	3,450	849,029
– Securities issued	20,625	0	0	0	20,625
– Lease liabilities	2,242	399	0	0	2,641
Revaluation differences on portfolios hedge items	1,604	945	(1)	0	2,548
Current tax liabilities	0	0	0	0	0
Deferred tax liabilities	215	0	0	0	215
Accruals and other liabilities	7,645	1,400	399	197	9,641
Provisions	1,264	577	76	45	1,962
Subordinated debt	0	2,629	0	0	2,629
Equity	105,188	8	0	0	105,196
Total liabilities	**904,704**	**153,427**	**31,674**	**3,703**	**1,093,508**
Net FX position as of 31 December 2020	**5,305**	**21,743**	**(24,895)**	**(2,153)**	**0**
Off-balance sheet assets*	2,259,529	991,160	134,612	24,522	3,409,823
Off-balance sheet liabilities*	2,264,827	1,013,434	109,745	22,450	3,410,456
Net off-balance sheet FX position as of 31 December 2020	**(5,298)**	**(22,274)**	**24,867**	**2,072**	**(633)**
Total net FX position as of 31 December 2020	**7**	**(531)**	**(28)**	**(81)**	**(633)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal values of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	14,617	1,660	255	338	16,870
Financial assets and other assets held for trading at fair value through profit or loss	18,690	5,313	59	1	24,063
Non-trading financial assets at fair value through profit or loss	0	0	0	0	0
Positive fair values of hedging financial derivatives	7,718	1,652	174	0	9,544
Financial assets at fair value through other comprehensive income	16,834	17,252	513	0	34,599
Financial assets at amortised cost	733,398	147,976	8,929	1,610	891,913
– Loans and advances to banks	218,023	34,053	6,657	948	259,681
– Loans and advances to customers	451,368	113,511	2,264	662	567,805
– Debt securities	64,007	412	8	0	64,427
Current tax assets	0	13	0	0	13
Deferred tax assets	0	20	0	0	20
Prepayments, accrued income, and other assets	3,078	391	54	2	3,525
Investments in subsidiaries and associates	17,098	649	0	0	17,747
Intangible assets	5,465	29	0	0	5,494
Tangible assets	7,572	41	0	0	7,613
Assets held for sale	118	0	0	0	118
Total assets	**824,588**	**174,996**	**9,984**	**1,951**	**1,011,519**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities held for trading at fair value through profit or loss	19,583	4,762	44	1	24,390
Negative fair values of hedging financial derivatives	8,340	1,724	5	0	10,069
Financial liabilities at amortised cost	701,398	131,662	31,759	3,459	868,278
– Amounts due to banks	5,662	47,849	21,512	48	75,071
– Amounts due to customers	665,144	83,355	10,247	3,411	762,157
– Securities issued	27,964	0	0	0	27,964
– Lease liabilities	2,628	458	0	0	3,086
Revaluation differences on portfolios hedge items	(4,733)	971	(53)	0	(3,815)
Current tax liabilities	199	0	0	0	199
Deferred tax liabilities	266	0	0	0	266
Accruals and other liabilities	7,108	2,214	474	280	10,076
Provisions	897	310	20	64	1,291
Subordinated debt	0	2,546	0	0	2,546
Equity	98,211	7	0	0	98,218
Total liabilities	**831,270**	**144,196**	**32,249**	**3,804**	**1,011,519**
Net FX position as of 31 December 2019	**(6,682)**	**30,800**	**(22,265)**	**(1,853)**	**0**
Off-balance sheet assets*	2,171,615	934,086	142,396	22,225	3,270,322
Off-balance sheet liabilities*	2,166,143	964,663	119,969	20,487	3,271,262
Net off-balance sheet FX position as of 31 December 2019	**5,472**	**(30,577)**	**22,427**	**1,738**	**(940)**
Total net FX position as of 31 December 2019	**(1,210)**	**223**	**162**	**(115)**	**(940)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal values of all derivative deals.

(G) Operational risk

Since 2008, the Bank has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI), or Scenario Analysis (SA), the Bank developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are reviewed independently and on a continuous basis within a so-called second level of controls. The Bank is continuously developing all the aforementioned operational risk instruments and supporting the continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Bank's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Financial assets at amortised cost

Loans and advances to banks
The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Debt securities
The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(c) Amounts due to central banks
The reported values of amounts due to central banks are generally deemed to approximate their fair value.

(d) Financial liabilities at amortised cost

Amounts due to banks and Amounts due to customers
The fair value of deposits repayable on demand is represented by the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

Securities issued
The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

(e) Subordinated debt
The fair value of subordinated debt is estimated using a discounted cash flow analysis.

(f) Lease liabilities
The reported values of lease liabilities are deemed to approximate their fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	20,980	20,980	16,870	16,870
Financial assets at amortised cost	957,014	981,736	891,913	897,685
– Loans and advances to banks	283,334	283,376	259,681	259,536
– Loans and advances to customers	589,741	612,659	567,805	572,374
– Debt securities	83,939	85,701	64,427	65,775
Financial liabilities				
Amounts due to central banks	0	0	1	1
Financial liabilities at amortised cost	937,139	937,201	868,278	868,217
– Amounts due to banks	64,844	64,840	75,071	75,048
– Amounts due to customers	849,029	849,029	762,157	762,153
– Securities issued	20,625	20,691	27,964	27,930
– Lease liabilities	2,641	2,641	3,086	3,086
Subordinated debt	2,629	2,629	2,546	2,546

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

	31 Dec 2020				31 Dec 2019			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	20,980	8,496	0	12,484	16,870	10,007	0	6,863
Financial assets at amortised cost	981,736	81,997	0	899,739	897,685	62,012	0	835,673
– Loans and advances to banks	283,376	0	0	283,376	259,536	0	0	259,536
– Loans and advances to customers	612,659	0	0	612,659	572,374	0	0	572,374
– Debt securities*	85,701	81,997	0	3,704	65,775	62,012	0	3,763
Financial liabilities								
Amounts due to central banks	0	0	0	0	1	0	0	1
Financial liabilities at amortised cost	937,201	0	0	937,201	868,217	0	0	868,217
– Amounts due to banks	64,840	0	0	64,840	75,048	0	0	75,048
– Amounts due to customers	849,029	0	0	849,029	762,153	0	0	762,153
– Securities issued	20,691	0	0	20,691	27,930	0	0	27,930
– Lease liabilities	2,641	0	0	2,641	3,086	0	0	3,086
Subordinated debt	2,629	0	0	2,629	2,546	0	0	2,546

* For Debt Securities, the Bank adjusted the presentation of the fair value hierarchy, transfer from Level 2 to Level 3, due to clarification of assessment of availability of inputs used to determine fair value. The previous period has been adjusted.

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2020	Level 1	Level 2	Level 3	31 Dec 2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets held for trading at fair value through profit or loss	**26,321**	**3,144**	**23,177**	**0**	**23,569**	**4,114**	**19,455**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	3,342	3,144	198	0	4,112	3,883	229	0
– Derivatives	22,979	0	22,979	0	19,457	231	19,226	0
Other assets held for trading at fair value through profit or loss	**0**	**0**	**0**	**0**	**494**	**494**	**0**	**0**
Non-trading financial assets at fair value through profit or loss	**279**	**0**	**0**	**279**	**0**	**0**	**0**	**0**
Positive fair value of hedging financial derivatives	**13,068**	**0**	**13,068**	**0**	**9,544**	**0**	**9,544**	**0**
Financial assets at fair value through other comprehensive income	**40,055**	**40,055**	**0**	**1**	**34,599**	**32,305**	**1,780**	**514**
Financial assets at fair value	**79,723**	**43,199**	**36,245**	**280**	**68,206**	**36,913**	**30,779**	**514**
FINANCIAL LIABILITIES								
Financial liabilities held for trading at fair value through profit or loss	**25,890**	**3,132**	**22,758**	**0**	**24,390**	**3,848**	**20,542**	**0**
of which:								
– Sold securities	3,132	3,132	0	0	3,543	3,543	0	0
– Derivatives	22,758	0	22,758	0	20,847	305	20,542	0
Negative fair value of hedging financial derivatives	**8,288**	**0**	**8,288**	**0**	**10,069**	**0**	**10,069**	**0**
Revaluation differences on portfolios hedge items	**2,548**	**0**	**2,548**	**0**	**(3,815)**	**0**	**(3,815)**	**0**
Financial liabilities at fair value	**36,726**	**3,132**	**33,594**	**0**	**30,644**	**3,848**	**26,796**	**0**

Financial assets at fair value – Level 3:

(CZKm)	2020 Financial assets at FVOCI option	2020 Non-trading financial assets at fair value through profit or loss	2020 Total	2019 Financial assets at FVOCI option	2019 Non-trading financial assets at fair value through profit or loss	2019 Total
Balance as of 1 January	**514**	**0**	**514**	**351**	**0**	**351**
Reclassification between portfolios (refer to Note 21)	(513)	513	0	0	0	0
Comprehensive income/(loss)						
– In the Statement of Income	0	91	91	0	0	0
– In Other Comprehensive Income	0	0	0	160	0	160
Purchases	0	0	0	0	0	0
Sales	0	(309)	(309)	0	0	0
Settlement	0	0	0	0	0	0
Transfer from Level 1	0	0	0	0	0	0
Foreign exchange rate difference	0	(16)	(16)	3	0	3
Balance as of 31 December	**1**	**279**	**280**	**514**	**0**	**514**

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

43 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2020:

(CZKm)	Assets/liabilities set off according to IAS 32: Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Amounts which have not been set off: Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	40,717	4,670	36,047	19,520	8,226	8,301
Negative fair value of derivatives	35,716	4,670	31,046	19,520	11,201	325

* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2019:

(CZKm)	Assets/liabilities set off according to IAS 32: Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Amounts which have not been set off: Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,969	1,968	29,001	19,067	3,630	6,304
Negative fair value of derivatives	32,884	1,968	30,916	19,067	10,489	1,360

* This item includes also counterparties with only positive or negative fair value of derivatives.

44 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2020		31 Dec 2019	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,957	573,043	3,410	539,075
Assets under management	0	4,195	0	3,248

Assets in custody include securities in the amount of CZK 30,655 million (2019: CZK 33,430 million) of Group subsidiaries.

45 Post balance sheet events

In the coming period, the Bank will carefully monitor future macroeconomic development and adjust its IFRS 9 models if new macroeconomic prognoses differ from the current ones. The Bank uses internal predictions for its IFRS 9 models, but it also closely monitors external forecasts (CNB, Ministry of Finance, ECB, etc.). In particular, the Bank uses the CNB's macroeconomic forecasts to benchmark its IFRS 9 models. Likewise, the Bank will monitor the current pandemic development and government measures and assess possible impacts on the Bank's financial situation. Especially in connection with discontinuation of the moratorium at the end of October 2020, the Bank is carefully monitoring the risk profiles of clients and will gradually update the impact on the Bank's financial situation.

Issue of mortgage bonds in euros

The Bank issued its inaugural EUR Mortgage Covered Bond (mortgage bonds), ISIN XS2289128162, in the nominal volume of EUR 500 million on the issue date of 20 January 2021. The bond bears a fixed rate of interest, paid annually, until its redemption on the maturity date of 20 January 2026 (the maturity of the bond is extendable by one year according to the terms and conditions of the bond, a so-called soft bullet) and it received an AAA rating from the rating agency Fitch.

Securities issued by Komerční banka

Shares

Komerční banka's registered capital of CZK 19,004,926,000 is divided into 190,049,260 registered common shares.

	2020	2019	2018	2017	2016
Number of shares issued	190,049,260.0	190,049,260.0	190,049,260.0	190,049,260.0	190,049,260.0
Number of outstanding shares	188,855,900.0	188,855,900.0	188,855,900.0	188,855,900.0	188,855,900.0
Market capitalisation (CZK billion)	124.1	156.7	160.0	172.8	167.1
Earnings per share (CZK)[1)]	43.2	78.9	78.6	79.1	72.5
Dividend per share for the year (CZK)[2)]	0.0[3)]	0.0[3)]	51.0	47.0	40.0
Dividend payout ratio (%)[4)]	0.0[3)]	0.0[3)]	64.9	59.5	55.5
Book value per share (CZK)[5)]	602.7	558.8	529.1	511.2	537.8
Share price (CZK)					
closing price at year-end	657.0	829.5	847.0	915.0	885.0
maximum	835.0	962.0	965.0	1,010.0	1,091.0
minimum	465.0	737.0	847.0	881.0	818.0

1) Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated).
2) Dividend per share before tax. The statutory tax rate applicable in the Czech Republic is 15% or, in certain cases, 35%. Dividend is paid in the following year.
3) Proposal for the Annual General Meeting on 21 April 2021. From March 2020, the CNB has recommended banks not to pay dividends due to Covid-19 pandemic.
4) Dividend per share / Earnings per share.
5) Shareholders' equity excluding minority equity (IFRS consolidated) divided by the average number of shares outstanding.

Rights vested in the shares

KB has issued one class of common shares, all with equal rights, set out in accordance with Act No. 90/2012 Coll., on Business Corporations, and with the Bank's Articles of Association as approved by the General Meeting. Shareholders' voting rights are governed by the nominal value of their shares. Each CZK 100 of nominal share value is equivalent to one vote.

Each shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors based on fulfilment of the terms and conditions specified by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting which approved the share of the profit to be distributed among shareholders. The share in profit shall become payable upon the lapse of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted. An amendment to the Articles of Association is proposed to the General Meeting in 2021 whereby the decisive date for the payment of the part of the profit and other own sources will be changed, if approved. The decisive day will newly be set as the seventh working day after the day of the General Meeting.

The right to claim payment of the dividend shall lapse 3 years from the day when the shareholder learnt of the payment date for payment of the share in profit or when he or she could or should have learnt this, but in no case later than within 10 years of the payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not assert the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment.

After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to assert the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Stock exchange listing

As of 31 December 2020, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and were traded at RM-SYSTEM Czech Stock Exchange. The average daily trading volume of KB shares on the PSE of CZK 114.5 million (EUR 4.4 million) was the second highest[1] among shares traded on the exchange and represented 23% of the exchange turnover.

Stock market performance

Global stock markets in 2020 were predominantly affected by the globally spreading Covid-19 pandemic. The pattern of influence was similar everywhere, but the variation in timing and depth of the decline varied. The strongest reaction of the markets came at the turn of February and March, when they weakened by about 35%. The main US S&P 500 Index, however, gradually recovered this loss during the rest of the year and then continued to grow to an all-time high at the very end of the year, influenced by an expected resumption of growth as well as monetary and fiscal stimuli. Thus, in total it strengthened by 16.3% in dollar terms (9.9% in CZK terms). The Dow Jones index essentially copied this path and closed 2020 stronger by 7.2% (1.4% in CZK terms). The technology-heavy NASDAQ index, which combines more shares of companies from sectors whose demand was boosted by the pandemic situation added even 43.6% (35.8% in CZK terms). The MSCI ACWI global index, which includes equities from 46 developed and emerging markets, gained 14.3% in USD (8.1% in CZK terms) in 2020. The MSCI Europe index of European stock markets (including the Czech Republic) fell by 5.4% in euros (–2.3% after conversion into crowns). In addition to the pandemic, European stock markets were also affected during 2020 by uncertainty about the conditions under which the United Kingdom would withdraw from the European Union. The Prague Stock Exchange's PX Index was further affected by specifics of the domestic pandemic situation response and mitigation of economic losses, and it fell by 7.9% in 2020.

The stock index of European banks (STOXX Europe 600 index) fell sharply, by –24.5% year on year (–22.0% in CZK terms). The environment of low interest rates reduced interest income, the reduction in economic activity due to the pandemic pushed down fee income, and deterioration of the macroeconomic situation also threatened the quality of loan portfolios and prompted increased provisioning.

KB share price development

The KB shares closed out trading in 2020 at a price of CZK 657, down 20.8% from the closing price of the previous year. As of 31 December 2020, Komerční banka's market capitalisation stood at CZK 124.1 billion (EUR 4.7 billion), ranking KB in fourth place by capitalisation among the shares listed on the PSE's Prime Market.

KB's share price started the year at CZK 835, buoyed by growth momentum from the end of 2019. During January, it slowly corrected from this level. Second half of February, when the threat from growing numbers of Covid-19 infections was already a concern in Europe, KB's share price crossed the level of CZK 750 per share. At the beginning of March, with the first infections being reported in the Czech Republic itself, the share price fell to its 2020 low at the CZK 465 level around mid-March. After this sharp reaction, the price of the KB share recovered quickly up to CZK 580 at mid-April, and since then fluctuated in the CZK 468.5–605 range until the end of October, when its price was rather closer to the lower end of that span. At that time, the KB share price benefitted from a growth impulse along with the entire market and sector. An individual nudge upward came in the form of the Bank's presentation of its strategy for the next 5 years at the beginning of November, and KB shares thus closed 2020 at CZK 657, 20.8% weaker than at the beginning of the year.

Return for shareholders

Komerční banka's dividend policy aims to ensure appropriate remuneration of shareholders for their investments while also maintaining solid and safe capital adequacy and with a view to potential growth opportunities and currently applicable as well as anticipated regulatory requirements. This general principle of KB's dividend policy could not be followed in 2020, however, because dividend payments and buybacks had been prohibited for banks on the European Union level as an anti-crisis measure.

Hence, the dividend was not paid in 2020, the share of profit designated for dividends was added to the Bank's retained earnings, and that was one of the reasons for KB's excessive capital accumulation.

Consequently, the total return from holding KB shares in 2020 was equal only to the return from holding the share and its price movement, with the share losing 20.8% of its value in the market during the crisis year 2020.

[1] Source: Prague Stock Exchange; https://www.pse.cz/en/market-data/statistics/issues-volume-summary.

Dialogue with shareholders and the capital market

Apart from the 60.35% of KB's share capital held by Société Générale, an international financial services group headquartered in Paris, France, the Bank's free float is held by a diverse base of shareholders, ranging from large international asset managers to private individuals. From the total of more than 57,000 shareholders as of 31 December 2020, individuals resident in the Czech Republic numbered more than 51,000.

The vast majority of freely traded shares are held by institutional investors located in such main global financial centres as New York, Boston, and London.

KB works to build long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2020, Komerční banka's management participated in almost 50 investor meetings – mostly virtual in nature – involving around 200 representatives from approximately 100 institutions.

More than 20 financial firms regularly publish their investment research reports on Komerční banka.

Acquisition of treasury shares in 2020

Komerční banka held 1,193,360 of its own shares as of 31 December 2020. These securities had been purchased on a European regulated market during 2006 and 2011 in accordance with decisions by the Bank's general meetings of 28 April 2005, 26 April 2006, and 21 April 2011 allowing KB to acquire its own shares into treasury.

During 2020, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares. In 2020, Komerční banka intermediated buy and sell transactions in KB shares for its clients through its own account in the amount of 569,999 shares.

Based upon the consent of the General Meetings convened on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions during 2020:
- The maximum amount of shares that can be held by the Bank at any specific time shall be 19,004,926 ordinary shares representing a total nominal value of CZK 1,900,492,600.
- The share purchase value must be at least CZK 1 per share and at most CZK 1,400 per share.
- The Bank may acquire shares for 5 years (i.e. the Bank is authorised to acquire its own ordinary shares for 5 years from the General Meeting on 25 April 2017).
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in Section 301 (b) and (c) and Section 302 of Act No. 90/2012 Coll., the Corporations and Co-operatives Act or, as the case may be, any other applicable legal rules of the Czech Republic or the European Union.

Bonds (issued until 31 December 2020)

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue. Bonds bear interest from the date of issue and coupon payments are made yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka.

The bonds will be redeemed by Komerční banka in the whole amount of the nominal value on the maturity date.

List of bonds

All bonds (with the exception of HZL ISIN CZ0002003742, HZL ISIN CZ0002003767, HZL ISIN CZ0002003759, and HZL ISIN CZ0002003775, which are negotiable promissory bonds) are made out to the bearer. All bonds are denominated in CZK. All bonds were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30 Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act, and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if required by law, by the Czech National Bank.

Public tradability and transferability

Transferability of the bonds is not limited. HZL ISIN CZ0002002801 was admitted for trading on the Regulated Market of the Prague Stock Exchange.

List of bonds issued by Komerční banka (as of 31 December 2020)

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
1	HZL 2007/2037	CZ0002001324[2)]	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note A	stated
2	HZL 2007/2037	CZ0002001332[2)]	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note A	stated
3	HZL 2007/2037	CZ0002001340[2)]	16 Nov 2007	16 Nov 2037	1,200,000,000	12	Note B	stated
4	HZL 2007/2037	CZ0002001357[2)]	16 Nov 2007	16 Nov 2037	500,000,000	5	Note B	stated
5	HZL 2007/2037	CZ0002001365[2)]	16 Nov 2007	16 Nov 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
6	HZL 2007/2037	CZ0002001373[2)]	16 Nov 2007	16 Nov 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
7	HZL 2007/2037	CZ0002001381[2)]	16 Nov 2007	16 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
8	HZL 2007/2037	CZ0002001399[2)]	16 Nov 2007	16 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
9	HZL 2007/2037	CZ0002001431[2)]	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
10	HZL 2007/2037	CZ0002001449[2)]	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
11	HZL 2007/2037	CZ0002001456[2)]	30 Nov 2007	30 Nov 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
12	HZL 2007/2037	CZ0002001464[2)]	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
13	HZL 2007/2037	CZ0002001472[2)]	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
14	HZL 2007/2037	CZ0002001480[2)]	30 Nov 2007	30 Nov 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15	HZL 2007/2037	CZ0002001498[2)]	7 Dec 2007	7 Dec 2037	500,000,000	5	RS minus 0.20% p.a.	stated
16	HZL 2007/2037	CZ0002001506[2)]	7 Dec 2007	7 Dec 2037	700,000,000	7	RS minus 0.20% p.a.	stated
17	HZL 2007/2037	CZ0002001514[2)]	7 Dec 2007	7 Dec 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
18	HZL 2007/2037	CZ0002001522[2)]	7 Dec 2007	7 Dec 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
19	HZL 2007/2037	CZ0002001530[2)]	7 Dec 2007	7 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
20	HZL 2007/2037	CZ0002001548[2)]	7 Dec 2007	7 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
21	HZL 2007/2037	CZ0002001555[2)]	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
22	HZL 2007/2037	CZ0002001563[2)]	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
23	HZL 2007/2037	CZ0002001571[2)]	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24	HZL 2007/2037	CZ0002001589[2)]	12 Dec 2007	12 Dec 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25	HZL 2007/2037	CZ0002001753[1)]	21 Dec 2007	21 Dec 2037	10,330,000,000	1,033	RS plus 1.5% p.a.	yearly
26	HZL 2007/2037	CZ0002001746[1)]	28 Dec 2007	28 Dec 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
27	HZL 2012/2022	CZ0002002801[1)]	21 Dec 2012	21 Dec 2022	3,000,000,000	300,000	2.55% p.a.	yearly
28	HZL 2014/2022	CZ0002003379[1)]	30 Jan 2014	30 Apr 2022	800,000,000	80,000	3.00% p.a.	yearly
29	HZL 2014/2024	CZ0002003361[1)]	30 Jan 2014	30 Jan 2024	900,000,000	90,000	3.00% p.a.	yearly
30	HZL 2014/2025	CZ0002003353[1)]	31 Jan 2014	31 Jan 2025	1,117,000,000	111,700	3.50% p.a.	yearly
31	HZL 2014/2026	CZ0002003346[1)]	31 Jan 2014	31 Jan 2026	800,000,000	80,000	3.50% p.a.	yearly
32	HZL 2014/2026	CZ0002003742[2)]	18 Nov 2014	18 Nov 2026	750,000,000	75,000	2.00% p.a.	yearly
33	HZL 2014/2028	CZ0002003767[2)]	20 Nov 2014	20 Nov 2028	750,000,000	75,000	2.20% p.a.	yearly
34	HZL 2014/2027	CZ0002003759[2)]	24 Nov 2014	24 Nov 2027	750,000,000	75,000	2.10% p.a.	yearly
35	HZL 2014/2029	CZ0002003775[2)]	27 Nov 2014	27 Nov 2029	750,000,000	75,000	2.30% p.a.	yearly

1) Dematerialised bonds.
2) Bonds in paper form.
Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.
HZL = mortgage bond, RS = reference rate
Note A: 5.06% p.a. for the first 12 annual periods, thereafter the relevant RS minus 0.20% p.a.
Note B: 5.02% p.a. for the first 11 annual periods, thereafter the relevant RS minus 0.20% p.a.

Bonds issued after 31 December 2020

Komerční banka issued its inaugural EUR Mortgage Covered Bond (hypoteční zástavní list) HZL ISIN XS2289128162 in the nominal volume of EUR 500 million on issue date 20 January 2021. Rights and obligations pertaining to the bond are governed by English law and the bond is governed also by Czech laws that are applicable to mortgage covered bonds issued under Czech law. Rights and obligations are explicitly expressed in the terms and conditions of the bond. The bond bears interest from the date of issue and coupon payments will be made on an annual basis. The bond's interest and principal payments are paid by the issuing and principal paying agent, The Bank of New York Mellon, London Branch. The bond received a AAA rating from rating agency Fitch as of 20 January 2021.

The bond will be redeemed by Komerční banka in the full amount of the nominal value on the maturity date 20 January 2026. The maturity of the bond is extendable by 1 year according to the terms and conditions of the bond (i.e. soft bullet). The mortgage covered bond is issued as registered type.

The bond was issued under a new KB Mortgage Covered Bond Programme that enables the Bank to issue mortgage covered bonds in a maximum amount of EUR 5 billion outstanding.

The bond's programme base prospectus was approved by the Commission de Surveillance du Secteur Financier (CSSF), regulatory authority of Luxembourg, on 4 January 2021.

The bond was admitted for trading on the Regulated Market of the Luxembourg Stock Exchange. The transferability of the bond is not limited.

Information on remuneration to auditors

Remuneration to the auditors of KB and KB Group for services performed by the companies Deloitte Audit s.r.o. (in the Czech Republic), Deloitte Audit s.r.o. (in the Slovak Republic), Ernst & Young, s.r.o. (in the Czech Republic), and Deloitte Reviseurs d'Entreprises SC s.f.d. SCRL (in the Kingdom of Belgium) during 2020:

	Deloitte		EY		Total	
Type of service – CZK thousand, excl. VAT	**KB**	**KB Group**	**KB**	**KB Group**	**KB**	**KB Group**
Audit services	18,914	23,700	0	4,098	18,914	27,798
Tax advisory	0	0	0	0	0	0
Non-audit services*	6,710	6,710	488	1,248	7,198	7,958
Total	**25,624**	**30,410**	**488**	**5,346**	**26,112**	**35,756**

* Non-audit services include training, allowed IT services, compliance audit.

Information on the base used in calculating the contribution to the Investor Compensation Fund (in the Czech Republic)

Pursuant to § 129, para. 1 of the Act on Capital Market Undertakings, the annual contribution of a securities dealer to the Investor Compensation Fund shall be calculated as 2% of the volume of revenues from fees and commissions for investment services provided in the previous calendar year. In 2020, the base for calculating the volume of the contribution was CZK 742 million (2019: CZK 701 million). The Bank includes in the base mainly income from intermediation of sales of mutual funds, custody services, safekeeping and administration of securities, brokerage fees for securities transactions for clients, management of client assets, intermediation of primary issues, administration of securities purchase prices, and other investment services. The Bank's contribution to the Investor Compensation Fund in 2020 came to CZK 15 million (2019: CZK 14 million).

Report on Relations among Related Entities

for the year ended 31 December 2020

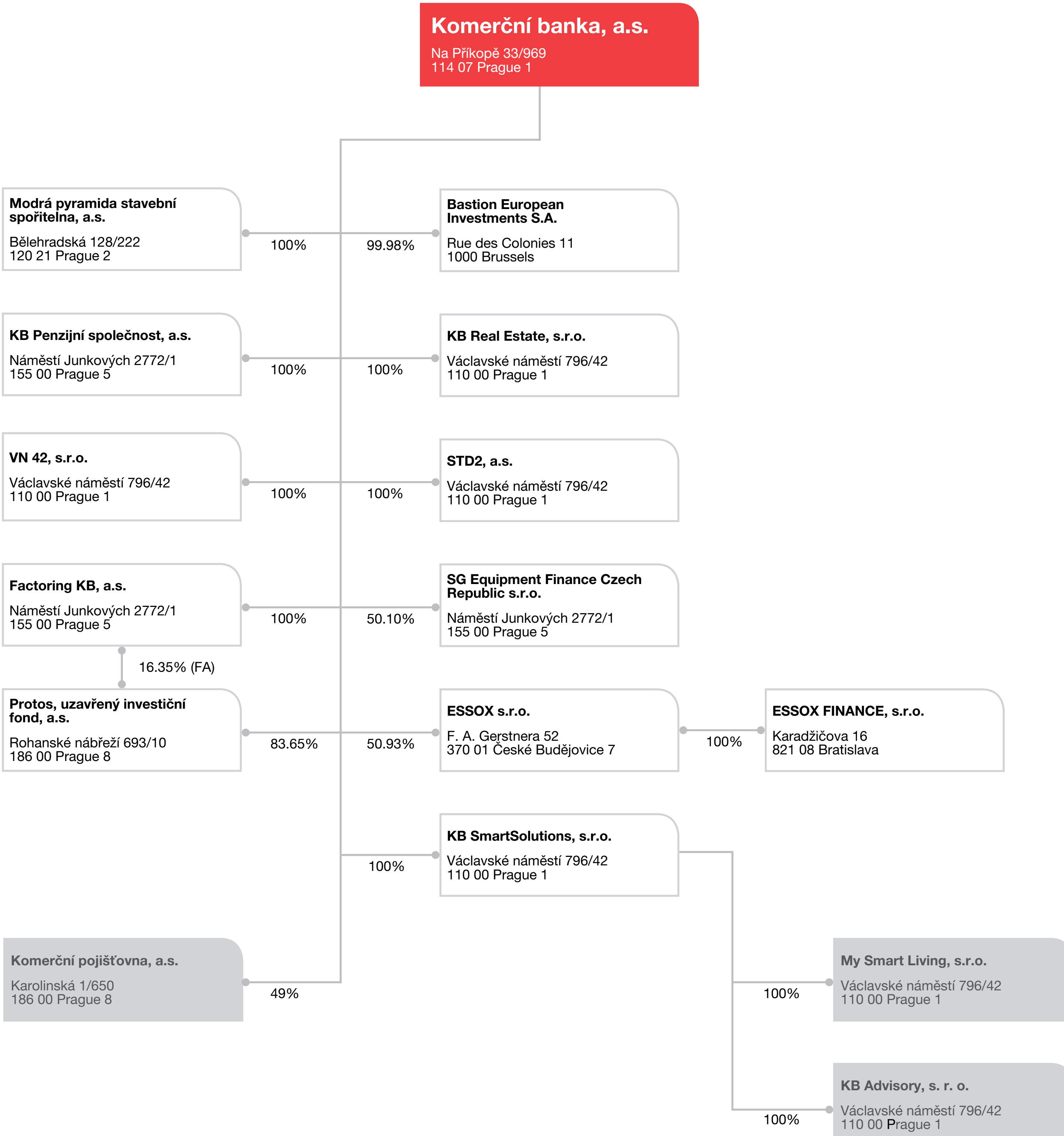
(hereinafter the **"Report on Relations"**)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 1360, (hereinafter "KB" or "Komerční banka"), is part of a business group (holding company) where the following relations exist between KB and its controlling entity and further between KB and other entities controlled by the same controlling entities (hereinafter the "related entities").

This Report on Relations was compiled in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Business Corporations Act) for the year ended 31 December 2020, that is, from 1 January 2020 to 31 December 2020 (hereinafter the "reporting period").

I. Introduction

Structure of relations among entities within the business group:
In the period from 1 January 2020 to 31 December 2020, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter "SG" or "SG Paris"). The structure of the relationships between KB and the companies controlled by KB is stated below and the structure of the relationships within the whole SG Group is stated in the Annex:



% share ownership interest

During the 2020 reporting period, KB had business relationships with the following related entities:

a) SG head office and branches

Company	Registered office
SG Paris*	29, Boulevard Haussmann, Paris, France
SG London	House 41 Tower Hill 99132, EC3N 4SG, London, Great Britain
SG New York	245 Park Avenue, 10167 New York, NY, USA
SG Zürich	Sihlquai 253, 8031 Zürich, Switzerland
SG Warszawa	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, Germany
SG Bruxelles	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Wien	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Hong Kong	Level 34, Three Pacific Place 1, Queen’s Road East, Hong Kong
SG Sucursal en Espana	Genova 26, Madrid, Spain
SG Singapore	8 Marina Boulevard, 018981, Singapore
SG Mumbai	Ganapatrao Kadam Marg, Lowe Parel, 400013, Bombay, India
SG TAIPEI	38F, No. 68, Sec. 5, Zhongxiao E. Road, Xinyi District, Taipei City, Tchaj-wan 110
SG Tokyo	Palace Building, 1-1-1 Marunouchi, Chiyoda-ku, 100-8206 Tokyo, Japan

* including branches

b) SG subsidiaries

Company	SG's share in voting rights
ALD Automotive Slovakia s. r. o.	100
ALD Automotive s. r. o.	100
Crédit du Nord	100
GEFA BANK GmbH	100
Komerční pojišťovna, a.s.	100
Lyxor International Asset Management (LIAM)	100
Rosbank	99.97
SG China Ltd.	100
SG Issuer S.A.	100
SG Maroccaine de Banques	57.62
SG Option Europe	100
SG Private Banking (Suisse) S.A.	100
SG Private wealth management S.A.	100
SG Securities Services	100
SGA Société Générale Acceptance N.V.	100
SOCIETE GENERALE FACTORING	100
Societe Generale International Ltd.	100
SOCIETE GENERALE SENEGAL	64.87
SOGECAP S.A.	100
SOGEPROM Česká republika s.r.o., v likvidaci	100
SOGEPROM MICHLE S.R.O.	100
SOCIETE GENERALE GHANA LIMITED	60.22
SOCIETE GENERALE LUXEMBOURG	20
SG FACTORING SPA	100
UNION INTERNATIONALE DE BANQUES	52.34

c) KB subsidiaries

Company	Registered office	SG's share in voting rights
Factoring KB, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128/222, 120 21 Prague 2, Czech Republic	100
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
Protos, uzavřený investiční fond, a. s.	Rohanské nábřeží 693/10, 186 00 Prague 8 – Karlín, Czech Republic	100
BASTION EUROPEAN INVESTMENTS S.A.	Rue des Colonies 11, 1000 Brussels, Belgium	100
SG Equipment Finance Czech Republic s. r. o.	náměstí Junkových 2772/1, 155 00 Prague 5 – Stodůlky, Czech Republic	100
KB Advisory, s. r. o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
KB Real Estate, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
My Smart Living, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
VN 42, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
STD2, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
KB SmartSolutions, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1 – Nové Město, Czech Republic	100
ESSOX s.r.o.	F. A. Gerstnera č. ev. 52, 370 01 České Budějovice 7, České Budějovice, Czech Republic	100
ESSOX FINANCE s.r.o.	Karadžičova 16, 821 08 Bratislava, Slovak Republic	100

Role of Komerční banka within the Group:
Komerční banka is the parent company of the KB Group and is part of the international financial group of Société Générale (hereinafter the "SG Group"). KB is a universal bank offering a wide range of services in the areas of retail, corporate, and investment banking on the territory of the Czech Republic. KB operates on the territory of the Slovak Republic through its branch abroad and there it focuses on serving large and medium-sized enterprises. The KB Group companies offer additional specialised services, including pension savings, building society schemes, leasing, factoring, consumer financing, and insurance. As a part of the KB Group, the Bank provides certain subsidiaries with trademark licences. Within the KB Group, Komerční banka provides certain IT services, services and advisory in the area of human resources, as well as advisory in the areas of compliance, operational risks, and insurance within the SG Group. The products of KB's subsidiaries are sold using Komerční banka's sales network. Komerční banka offers some of its products using, inter alia, the network of Modrá pyramida stavební spořitelna, a.s.

KB creates and collects data on the whole control and management system and also provides these data, including data on KB, to SG (the data include, inter alia, budgets, business plans, business continuity and crisis management plans, and anti-money laundering measures).

KB intermediates SG's control over KB's subsidiaries and participates in the creation of group policies on the territory of the Czech Republic and Slovakia.

Manner and means of control
Société Générale, as the majority shareholder, exerts its influence on KB's activity through SG Group policies and the General Meeting. It has four representatives in the Bank's nine-member Supervisory Board, and has one representative in the three-member Audit Committee. One Société Générale employee is on secondment to the Board of Directors of Komerční banka as its member. Furthermore, based on a contract concluded between SG and KB, SG sends its employees on secondment to certain positions. At this time, there are four such employees in KB.

In accordance with Section 79 of the Business Corporations Act, SG is a controlling entity with respect to KB. The control is formally exercised by implementing SG's methodologies in KB's internal regulations, in particular in the area of risk management and capital adequacy. Furthermore, informal control exists in the form of consultancy within individual areas of KB's activity.

The intermediation of SG's control over KB's subsidiaries is formally represented by the implementation of KB's methodologies in the subsidiaries' internal regulations, and informal control takes the form of consultancy in individual areas of activity.

II. Relations within the Group

A. Important actions adopted in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity in respect of assets exceeding 10% of the controlled entity's equity

Komerční banka made bank transactions which were subject to banking secrecy and which, separately or cumulatively, exceeded 10% of the equity of Komerční banka with its subsidiaries ESSOX, Modrá pyramida, SGEF, and SG Paris.

In previous periods, KB sold mortgage bonds in total volume exceeding 10% of Komerční banka's equity, upon which it paid returns in this accounting period

B. Overview of mutual contracts between the controlled entity and the controlling entity or among controlled entities

Banking transactions
During the reporting period, Komerční banka entered into the relationships stated below that are subject to bank secrecy with the controlled entities in the areas listed below.

Deposit arrangements
In the deposit segment, KB had entered into arrangements with 25 branches and subsidiaries of the SG Group within the reporting period. As of 31 December 2020, KB maintained a total of 57 active accounts, of which 21 were loro accounts for branches and subsidiaries of the SG Group, 31 were current accounts, and 5 were overdraft accounts opened for non-banking entities of SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 49.7 million; the average monthly credit balance (deposit) was CZK 386.4 million. In the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 206.3 million; the average monthly overdraft balance on these accounts was CZK 159.1 million. In the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 1.8 million; income from fees associated with the maintenance of accounts and related transactions totalled CZK 6.1 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris; B.R.D. Groupe Société Générale, Bucharest; SG New York; SG Warszawa; Rosbank, Moscow; and SG China, Beijing. In the reporting period, KB's average monthly deposit on nostro accounts with SG was CZK 1,332.5 million; the average monthly overdraft balance on nostro accounts was CZK 89.6 million. Interest income on nostro accounts for the reporting period was CZK 0.150 million; interest expenses amounted to CZK 9.009 million. KB's expenses arising from maintenance fees and transactions on nostro accounts for the reporting period were CZK 18.1 million; fee income (i.e. discounts provided on credit operations on nostro accounts) amounted to CZK 3.4 million. KB's income from fees charged to loro accounts for the reporting period was CZK 3.4 million. Interest expenses paid by KB on loro accounts amounted to CZK 77 thousand and interest income totalled CZK 1.7 million in the reporting period.

Nine subsidiaries of SG Group held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 36,914 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 16.1 million for the reporting period.

Nostro, loro, current, term, and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan arrangements
In the loan segment, KB provided loans during 2020 to one of the SG Group subsidiaries. These totalled 215 loans in aggregate amount of CZK 6,197 million as of 31 December 2020. The average monthly balance of loans in the reporting period was CZK 6,783 million. The aggregate amount of interest income from loans and overdraft accounts was CZK 125.063 million.

As of the end of the reporting period, KB had provided six entities of SG Group with bank guarantees (payment, non-payment) in the amount of CZK 1,129 million.

As of the end of the reporting period, KB had received guarantees from three entities of SG Group as collateral for loans provided to clients in aggregate amount of CZK 9,917 million. The aggregate amount of fees for guarantees received in the reporting period totalled CZK 6.43 million.

Investment banking arrangements
In the investment banking segment, KB carried out transactions with 15 branches and subsidiaries within the SG Group. The total number of transactions was 43,345 (2,739 balance sheet transactions and 40,606 off-balance sheet transactions) in aggregate nominal value of CZK 3,545,363 million. The income from the investment banking transactions amounted to CZK 60,813 million and the costs totalled CZK 63,747 million.

The aggregate nominal value of balance sheet transactions was CZK 1,973,729 million and consisted of the following:

- Depository transactions – a total of 1,939 transactions in aggregate amount of CZK 1,895,293 million; and
- Securities held for trading – a total of 800 transactions in aggregate amount of CZK 78,436 million.

The aggregate nominal value of off-balance sheet transactions was CZK 1,571,634 million and consisted of the following:

- Foreign currency transactions (spots, forwards, swaps) totalling 31,327 transactions in aggregate nominal value of CZK 849,088 million;
- Interest rate derivative transactions (interest rate swaps and futures) totalling 954 transactions in aggregate nominal value of CZK 511,268 million;
- Option transactions with currency instruments totalling 6,731 transactions in aggregate nominal value of CZK 146,331 million;
- Commodity transactions carried out only with SG Paris and SG London totalling 1,507 transactions in aggregate amount of CZK 2,719 million;
- Emission allowance transactions totalling 57 transactions in aggregate amount of CZK 1,739 million with SG Paris; and
- Repo transactions totalling 30 transactions in aggregate nominal value of CZK 60,488 million with SG Paris.

All of the banking products were provided under standard terms and conditions, in accordance with KB's price list, and taking into consideration the creditworthiness of individual clients under arm's length conditions in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of the banking transactions concluded in the reporting period.

Other mutual contracts

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement on the organisation of periodic control	ALD Automotive d.o.o. za operativni	19 Aug 2019
Agreement on the organisation of periodic control	ALD Automotive Eesti AS	27 May 2019
Agreement on the organisation of periodic control	ALD Automotive Magyarország Autópark-	24 Sep 2019
Agreement on the organisation of periodic control	ALD AUTOMOTIVE POLSKA	31 May 2019
KBP - Ostrava - ALD	ALD Automotive s.r.o.	2 Mar 2020
KBP - ČB, Krajinská - ALD	ALD Automotive s.r.o.	28 Jan 2020
Service framework agreement – IT	ALD Automotive s.r.o.	31 Aug 2010
Non-disclosure agreement	ALD Automotive s.r.o.	9 Jul 2010
Co-operation agreement – Jobs	ALD Automotive s.r.o.	9 Jun 2010
Mutual co-operation agreement	ALD Automotive s.r.o.	18 Oct 2010
Agreement on the organisation of periodic control	ALD Automotive s.r.o.	14 Apr 2011
Agreement for the provision of technical infrastructure solution services, connectivity services	ALD Automotive s.r.o.	17 May 2018
Co-operation agreement	ALD Automotive s.r.o.	29 Mar 2013
Framework agreement – Vehicle leasing	ALD Automotive s.r.o.	1 May 2013
Agreement – Outsourcing of HR services (excluding Payroll)	ALD Automotive s.r.o.	1 Apr 2013
Agreement for co-operation in performance of group risk insurance for employees no. 3280000000 as amended by subsequent amendments	ALD Automotive s.r.o.	9 Sep 2013
Framework agreement to lease a vehicle	ALD Automotive s.r.o.	7 Jan 2015
Contract for the lease of non-residential premises	ALD Automotive s.r.o.	30 Jan 2020
Agreement for co-operation in performance of group insurance agreement of work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka/Société Générale no. 334000000	ALD Automotive s.r.o.	26 Sep 2016
Separate agreement no. 4 between KB and ALD Automotive – IT infrastructure services	ALD Automotive s.r.o.	30 Jun 2017
KBP - Brno (8346) - ALD	ALD Automotive s.r.o.	24 Feb 2020
Service contract – Outsourcing (HR services)	ALD Automotive s.r.o.	1 Jan 2018
Service agreement – CAM access	ALD Automotive s.r.o.	14 Sep 2018
Agreement – outsourcing of DPO services	ALD Automotive s.r.o.	16 May 2018
Agreement on services: eDoceo	ALD Automotive s.r.o.	1 Apr 2018
Contract for the lease of non-residential premises – Ústí nad Labem	ALD Automotive s.r.o.	30 Jan 2020
Purchase agreement for the sale of movable property	ALD Automotive s.r.o.	2 Mar 2020
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions	ALD Automotive s.r.o.	16 Aug 2011
Agreement on the organisation of periodic control	ALD Automotive SIA	27 May 2019

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Non-disclosure agreement	ALD Automotive Slovakia s. r. o.	9 Jul 2010
Service contract – Outsourcing (HR services)	ALD Automotive Slovakia s. r. o.	1 Jan 2016
Agreement for co-operation in performance of group insurance agreement of work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka/Société Générale no. 334000000	ALD Automotive Slovakia s. r. o.	4 Aug 2016
Co-operation Agreement	ALD Automotive Slovakia s. r. o.	19 Oct 2018
Agreement – outsourcing of HR services (excluding Payroll)	ALD Automotive Slovakia s. r. o.	30 Dec 2016
Agreement – Outsourcing of DPO services	ALD Automotive Slovakia s. r. o.	20 Feb 2019
Agreement on the organisation of periodic control	ALD Automotive UAB	27 May 2019
Custodian services agreement	BRD - GROUPE SOCIETE GENERALE SA	20 Oct 2011
RON Account Agreement	BRD - GROUPE SOCIETE GENERALE SA	16 Oct 2019
Non-disclosure agreement	ESSOX FINANCE, s.r.o.	29 Nov 2016
Service agreement – outsourcing (HR services)	ESSOX FINANCE, s.r.o.	2 Jan 2017
Service framework agreement	ESSOX FINANCE, s.r.o.	15 Feb 2017
Agreement for co-operation in performance of group risk insurance agreement for employees	ESSOX FINANCE, s.r.o.	31 Mar 2017
Separate agreement no. 2: Technical infrastructure services, identity and access	ESSOX FINANCE, s.r.o.	28 Dec 2017
Separate agreement no. 1: Technical infrastructure services, connectivity	ESSOX FINANCE, s.r.o.	16 Jan 2018
Agreement – outsourcing of DPO services	ESSOX FINANCE, s.r.o.	24 May 2018
Co-operation agreement	ESSOX FINANCE, s.r.o.	27 Jun 2018
Agreement on the organisation of periodic control	ESSOX FINANCE, s.r.o.	31 May 2019
Compliance Co-operation Agreement	ESSOX FINANCE, s.r.o.	3 Dec 2020
Service agreement (client)	ESSOX s.r.o.	21 Sep 2005
Contract for the lease of non-residential premises and payment for services related to their use, including amendments (tenant)	ESSOX s.r.o.	8 Mar 2006
Agreement on mutual co-operation, including an addendum (beneficiary)	ESSOX s.r.o.	1 Aug 2007
Co-operation agreement	ESSOX s.r.o.	17 Sep 2008
Co-branded cards distribution agreement including an amendment	ESSOX s.r.o.	16 Jan 2009
Framework agreement for financial market trading	ESSOX s.r.o.	16 Apr 2009
Co-operation Agreement, including an amendment	ESSOX s.r.o.	20 Oct 2009
Service agreement – outsourcing, including amendments (provider)	ESSOX s.r.o.	15 Dec 2009
Non-disclosure agreement	ESSOX s.r.o.	10 May 2010
Non-disclosure agreement	ESSOX s.r.o.	9 Jul 2010
Agreement on the organisation of periodic control, including an amendment (client)	ESSOX s.r.o.	28 Feb 2011
Personal data processing framework agreement (administrator)	ESSOX s.r.o.	12 Apr 2011
Framework service agreement (recipient)	ESSOX s.r.o.	26 Apr 2011
Separate agreement no. 1 – Provision of services for access to KB’s external entity	ESSOX s.r.o.	30 Jun 2011
Service agreement – CAM access, including an amendment (recipient)	ESSOX s.r.o.	29 Jul 2011
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	ESSOX s.r.o.	19 Aug 2011
Service Agreement – outsourcing (HR services), including amendments	ESSOX s.r.o.	21 Dec 2011
Co-operation Agreement, including amendments	ESSOX s.r.o.	1 Aug 2012
Distribution agreement for product "Corporate Car Loans" including an amendment	ESSOX s.r.o.	1 Aug 2012
Agreement for co-operation in performance of the contract for group risk insurance for employees no. 3280000000, including amendments	ESSOX s.r.o.	22 Aug 2012
Co-branded cards co-operation agreement	ESSOX s.r.o.	28 Dec 2012
Agreement for framework insurance contract	ESSOX s.r.o.	10 Feb 2014
Framework agreement for the provision of financial services, including amendments (client)	ESSOX s.r.o.	31 Jul 2014
Separate agreement no. 2 – provision of technical infrastructure solution services, service hosting, including amendments	ESSOX s.r.o.	29 Aug 2014
Service level agreement	ESSOX s.r.o.	25 Nov 2014
Agreement to enter into a lease of non-residential premises and payment of related services (future sub-lessee)	ESSOX s.r.o.	27 Mar 2015

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract – soft collection	ESSOX s.r.o.	29 Apr 2015
Group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale	ESSOX s.r.o.	14 Jul 2016
Contract for the payment of insurance premium and of insurance broker's commission	ESSOX s.r.o.	23 Aug 2016
Service agreement, including an amendment	ESSOX s.r.o.	3 Jan 2017
Sublease of non-residential premises and payment of related services, including amendments	ESSOX s.r.o.	10 Jan 2017
Lease of parking places + 1 amendment	ESSOX s.r.o.	9 Mar 2017
Memorandum of understanding – project AS/400 Lifecycle Renewal	ESSOX s.r.o.	3 Apr 2017
Sublease agreement	ESSOX s.r.o.	9 May 2017
Separate agreement no. 3 – provision of technical infrastructure solution services, connectivity, including amendments	ESSOX s.r.o.	13 Dec 2017
Separate agreement no. 4 – provision of technical infrastructure solution services, physical hosting, including amendments	ESSOX s.r.o.	13 Dec 2017
Separate agreement no. 5 – provision of technical infrastructure solution services, identity and access	ESSOX s.r.o.	13 Dec 2017
Agreement on services: eDoceo	ESSOX s.r.o.	31 Mar 2018
Agreement – outsourcing of DPO services	ESSOX s.r.o.	11 May 2018
Individual pricing agreement	ESSOX s.r.o.	30 May 2018
Agreement on assignment of rights and obligations arising from the license agreement and licenses assignment agreement	ESSOX s.r.o.	7 Mar 2019
Purchase agreement for the sale of movable property	ESSOX s.r.o.	25 Mar 2019
Agreement on the organisation of periodic control	ESSOX s.r.o.	8 Jul 2019
Lease of parking places no. 22708 – rent adjustment	ESSOX s.r.o.	23 Mar 2020
Purchase agreement for the sale of movable property	ESSOX s.r.o.	31 Jul 2020
Agreement for the settlement of certain rights and obligations under the Contract for the lease of non-residential premises and payment of related services	ESSOX s.r.o.	1 Dec 2020
License agreement – Logo, including an amendment	Factoring KB, a.s.	20 Dec 2004
Lease of non-residential premises, movable assets, and payment of related services, including an amendment – Ostrava	Factoring KB, a.s.	18 Jun 2008
Lease of non-residential premises, movable assets, and payment of related services, including an amendment – Prague	Factoring KB, a.s.	31 Aug 2012
Lease of non-residential premises, movable assets, and payment of related services, including an amendment – Pilsen	Factoring KB, a.s.	30 Sep 2015
Lease of non-residential premises, movable assets, and payment of related services, including an amendment – Ústí nad Labem	Factoring KB, a.s.	1 Apr 2017
Lease of non-residential premises, movable assets, and payment of related services, including an amendment – Brno	Factoring KB, a.s.	14 Dec 2017
Framework agreement – personal data processing	Factoring KB, a.s.	1 Dec 2008
Sales agreement, including an amendment	Factoring KB, a.s.	1 Dec 2008
Service Agreement – outsourcing (HR services), including an amendment	Factoring KB, a.s.	4 Jan 2010
Co-operation agreement – posts (filling of posts)	Factoring KB, a.s.	28 Apr 2010
Non-disclosure agreement	Factoring KB, a.s.	9 Aug 2010
Framework agreement for the provision of IT infrastructure services	Factoring KB, a.s.	8 Sep 2010
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Factoring KB, a.s.	4 Oct 2010
Database usage license agreement	Factoring KB, a.s.	1 Apr 2011
Agreement to provide internal audit services, including an amendment	Factoring KB, a.s.	21 May 2019
Agreement for co-operation in performance of contract for employee group risk insurance no. 3280000000	Factoring KB, a.s.	24 Aug 2012
Sub-lease of non-residential premises, movable assets, and payment of related services, including amendments	Factoring KB, a.s.	30 Aug 2012
IT – Separate agreement no. 1, Connectivity services, technical infrastructure solution services, including an amendment	Factoring KB, a.s.	1 Dec 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
IT – Separate agreement no. 2, Physical hosting of equipment, technical infrastructure solution services, including an amendment	Factoring KB, a.s.	1 Dec 2012
Service contract – BI services	Factoring KB, a.s.	27 Dec 2012
IT – Separate agreement no. 4: VoIP, provision of technical infrastructure solution services	Factoring KB, a.s.	31 Dec 2012
Framework Co-operation Agreement no. 0000020447/0000), including amendments	Factoring KB, a.s.	31 Dec 2012
Agreement to provide HR services excluding payroll processing, including an amendment	Factoring KB, a.s.	1 Jan 2013
Framework agreement for the rental of employee-driven motor vehicles	Factoring KB, a.s.	22 Sep 2014
Service level agreement – co-operation in the area of reporting and accounting	Factoring KB, a.s.	26 Nov 2014
IT – Separate agreement no. 5: E-mail, provision of technical infrastructure solution services	Factoring KB, a.s.	25 May 2015
Service contract – information security services	Factoring KB, a.s.	27 Oct 2015
IT – Separate agreement no. 7: End-user workplace (EUW), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 8: Service desk (SD), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 9: Identity and access, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 10: Platform hosting, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 11: DR (disaster recovery), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 6: Fileshare, provision of technical infrastructure solution services	Factoring KB, a.s.	29 Feb 2016
Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka No. 334000000	Factoring KB, a.s.	26 Sep 2016
IT – Separate agreement no. 12: Vulnerability detection (VD), provision of technical infrastructure solution services	Factoring KB, a.s.	28 Aug 2017
Contract for the payment of insurance premium and of insurance broker's commission	Factoring KB, a.s.	20 Mar 2018
Agreement on services – eDoceo	Factoring KB, a.s.	1 Apr 2018
Sublease agreement	Factoring KB, a.s.	26 Apr 2018
Agreement – outsourcing of DPO services	Factoring KB, a.s.	26 Apr 2018
Co-operation Agreement on Compliance Services	Factoring KB, a.s.	15 Jan 2020
Compliance Co-operation Agreement	Factoring KB, a.s.	3 Dec 2020
Agreement to use unreserved parking places	Factoring KB, a.s.	1 Jun 2020
KYS Processing	Factoring KB, a.s.	1 Oct 2020
Mutual co-operation agreement, including an amendment – provision of banking services to staff	Factoring KB, a.s.	1 Aug 2007
IT – Separate agreement no. 3: IT Infrastructure hosting, provision of technical infrastructure solution services, including an amendment	Factoring KB, a.s.	1 Dec 2012
Service agreement – C4M access + 1 amendment	Factoring KB, a.s.	24 May 2011
Contract for sublease of parking spaces, including amendments – Prague Stodůlky, building no. 2772, indoor parking space	Factoring KB, a.s.	28 Aug 2012
Contract for sublease of parking spaces, including accessories – Prague Stodůlky, outdoor parking	Factoring KB, a.s.	1 Jan 2013
Contract for sublease of parking spaces, including amendments – Siemens	Factoring KB, a.s.	23 Mar 2015
Agreement to provide services regarding OHS, environmental protection and fire protection, including an amendment	Factoring KB, a.s.	30 Jan 2015
Agreement to provide postal services and destruction of document duplicates, including an amendment	Factoring KB, a.s.	31 Oct 2013
Agreement for the rental of motor vehicles	KB Advisory s.r.o.	15 Nov 2019

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the payment of insurance premium and of insurance broker's commission	KB Advisory s.r.o.	1 Jan 2020
Co-operation agreement	KB Advisory s.r.o.	23 Jan 2020
Separate service agreement – ZD Senice (Loučany)	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement – HST Hydrosystémy – Savings administration	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement – ZD Senice (424)	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement –PERENA, spol. s r.o. – administration	KB Advisory s.r.o.	24 Jan 2020
Separate service agreement	KB Advisory s.r.o.	3 Feb 2020
Service agreement – outsourcing (services)	KB Advisory s.r.o.	14 Feb 2020
Separate service agreement – Obrobna Resl	KB Advisory s.r.o.	24 Feb 2020
Separate service agreement	KB Advisory s.r.o.	19 Mar 2020
Separate service agreement – HAVLÍK OPAL spol. s r.o.	KB Advisory s.r.o.	1 Apr 2020
Separate service agreement – JK MONT s. r. o	KB Advisory s.r.o.	1 Apr 2020
Contract for the payment of insurance premium and of insurance broker's commission	KB Advisory s.r.o.	23 Apr 2020
Separate service agreement	KB Advisory s.r.o.	13 May 2020
Separate service agreement – ZD Senice Vilémov	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement – Hořice machine works - Real estate bid III	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement – Atmos – bid III, Marketing administration	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement – Atmos – bid IV, Marketing	KB Advisory s.r.o.	22 Jun 2020
Separate service agreement – EPO Gearmot Technologie, bid X	KB Advisory s.r.o.	25 Jun 2020
Separate service agreement	KB Advisory s.r.o.	11 Jul 2020
Separate service agreement – HST Hydrosystémy – Real estate administration, Vth bid	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Dřevoobchod K & C Karlovy Vary, Real estate administration, bid V	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Trio Havel, Real estate administration, Vth bid + VR	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Tratec Savings, bid V	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Petr Landa – PRV bid VIII, administration	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Premium Pellets 1 – Savings administration IV	KB Advisory s.r.o.	21 Jul 2020
Separate service agreement – Premium Pellets 2 – Savings administration IV	KB Advisory s.r.o.	21 Jul 2020
Commercial agency agreement	KB Advisory s.r.o.	29 Jul 2020
Agreement on services: eDoceo	KB Advisory s.r.o.	1 Aug 2020
Separate service agreement	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement	KB Advisory s.r.o.	4 Aug 2020
Separate service agreement	KB Advisory s.r.o.	4 Aug 2020
Framework agreement	KB Advisory s.r.o.	31 Aug 2020
Separate service agreement	KB Advisory s.r.o.	21 Oct 2020
Separate service agreement – RMN – Ski hotel, Savings V	KB Advisory s.r.o.	22 Oct 2020
Separate service agreement – Pradědský lesní závod Real estate IV CR	KB Advisory s.r.o.	29 Oct 2020
Separate service agreement – Stargo Metal Design s.r.o., Savings, bid V	KB Advisory s.r.o.	29 Oct 2020
Personal data processing framework agreement	KB Penzijní společnost, a.s.	11 Aug 2006
Co-operation agreement – Jobs	KB Penzijní společnost, a.s.	28 Apr 2010
Non-disclosure agreement	KB Penzijní společnost, a.s.	9 Jul 2010
Rules for co-operation between KB and Group members in the area of sourcing and procurement	KB Penzijní společnost, a.s.	13 Sep 2010
Agreement on the organisation of periodic control + Amendment no. 1 dated 30 Dec 2011	KB Penzijní společnost, a.s.	21 Jan 2011
Notification service contract (Contract no. 1 relating to Framework Agreement)	KB Penzijní společnost, a.s.	10 Jun 2011
Compliance service agreement	KB Penzijní společnost, a.s.	1 Dec 2011
Agreement for co-operation in performance of the contract for employee group risk insurance	KB Penzijní společnost, a.s.	22 Aug 2012
Agreement – outsourcing of services (documentation processing)	KB Penzijní společnost, a.s.	25 Sep 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the provision of technical infrastructure services – Connectivity services (Contract no. 2 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Dec 2012
Contract for the provision of technical infrastructure services – Voice over IP (Contract no. 5 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Dec 2012
Contract for the provision of technical infrastructure services – Fileshare service (Contract no. 6 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services –Smartphone service (Contract no. 7 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – EUW service (Contract no. 8 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Service desk (Contract no. 9 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – E-mail service (Contract no. 10 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Non-disclosure agreement	KB Penzijní společnost, a.s.	12 Aug 2013
Contract for issue of payment place mandate	KB Penzijní společnost, a.s.	1 Oct 2013
Contract for personal data processing (in connection with contract for issue of payment place mandate)	KB Penzijní společnost, a.s.	1 Oct 2013
Service contract – outsourcing – BI services	KB Penzijní společnost, a.s.	1 Nov 2013
Contract for the provision of technical infrastructure services – identity and access (Contract no. 13 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Jan 2014
Agreement to enter into framework insurance agreement	KB Penzijní společnost, a.s.	11 Feb 2014
Contract for the provision of technical infrastructure services – Platform hosting (Contract no. 11 relating to Framework Agreement)	KB Penzijní společnost, a.s.	17 Jun 2014
Framework agreement for the rental of employee-driven motor vehicles	KB Penzijní společnost, a.s.	22 Sep 2014
2 x Backup site provision agreement	KB Penzijní společnost, a.s.	10 Nov 2014
Service level agreement	KB Penzijní společnost, a.s.	24 Nov 2014
Contract for the provision of technical infrastructure services – KBPS application development (Contract no. 16 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Contract for the provision of technical infrastructure services – Application Support (Contract no. 17 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Agreement of work-related accident and occupational disease insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale No. 333000000	KB Penzijní společnost, a.s.	23 Mar 2015
Agreement to provide services regarding OHS, environmental protection and fire protection, including amendments	KB Penzijní společnost, a.s.	28 May 2015
Purchase agreement	KB Penzijní společnost, a.s.	7 Mar 2016
Contract for the payment of insurance premium and of insurance broker’s commission	KB Penzijní společnost, a.s.	17 Jun 2016
Contract for the provision of technical infrastructure services – HW rental (Contract no. 15 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Jul 2016
Agreement for co-operation in performance of group insurance agreement of work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka/Société Générale no. 334000000	KB Penzijní společnost, a.s.	12 Sep 2016
Service contract – information security services	KB Penzijní společnost, a.s.	16 Sep 2016
Contract for the provision of technical infrastructure services – Notification service (Contract no. 18 relating to Framework Agreement)	KB Penzijní společnost, a.s.	3 Oct 2016
Contract for the provision of technical infrastructure services and user accounts – Small application operation (Contract no. 14 relating to Framework Agreement)	KB Penzijní společnost, a.s.	16 Feb 2017
Framework agreement to provide electronic communication mobile services	KB Penzijní společnost, a.s.	28 Dec 2017
Contract for the payment of insurance premium and of insurance broker’s commission	KB Penzijní společnost, a.s.	21 Mar 2018
Sublease agreement	KB Penzijní společnost, a.s.	27 Mar 2018
Agreement on services: eDoceo	KB Penzijní společnost, a.s.	31 Mar 2018
Agreement on provision of research	KB Penzijní společnost, a.s.	4 Jun 2018
Purchase agreement for the sale of movable property	KB Penzijní společnost, a.s.	20 Jun 2018
Service agreement – outsourcing (accounting services)	KB Penzijní společnost, a.s.	31 Dec 2018

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Parking place sublease agreement no. 21866 – rent adjustment	KB Penzijní společnost, a.s.	28 Mar 2019
Distribution agreement for products “Pension Saving Plan – Pillar II” and “Supplementary Pension Saving Plan with a State Contribution – Pillar III” + Amendment no. 1 dated 28 Dec 2019	KB Penzijní společnost, a.s.	18 Jul 2019
Parking place sublease agreement no. 20391 – rent adjustment	KB Penzijní společnost, a.s.	27 Jan 2020
Parking place sublease agreement no. 21866 – rent adjustment	KB Penzijní společnost, a.s.	27 Feb 2020
Purchase agreement for the sale of movable property	KB Penzijní společnost, a.s.	4 Mar 2020
Purchase agreement for the sale of movable property	KB Penzijní společnost, a.s.	1 Apr 2020
Agreement to use unreserved parking places	KB Penzijní společnost, a.s.	1 Jun 2020
Purchase agreement for the sale of movable property	KB Penzijní společnost, a.s.	2 Sep 2020
Compliance Co-operation Agreement	KB Penzijní společnost, a.s.	3 Dec 2020
Licensing agreement including amendments	KB Penzijní společnost, a.s.	20 Dec 2004
Service agreement (sharing data from subsidiaries) including amendments	KB Penzijní společnost, a.s.	24 Nov 2006
Mutual co-operation agreement including amendments	KB Penzijní společnost, a.s.	1 Aug 2007
Agreement for co-operation within the Group under S. 5a of Act No. 235/2004, the VAT Act, including amendments	KB Penzijní společnost, a.s.	19 Nov 2008
Agreement on KB Call Centre Services including amendments	KB Penzijní společnost, a.s.	31 Dec 2009
Service agreement – outsourcing (HR services), including amendments	KB Penzijní společnost, a.s.	4 Jan 2010
Service agreement – outsourcing, including amendments	KB Penzijní společnost, a.s.	9 Jan 2010
Framework agreement to provide IT services including amendments	KB Penzijní společnost, a.s.	2 Nov 2010
Co-operation Agreement, including amendments	KB Penzijní společnost, a.s.	10 Aug 2012
Agreement for the sublease of non-residential premises, movable assets and payment of related services no. 20390 including amendments	KB Penzijní společnost, a.s.	10 Aug 2012
Sublease agreement including amendments	KB Penzijní společnost, a.s.	10 Aug 2012
Agreement for the provision of technical infrastructure solution services (Physical services)(Agreement no. 3 to framework agreement), including amendments	KB Penzijní společnost, a.s.	20 Dec 2012
Agreement for the provision of technical infrastructure solution services – IT Infrastructure hosting – VMWare (Agreement no. 4 to framework agreement), including amendments	KB Penzijní společnost, a.s.	20 Dec 2012
Agreement – outsourcing of HR services (excluding Payroll) including amendments	KB Penzijní společnost, a.s.	1 Jan 2013
Agreement – outsourcing of Services: operational risks including amendments	KB Penzijní společnost, a.s.	25 Mar 2013
Service agreement including amendments	KB Penzijní společnost, a.s.	21 May 2013
Contract of mandate – supplier contract management including amendments	KB Penzijní společnost, a.s.	31 Dec 2014
Agreement for the sublease of parking places including amendments	KB Penzijní společnost, a.s.	31 Mar 2015
Agreement – outsourcing of DPO services	KB Penzijní společnost, a.s.	26 Apr 2018
Real estate lease agreement including amendments	KB Real Estate, s.r.o.	4 Jun 2012
Co-operation agreement regarding use of real estate including amendments	KB Real Estate, s.r.o.	1 Sep 2012
Service agreement – outsourcing (accounting services)	KB Real Estate, s.r.o.	1 Apr 2015
Service agreement – outsourcing (support services)	KB Real Estate, s.r.o.	3 Nov 2015
Contract for the payment of insurance premium and of insurance broker’s commission	KB Real Estate, s.r.o.	12 Apr 2018
Supplementary payment agreement	KB SmartSolutions, s.r.o.	7 Jan 2019
Oral agreement – outsourcing of accounting services and payroll (to be replaced with an agreement in writing)	KB SmartSolutions, s.r.o.	31 Jan 2019
Group co-operation agreement under Sec. 5a of VAT Act no. 235/2004 Coll.	KB SmartSolutions, s.r.o.	7 Mar 2019
Supplementary payment agreement	KB SmartSolutions, s.r.o.	1 Oct 2019
Supplementary payment agreement	KB SmartSolutions, s.r.o.	11 Mar 2020
Contract for the payment of insurance premium and of insurance broker’s commission	KB SmartSolutions, s.r.o.	1 May 2020
Supplementary payment agreement	KB SmartSolutions, s.r.o.	29 Jun 2020
Supplementary payment agreement	KB SmartSolutions, s.r.o.	14 Oct 2020
Business co-operation agreement	KB SmartSolutions, s.r.o.	16 Oct 2020
Supplementary payment agreement	KB SmartSolutions, s.r.o.	9 Dec 2020
Co-operation agreement	KB SmartSolutions, s.r.o.	10 Dec 2020

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Rules for co-operation between KB and Group members in the area of sourcing and procurement	KB SmartSolutions, s.r.o.	10 Dec 2020
Group insurance agreement, including amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework co-operation agreement no. 3010000235 (Spektrum insurance program) including amendments	Komerční pojišťovna, a.s.	28 Jan 2003
Lease of non-residential premises (Jihlava), including amendments	Komerční pojišťovna, a.s.	31 Jan 2003
Service agreement (Licensing agreement), including an amendment	Komerční pojišťovna, a.s.	20 Dec 2004
Lease of non-residential premises (Brno), including amendments	Komerční pojišťovna, a.s.	31 May 2005
Contract to distribute “Merlin”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “Profi Merlin”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “PROFI PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “Vital Program and Vital Plus Program”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “RL Mortgage loans”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “Vital Grant”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to distribute “Vital”, including amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 2006
Contract to distribute “Travel Insurance”, including amendments	Komerční pojišťovna, a.s.	14 Jul 2006
Contract to distribute “Vital Invest”, including amendments	Komerční pojišťovna, a.s.	4 Oct 2006
Contract to distribute “Vital Premium”, including amendments	Komerční pojišťovna, a.s.	18 Dec 2006
Agreement to accept payment cards – internet, including an amendment	Komerční pojišťovna, a.s.	29 Mar 2007
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	2 Apr 2007
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	5 Jun 2007
Framework distribution agreement including an amendment	Komerční pojišťovna, a.s.	22 Jun 2007
Agreement for collective consumer loans insurance no. 3010000000, including amendments	Komerční pojišťovna, a.s.	1 Aug 2007
Mutual co-operation agreement (bank services conditions), including an amendment	Komerční pojišťovna, a.s.	1 Aug 2007
Agreement for collective credit cards insurance no. 3040000000, including amendments	Komerční pojišťovna, a.s.	1 Nov 2007
Fees clearing agreement	Komerční pojišťovna, a.s.	1 Oct 2008
VAT co-operation agreement, including amendments	Komerční pojišťovna, a.s.	21 Nov 2008
Agreement for collective payment cards insurance no. 2149500001, including amendments	Komerční pojišťovna, a.s.	26 Jan 2009
Co-operation agreement – synergy in using part of KB infrastructure	Komerční pojišťovna, a.s.	26 Mar 2009
Agreement for collective corporate loans insurance no. 3140000000, including amendments	Komerční pojišťovna, a.s.	5 May 2009
Contract to distribute “Brouček”, including amendments	Komerční pojišťovna, a.s.	15 Jun 2009
Agreement for collective Merlin and Profi Merlin insurance including amendments	Komerční pojišťovna, a.s.	5 Oct 2009
Custody agreement – Vital Invest Forte including amendments	Komerční pojišťovna, a.s.	6 Oct 2009
Agreement for co-operation in portfolio valuation	Komerční pojišťovna, a.s.	9 Dec 2009
Agreement to accept electronic payments using Mojeplatba service	Komerční pojišťovna, a.s.	14 Dec 2009
Agreement to provide call centre services	Komerční pojišťovna, a.s.	31 Dec 2009
Service agreement – Outsourcing (HR services), including an amendment	Komerční pojišťovna, a.s.	21 Apr 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 Jul 2010
Framework service agreement no. 2040/2010/0000008044/0000 + 9 separate agreements, including amendments	Komerční pojišťovna, a.s.	14 Sep 2010
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	15 Sep 2010
Contract regarding the financial instrument fond Forte 5, 6, 7, 8	Komerční pojišťovna, a.s.	13 Dec 2010
Contract regarding two types of the collective insurance of KB cards "A karta" and "Lady" no. 3230000000, including amendments	Komerční pojišťovna, a.s.	31 Mar 2011
Contract regarding the financial instrument fond Forte 9	Komerční pojišťovna, a.s.	21 Jul 2011
Sub-lease agreement – Hradec Králové, including amendments	Komerční pojišťovna, a.s.	29 Aug 2011
Contract regarding the financial instrument fond Optimo 6Y EMTN	Komerční pojišťovna, a.s.	20 Sep 2011

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Collective insurance agreement – “Moje pojištění plateb” no. 3240000000, including amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Collective insurance agreement – “Profi pojištění plateb” no. 3250000000, including amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract regarding the financial instrument fond Optimo Commodities I	Komerční pojišťovna, a.s.	19 Dec 2011
Contract for employee group risk insurance no. 3280000000 + 1 agreement, including amendments	Komerční pojišťovna, a.s.	29 Feb 2012
Administration order	Komerční pojišťovna, a.s.	6 Mar 2012
Contract regarding the fond Optimo Commodities II financial instrument	Komerční pojišťovna, a.s.	24 Apr 2012
Contract to distribute “Vital Premium in EUR”, including an amendment	Komerční pojišťovna, a.s.	23 Nov 2012
Co-operation agreement no. 000020484/0000, including amendments	Komerční pojišťovna, a.s.	21 Dec 2012
Contract regarding the fund Certus and Certus 2, financial instrument	Komerční pojišťovna, a.s., Société Générale S.A.	14 Jan 2013
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	21 Jan 2013
Contract for collective insurance of corporate cards and golden corporate cards no. 3290000000	Komerční pojišťovna, a.s.	21 Jan 2013
Order to register security interest regarding Securities pledge agreement no. 10000394435	Komerční pojišťovna, a.s.	27 Mar 2013
Securities pledge agreement no. 10000394435	Komerční pojišťovna, a.s.	28 Mar 2013
Order to register security interest regarding Securities pledge agreement no. 10000398008	Komerční pojišťovna, a.s.	8 Apr 2013
Agreement on the organisation of periodic control, including an amendment	Komerční pojišťovna, a.s.	24 Jun 2013
Adherence letter (of 3 July 2013)	Komerční pojišťovna, a.s.	3 Jul 2013
Agreement for collective consumer loans insurance no. 3000000000	Komerční pojišťovna, a.s.	16 Aug 2013
Contract to distribute “RLI MojeJistota”, including amendments	Komerční pojišťovna, a.s.	27 Sep 2013
Contract of co-operation in the area of IFRS standards reporting	Komerční pojišťovna, a.s.	4 Dec 2014
Contract to distribute “Vital Premium in USD”	Komerční pojišťovna, a.s.	31 Mar 2015
Contract regarding new funds with guaranteed returns	Komerční pojišťovna, a.s.	27 Apr 2015
Agreement to provide fictive cash-pooling for a separate legal entity	Komerční pojišťovna, a.s.	23 Jun 2015
Contract regarding SGI Index (funds with guaranteed returns)	Komerční pojišťovna, a.s.	16 Sep 2015
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	1 Oct 2015
Service contract – Outsourcing – BI services	Komerční pojišťovna, a.s.	10 Dec 2015
Contract relating to financial instrument – fund Certus 5	Komerční pojišťovna, a.s., Société Générale S.A.	12 Jan 2016
Contract relating to financial instrument – fund Certus 6	Komerční pojišťovna, a.s., Société Générale S.A.	8 Mar 2016
Agreement to distribute “MojePojištění majetku”, including an amendment	Komerční pojišťovna, a.s.	25 Apr 2016
Agreement to insure members of the Board of Directors no. 334000000, including an amendment	Komerční pojišťovna, a.s.	13 Jul 2016
Contract relating to financial instrument – fund Certus 7	Komerční pojišťovna, a.s., Société Générale S.A.	18 Aug 2016
Agreement to access to contract and personal data processing (insurance of members of the Board of Directors) no. 334000000	Komerční pojišťovna, a.s.	6 Oct 2016
Agreement to pay the cost of using the IBM Websphere application server license	Komerční pojišťovna, a.s.	1 Feb 2017
Contract relating to financial instrument – fund Certus 8	Komerční pojišťovna, a.s., Société Générale S.A.	10 Feb 2017
Contract relating to financial instrument – fund Certus 9	Komerční pojišťovna, a.s., Société Générale S.A.	11 Aug 2017
Administration order	Komerční pojišťovna, a.s.	27 Dec 2017
Administration order	Komerční pojišťovna, a.s.	15 Jan 2018
Contract for the payment of insurance premium and of insurance broker’s commission	Komerční pojišťovna, a.s.	13 Mar 2018
Contract for collective insurance Merlin Junior no. 4100000000	Komerční pojišťovna, a.s.	27 Mar 2018
Individual pricing agreement including amendments	Komerční pojišťovna, a.s.	11 Apr 2018
Agreement – outsourcing of DPO services by Komerční banka, a.s.	Komerční pojišťovna, a.s.	24 May 2018
Agreement for current account opening and maintenance (mature UL funds)	Komerční pojišťovna, a.s.	28 May 2018

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Administration order	Komerční pojišťovna, a.s.	3 Jul 2018
Agreement for current account opening and maintenance (Cubiq)	Komerční pojišťovna, a.s.	3 Jul 2018
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	31 Jul 2018
Administration order	Komerční pojišťovna, a.s.	1 Oct 2018
Agreement of co-operation between Expert Centres	Komerční pojišťovna, a.s.	2 Nov 2018
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	14 Nov 2018
Agreement – documents archiving outsourcing services	Komerční pojišťovna, a.s.	2 Jan 2019
Administration order	Komerční pojišťovna, a.s.	8 Jan 2019
Distribution agreement for product "Vital Platinum Private"	Komerční pojišťovna, a.s.	1 Feb 2019
Service agreement – Bagman application	Komerční pojišťovna, a.s.	19 Feb 2019
Contract relating to financial instrument – Protective Private fund	Komerční pojišťovna, a.s.	30 Apr 2019
Service agreement – eDoceo	Komerční pojišťovna, a.s.	21 May 2019
Contract relating to financial instrument – Protective Private fund 2	Komerční pojišťovna, a.s.	10 Jun 2019
Contract relating to financial instrument – Protective Private fund 3	Komerční pojišťovna, a.s.	1 Oct 2019
Co-operation agreement – looking for potential clients (MutuMutu) including an amendment	Komerční pojišťovna, a.s.	1 Dec 2019
Administration order	Komerční pojišťovna, a.s.	4 Feb 2020
Contract relating to financial instrument – Protective fund 9	Komerční pojišťovna, a.s.	12 Feb 2020
Administration order	Komerční pojišťovna, a.s.	5 Mar 2020
Contract relating to financial instrument – Protective fund 9	Komerční pojišťovna, a.s.	31 Mar 2020
Administration order	Komerční pojišťovna, a.s.	3 Jul 2020
Contract relating to financial instrument – Protective fund 10	Komerční pojišťovna, a.s.	4 Sep 2020
Contract relating to financial instrument – Protective fund 10	Komerční pojišťovna, a.s.	14 Sep 2020
Agreement on Vital products and MojeJistota insurance product remote contract conclusion and archiving	Komerční pojišťovna, a.s.	24 Sep 2020
Agreement to make Sub-lease of non-residential premises and payment of related services	Komerční pojišťovna, a.s.	2 Dec 2020
Sub-lease of non-residential premises and payment of related services	Komerční pojišťovna, a.s.	2 Dec 2020
Commitment Agreement – Protective 11	Komerční pojišťovna, a.s.	10 Dec 2020
Framework agreement for personal data processing (MPSS as administrator, KB as processor) of 30 May 2009, including amendments	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Separate distribution agreement (Perfektní půjčka) of 1 April 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011
Separate distribution agreement (MůjÚčet, G2.2) of 1 April 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011
Separate distribution agreement (A card, Lady card, VISA Elektron credit card) of 1 April 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011
ATM placement contract no. 20162/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	2 Apr 2012
Separate agreement no. 12 – service agreement – reporting regarding the Framework agreement of 24 January 2011 – IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2019
Mutual co-operation agreement of 31 August 2007, including Amendment no. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	1 Aug 2007
Separate agreement no. 11 IDENTITY ACCESS (I&A) -licence for MP operators - IT	Modrá pyramida stavební spořitelna, a.s.	30 Sep 2020
Separate agreement no. 1 of 30 November 2011 under IT supply framework agreement of 24 January 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2011
Sublease of non-residential premises and payment of related services – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Separate agreement no. 5 relating to IT supply framework agreement – IT – of 24 January 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	29 Jun 2012
Agreement for co-operation in performance of the contract for employee group risk insurance no. 3280000000, in the wording of amendment no. 1 of 29 June 2012 – support service team	Modrá pyramida stavební spořitelna, a.s.	10 Sep 2012
Framework agreement for personal data processing (KB as administrator, MPSS as processor) – PCI	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Co-operation agreement, including amendments	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2013
Separate oral agreement no. 10 - Citrix service (End User Workplace) MP – IT	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2020

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement on KB call centre services including cost re-invoicing from KB to MPSS in 2014 – MARK	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2010
Separate agreement no. 13 CMS Kentico components MP - IT	Modrá pyramida stavební spořitelna, a.s.	30 Sep 2020
Agreement to co-operate in accepting client identification and handing over bank information about clients - digital service team	Modrá pyramida stavební spořitelna, a.s.	7 Oct 2020
Agreement on the organisation of periodic control	Modrá pyramida stavební spořitelna, a.s.	21 Jan 2020
Agreement on the Organisation of Periodic Control of 17 December 2010, including amendments	Modrá pyramida stavební spořitelna, a.s.	17 Dec 2010
Agreement to issue and use a current account payment card, MasterCard - TF	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2019
Separate agreement no. 8 regarding framework agreement to provide IT services of 24 January 2011- IT	Modrá pyramida stavební spořitelna, a.s.	7 May 2018
Separate agreement no. 7 regarding framework agreement to provide IT services of 24 January 2011- IT	Modrá pyramida stavební spořitelna, a.s.	16 Feb 2018
Separate agreement no. 4 regarding framework agreement to provide IT services of 24 January 2011- IT, including amendments	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011
Separate agreement no. 6 regarding framework agreement to provide IT services of 24 January 2011- IT	Modrá pyramida stavební spořitelna, a.s.	15 Feb 2017
Framework service agreement of 24 January 2011- IT, including Amendment no. 1 - support service team	Modrá pyramida stavební spořitelna, a.s.	24 Jan 2011
Framework agreement to provide extra conditions to KB and SG Group employees - holders of MPSS building savings plans including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013
Distribution agreement for products "Loans to housing co-operatives and apartment owners associations", including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013
Agreement on KBxMPSS Risk Management Co-operation and relating SLA (8 pieces) - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Universal agreement to hand over cash in packaging - TF	Modrá pyramida stavební spořitelna, a.s.	15 May 2011
ATM placement contract no. 2004/2011/9526 - FT	Modrá pyramida stavební spořitelna, a.s.	3 Oct 2011
Lease of non-residential premises and payment of related services (Antala Staška 2059, Prague 4), including amendments	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2014
Service level agreement – co-operation in the area of accounting and reporting – FT	Modrá pyramida stavební spořitelna, a.s.	10 Dec 2014
Distribution agreement concerning the "Consumer Loan" product - PCI	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
Agreement - outsourcing of DPO services - support service team	Modrá pyramida stavební spořitelna, a.s.	23 Apr 2018
Separate agreement no. 2 of 31 October 2011 under the Framework Agreement for IT delivery of 24 January 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011
Separate agreement no. 3 of 31 October 2011 under the Framework Agreement for IT delivery of 24 January 2011, including amendments	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011
Agreement - Services PD/LGD Models for RWA calculation – RISK	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
SLA - Agreement on Pre-Scoring of Clients and Negative Information Delivery - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA - Agreement on Scoring Model for HC and AO - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA - Agreement on Delivery of Inputs for Real Estate Revaluation - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Agreement on services: eDoceo of 12 June 2018 - HR	Modrá pyramida stavební spořitelna, a.s.	12 Jun 2018
Commercial agency agreement - housing consumer loan	Modrá pyramida stavební spořitelna, a.s.	22 Oct 2018
Online services outsourcing agreement - PCI	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2019
Separate oral agreement no. 9 for VoIP and VOR services (telephone exchange transfer and call recording) - IT	Modrá pyramida stavební spořitelna, a.s.	24 Apr 2019
Agreement for the provision of company certificate	Modrá pyramida stavební spořitelna, a.s.	29 Oct 2020
MůjPodpis Service Agreement - PCI	Modrá pyramida stavební spořitelna, a.s.	29 Oct 2020
Outsourcing agreement: Assessment of real-estate-development-related risks for MPSS in KB-RISK system	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2011
SLA - Agreement on Exchange of Fraud Lists-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Confidentiality agreement relating to “Outsourcing agreement (HR services)”	Modrá pyramida stavební spořitelna, a.s.	27 Apr 2010
Separate oral agreement for MP HOME implementation (CAAS) - IT	Modrá pyramida stavební spořitelna, a.s.	1 Oct 2019
Agreement for cost re-invoicing from KB to MPSS and from MPSS to KB - TF	Modrá pyramida stavební spořitelna, a.s.	for 2020
Agreement - outsourcing of HR services (excluding Payroll) - HR	Modrá pyramida stavební spořitelna, a.s.	29 Jan 2016
Contract for negative information exchange within KB/SG FG in the Czech Republic – RISK	Modrá pyramida stavební spořitelna, a.s.	19 Feb 2016
Contract for personal data protection and provision (debt collection) – RISK	Modrá pyramida stavební spořitelna, a.s.	29 Feb 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service agreement – outsourcing – data warehouse of 20 December 2017 – IT	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2017
Memorandum of Understanding – co-operation within KB Group in collective claim assignment – RISK	Modrá pyramida stavební spořitelna, a.s.	3 Mar 2016
Insurance contract no. 7720935797 – Property risk insurance – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2018
Agreement for co-operation in performance of the group insurance agreement on work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka/SG no. 334000000 – support services team	Modrá pyramida stavební spořitelna, a.s.	27 Sep 2016
SLA – Agreement on Scoring Calculator for MPSS-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Contract for the use of KB's sales network – PO (products and customer intelligence)	Modrá pyramida stavební spořitelna, a.s.	1 Mar 2005
SLA – Agreement on Co-operation on IRBA Implementation in MPSS-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Confidentiality Agreement / - - four-party contract-TTS (company secretary team)	Modrá pyramida stavební spořitelna, a.s.	11 Aug 2006
Confidentiality agreement relating to the "Contract of co-operation in the area of sourcing and procurement" – support services team	Modrá pyramida stavební spořitelna, a.s.	9 Jul 2010
Accession to the rules of co-operation between KB and FG Group members in the area of sourcing and acquisitions of 13 September 2010 – support service team	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2010
Contract for the payment of insurance premium and of insurance broker's commission – support services team	Modrá pyramida stavební spořitelna, a.s.	11 Apr 2018
Lease agreement – garage parking places, including an amendment	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2007
Assignment and confirmation of user rights expiration (ORACLE) – IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
ATM placement agreement no. 25070/0000-TF	Modrá pyramida stavební spořitelna, a.s.	16 Apr 2020
Outsourcing Agreement – Treasury-TF	Modrá pyramida stavební spořitelna, a.s.	7 Feb 2008
Service Agreement – outsourcing (HR services), including amendments	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2010
Lease of non-residential premises and payment of related services (Uherský Brod) – support services team	Modrá pyramida stavební spořitelna, a.s.	20 Nov 2008
Contract for co-operation within the Group under S. 5a of Act no. 235/2004, the VAT Act as Amended, including amendments	Modrá pyramida stavební spořitelna, a.s.	27 Nov 2008
Framework contract for employee temporary assignment + Amendment no. 1 – HR	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2006
Memorandum of Understanding – ORACLE licence transfers-IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Agreement to enter into a sublease of non-residential premises and payment of related services – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Agreement to cover costs of license usage (replacing the oral agreement to cover costs of license usage of 2007), including an amendment	Modrá pyramida stavební spořitelna, a.s.	28 May 2009
SLA – Agreement on Data Administration and delivery for Collecte Reporting-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on Risk services remuneration-RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Confidentiality agreement relating to "HP OV SD license agreement" – IT	Modrá pyramida stavební spořitelna, a.s.	9 Feb 2009
ATM placement contract no. 20076/0000 – FT	Modrá pyramida stavební spořitelna, a.s.	20 Feb 2012
SG Group worldwide insurance program (premiums paid on the basis of a contract concluded between Société Générale S.A. and Komerční banka, a.s. for MPSS) -TPS	Modrá pyramida stavební spořitelna, a.s., Société Générale, S.A.	30 Aug 2013
License agreement – non-exclusive license, including amendments	My Smart Living, s.r.o.	15 Apr 2019
Service agreement – outsourcing (services), including amendments	My Smart Living, s.r.o.	23 May 2019
Commercial agency agreement	My Smart Living, s.r.o.	30 May 2019
Commercial agency agreement	My Smart Living, s.r.o.	26 Nov 2019
Agreement for the settlement of rights and obligations relating to CinCink operation	My Smart Living, s.r.o.	11 Jun 2020
Service level agreement	Protos uzavřený investiční fond, a.s.	8 Dec 2014
Administration order	Protos uzavřený investiční fond, a.s.	9 Dec 2015
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2006
Mutual co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	1 Aug 2007
Agreement on KB Call Centre services	SG Equipment Finance Czech Republic s.r.o.	31 Dec 2009
Data processing and service agreement	SG Equipment Finance Czech Republic s.r.o.	18 Feb 2010
Co-operation agreement – Jobs	SG Equipment Finance Czech Republic s.r.o.	14 Apr 2010
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2010
Non-disclosure agreement	SG Equipment Finance Czech Republic s.r.o.	9 Jul 2010
Rules for co-operation between KB and Group members in the area of sourcing and procurement	SG Equipment Finance Czech Republic s.r.o.	20 Sep 2010

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Personal data processing framework agreement made between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Non-disclosure agreement	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Framework service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	14 Dec 2010
Lease of non-residential premises and payment of related services – České Budějovice, including an amendment	SG Equipment Finance Czech Republic s.r.o.	27 May 2011
Service agreement – outsourcing (HR services)	SG Equipment Finance Czech Republic s.r.o.	15 Jun 2011
Service agreement – C4M access	SG Equipment Finance Czech Republic s.r.o.	12 Oct 2011
Separate agreement no. 1: Provision of technical infrastructure solution services – Connectivity services	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement no. 2: Provision of technical infrastructure solution services – Physical hosting of equipment	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement no. 3: Provision of technical infrastructure solution services – IT Infrastructure hosting (VMWare), including 2 amendments	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Agreement for co-operation in performance of the contract for employee group risk insurance	SG Equipment Finance Czech Republic s.r.o.	20 Aug 2012
Lease of non-residential premises and payment of related services – Bratislava, including amendments	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2012
Sublease of non-residential premises and payment of related services, including amendments	SG Equipment Finance Czech Republic s.r.o.	1 Nov 2012
Sublease of non-residential premises and movable things and payment of related services – Prague, including amendments	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2013
Agreement for the sublease of parking places – Prague, including amendments	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Service agreement, including an amendment	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Agreement on reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 Dec 2013
Agreement on framework insurance agreement no. 7720802024 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	10 Feb 2014
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	27 Jun 2014
Service level agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2014
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2014
Lease of non-residential premises and payment of related services – Ostrava + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2014
Lease of parking places + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Dec 2014
Lease of land + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	19 Mar 2015
Lease of non-residential premises and payment of related services – Pilsen + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Sep 2015
Lease of non-residential premises, movable assets, and payment of related services – Ústí nad Labem + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	28 Jan 2016
Service agreement – occupational health and safety, environmental protection and fire protection + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Feb 2016
Framework agreement for the rental of employee-driven motor vehicles – Bratislava	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	14 Jun 2016
Database usage license agreement	SG Equipment Finance Czech Republic s.r.o.	29 Jun 2016
Service agreement – BI services + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2016
Co-operation agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Agreement – outsourcing of HR services (excluding Payroll)	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	SG Equipment Finance Czech Republic s.r.o.	30 Jan 2017
Separate agreement no. 6: Provision of technical infrastructure solution services – E-mail, including an amendment	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 4: Provision of technical infrastructure solution services – VoIP	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 7: Provision of technical infrastructure solution services – Fileshare, including an amendment	SG Equipment Finance Czech Republic s.r.o.	21 Jun 2017
Separate agreement no. 9: Provision of technical infrastructure solution services – End user support	SG Equipment Finance Czech Republic s.r.o.	1 Jan 2018
Separate agreement no. 11: Provision of technical infrastructure solution services – identity and access	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate agreement no. 5: Provision of technical infrastructure solution services – HW lease	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018
Separate agreement no. 8: Provision of technical infrastructure solution services – Servicedesk	SG Equipment Finance Czech Republic s.r.o.	20 Feb 2018
Separate agreement no. 10: Provision of technical infrastructure solution services – Platform hosting	SG Equipment Finance Czech Republic s.r.o.	26 Feb 2018
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	28 Mar 2018
Agreement – outsourcing of DPO services	SG Equipment Finance Czech Republic s.r.o.	1 May 2018
Agreement on services: eDoceo	SG Equipment Finance Czech Republic s.r.o.	31 Dec 2018
Agreement on the organisation of periodic control	SG Equipment Finance Czech Republic s.r.o.	13 May 2019
Agreement to use unreserved parking places, including amendments	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2020
Agreement – services: Processing KYS – Know Your Supplier	SG Equipment Finance Czech Republic s.r.o.	5 Oct 2020
Compliance Co-operation Agreement	SG Equipment Finance Czech Republic s.r.o.	3 Dec 2020
Lease of non-residential premises and payment of related services	SG Equipment Finance Czech Republic s.r.o.	31 Dec 2020
Agreement on the organisation of periodic control, including an amendment (client)	SG Equipment Finance Czech Republic s.r.o. + SOCIÉTÉ GÉNÉRALE	26 Jan 2011
Agreement on the organisation of periodic control	SG Equipment Finance Hungary Plc.	23 Aug 2019
Shareholders' agreement, including amendments	SG Equipment Finance SA	9 May 2011
Agreement on the organisation of periodic control	SG Equipment Finance SA	27 May 2019
Agreement on the organisation of periodic control	SG Equipment Leasing Hungary Ltd.	23 Aug 2019
Agreement on the organisation of periodic control	SG Equipment Leasing Polska Sp. z o.o.	27 May 2019
Sub-Distribution Agreement	SG HAMBROS BANK LIMITED	18 Mar 2014
Master Co-operation Agreement SG on Transfer Pricing with SG PRIV Entities/ Branches and SG Group Entities and Branches, Relative to the Service Offering of Fixed Income Research	SG Private Banking s.a.	1 Jan 2013
Custody account agreement / Service Level Agreement, including amendments	SOCIETE GENERALE S.A. Oddział w Polsce	27 Oct 2009
Agreement on the organisation of periodic control, including amendments	SOCIETE GENERALE S.A. Oddział w Polsce	10 Oct 2011
Agreement on the organisation of periodic control	SOCIETE GENERALE S.A. Oddział w Polsce	16 Dec 2011
AGREEMENT ON CONSULTANCY SERVICES	Societe Generale Expressbank EAD	1 Jan 2016
Client Service Agreement, including amendments	SOCIETE GENERALE GLOBAL SOLUTION CENTRE	1 Sep 2020
Inter-company agreement	Société Générale International Mobility	20 Mar 2019
Distribution agreement	Société Générale Private Wealth Manageme	29 Apr 2016
Contact Bank Agreement	Société Générale Private Wealth Manageme	29 Apr 2016
SOCIETE GENERALE GROUP RECRUIT	Société Générale S.A.	15 Apr 2009
INTRA-GROUP IT SERVICES FEES	Société Générale S.A.	11 Jun 2010
INTRA-GROUP CORPORATE SERVICES	Société Générale S.A.	11 Jun 2010
Co-operation agreement	Société Générale S.A.	14 Feb 2011
Contact bank agreement, including amendments	Société Générale S.A.	14 Feb 2011
Power of attorney	Société Générale S.A.	14 Feb 2011
Distribution agreement, including amendments	Société Générale S.A.	14 Feb 2011
Expenses of the inspection	Société Générale S.A.	14 Feb 2011
Service Level Agreement, including amendments	Société Générale S.A.	15 Feb 2011
Brokerage conformity agreement	Société Générale S.A.	15 Feb 2011
Agreement on contract bank, including amendments	Société Générale S.A.	15 Feb 2011
T3C Agreement, including amendments	Société Générale S.A.	22 Feb 2011
Request for consent for the transfer of the agreement to S2G	Société Générale S.A.	28 Feb 2011
Agreement on the organisation of periodic control	Société Générale S.A.	29 Mar 2011
Agreement on the organisation of periodic control	Société Générale S.A.	29 Mar 2011
Agreement on the organisation of periodic control, including amendments	Société Générale S.A.	29 Mar 2011
Sub-Custody & Brokerage Services	Société Générale S.A.	19 May 2011
Agreement on the organisation of periodic control	Société Générale S.A.	23 May 2011
Agreement on the organisation of periodic control	Société Générale S.A.	17 May 2011
Contract Renewal Notice to the Hosting contract	Société Générale S.A.	20 Jun 2019

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Master Co-operation Agreement SG on Transfer Pricing with SG PRIV Entities/ Branches and SG Group Entities and Branches, Relative to the Service Offering of Equity Research inc. + 1 amendment	Société Générale S.A.	9 Nov 2012
Transfer pricing agreement on advisory activities	Société Générale S.A.	1 Jan 2013
Convention	Société Générale S.A.	28 Jan 2013
SERVICE LEVEL AGREEMENT E-TRADING	Société Générale S.A.	1 Jun 2014
Due Diligence Questionnaire for Fund Providers	Société Générale S.A.	29 Jan 2014
Local JV agreement relating to securities activities	Société Générale S.A.	15 Mar 2012
SLA for the provision of domestic or international Sogecash money concentration services (international), pooling Société Générale SA into the group of SG banks, including amendments	Société Générale S.A.	1 Jul 2009
Agreement to modify the agreement for temporary staff assignment (the “Agreement”)	Société Générale S.A.	21 Oct 2019
SLA for the provision of Sogecash Intraday Sweeping	Société Générale S.A.	1 Jul 2015
ACCESS TO THE SWIFTNET NETWORK AND RELATED SERVICES, including 1 amendment	Société Générale S.A.	14 Sep 2012
IT Services Agreement, including 1 amendment	Société Générale S.A.	1 Jan 2014
USD Clearing Services Agreement for Komerční banka	Société Générale S.A.	24 Aug 2015
SOGEXPRESS	Société Générale S.A.	24 Jun 2016
Client service agreement – regulatory capital calculation and allocation of operational risk	Société Générale S.A.	25 May 2017
Market activities business – ECM transfer pricing agreement	Société Générale S.A.	1 Apr 2017
Co-operation agreement	Société Générale S.A.	31 Mar 2008
Agreement on the organisation of periodic control	Société Générale S.A.	15 Nov 2017
Service Level Agreement CUSTODY, including 1 amendment	Société Générale S.A.	27 Oct 2016
MASTER SERVICE AGREEMENT (MSA)_IRBS, including 1 amendment	Société Générale S.A.	28 Nov 2018
Supplemental agreement	Société Générale S.A.	22 Feb 2018
Non-disclosure agreement pertaining to the communication of the official ISAE 3402 report.	Société Générale S.A.	24 Nov 2017
Service Level Agreement SGSS S.p.A.	Société Générale S.A.	10 Oct 2017
iC – Customer Relationship Management (CRM) tool	Société Générale S.A.	30 Dec 2016
Master service agreement	Société Générale S.A.	23 Apr 2019
Client service agreement	Société Générale S.A.	23 Apr 2019
Software as a Service Agreement Loansat – Covtrack	Société Générale S.A.	9 Jul 2019
Master Service Agreement, including 1 amendment	Société Générale S.A.	5 Sep 2019
Side Letter to the Licence and Services Agreement	Société Générale S.A.	2 Jun 2020
Corporate Services Fees Agreement	Société Générale S.A.	25 Jan 2020
Data Protection Agreement	Société Générale S.A.	7 Feb 2020
Services Contract	Société Générale S.A.	7 Aug 2020
Agreement for temporary staff assignment	Société Générale S.A.	1 Sep 2020
Service level agreement	Société Générale S.A.	15 Oct 2020
Intra-Group Frame Co-operation Agreement	Société Générale S.A.	12 Oct 2020
Uncommitted Overdraft Service Agreement	Société Générale, New York Branch	30 Aug 2019
Shareholder agreement	SOGECAP S.A.	26 Sep 2005
Mutual co-operation agreement	SOGEPROM Česká republika s.r.o.,	25 Oct 2010
Service agreement – outsourcing (accounting services)	STD2, s.r.o.	1 Nov 2017
Service agreement – technical facility management, energy etc.	STD2, s.r.o.	29 Jun 2018
Lease of real estate, including an amendment	STD2, s.r.o.	31 Aug 2018
Supplementary payment agreement	STD2, s.r.o.	4 Sep 2018
Co-operation agreement in respect of real estate usage	STD2, s.r.o.	31 Oct 2018
Contract for the payment of insurance premium and of insurance broker’s commission	STD2, s.r.o.	4 Dec 2018
Agreement of contract assignment	STD2, s.r.o., Arcadis Czech Republic s.r.o.	1 Nov 2017
Agreement for co-operation within VAT group	VN 42, s.r.o.	15 Jul 2014
Service agreement – outsourcing (accounting services)	VN 42, s.r.o.	3 Nov 2014
Contract for the transfer of technical improvement	VN 42, s.r.o.	26 Feb 2018

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the payment of insurance premium and of insurance broker's commission	VN 42, s.r.o.	12 Apr 2018
Lease of non-residential premises and payment of related services	VN 42, s.r.o.	1 Jul 2019
Service agreement (support services by KB SuSe regarding technical facility management, energy, fire protection, OHS etc.)	VN 42, s.r.o.	1 Jul 2019
Lease of non-residential premises and payment of related services	VN 42, s.r.o.	1 Jul 2020
Service contract (KB SuSe regarding technical facility management, energy, lease management, fire protection and OHS, insured events adjustment, investment events in the building)	VN 42, s.r.o.	1 Jul 2020

C. Assessment of advantages and disadvantages arising from the relations within the Group and assessment of detriment

Advantages and disadvantages arising from the relations within the Group
The SG Group is diversified and provides universal banking services. The entire Group takes advantage of mutual synergistic effects, including product pooling, a strong international brand, and SG's know-how. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payment area and uses SG's wide network. Thanks to the Group, it is possible for KB to use the global cash pooling network, offer transnational solutions in the cash management area, and offer SG products. KB benefits from SG's global experience in the Global Finance Platform area. The advantages from KB's integration into the SG Group contribute to KB's positive financial results.

Assessment of detriment
KB's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2020 reporting period and states that KB incurred no detriment as a result of any contracts, agreements, or any other legal acts made or adopted by the Company or as a result of any other influence otherwise exerted by SG.

In Prague on 5 March 2021

Jan Juchelka m. p.
Chairman of the Board of Directors
Komerční banka, a.s.

Haubová Jitka

Jitka Haubová m. p.
Member of the Board of Directors
Komerční banka, a.s.

The structure of relationships within whole SG Group

% of voting interest

Country	Company	Type of company	Share of voting rights as of 31.12.2020
South Africa			
	SG JOHANNESBURG	Bank	100
Algeria			
	ALD AUTOMOTIVE ALGERIE SPA	Specialist Financing	99.99
	SOCIETE GENERALE ALGERIE	Bank	100
Germany			
	ALD AUTOLEASING D GMBH	Specialist Financing	100
	ALD INTERNATIONAL GMBH	Specialist Financing	100
	ALD INTERNATIONAL GROUP HOLDINGS GMBH	Specialist Financing	100
	ALD LEASE FINANZ GMBH	Specialist Financing	100
	BANK DEUTSCHES KRAFTFAHRZEUGGEWERBE GMBH	Specialist Financing	51
	BDK LEASING UND SERVICE GMBH	Specialist Financing	100
	CAR PROFESSIONAL FUHRPARKMANAGEMENT UND BERATUNGSGESELLSCHAFT MBH & CO. KG	Specialist Financing	100
	CARPOOL GMBH	Broker	100
	GEFA BANK GMBH	Specialist Financing	100
	GEFA VERSICHERUNGSDIENST GMBH	Specialist Financing	100
	HANSEATIC BANK GMBH & CO KG	Specialist Financing	75
	HANSEATIC GESELLSCHAFT FUR BANKBETEILIGUNGEN MBH	Portfolio Management	100
	HSCE HANSEATIC SERVICE CENTER GMBH	Services	100
	INTERLEASING DELLO HAMBURG G.M.B.H.	Specialist Financing	100
	LYXOR INTERNATIONAL ASSET MANAGEMENT GERMANY	Financial Company	100
	RED & BLACK AUTO GERMANY 4 UG (HAFTUNGSBESCHRANKT)	Financial Company	100
	RED & BLACK AUTO GERMANY 5 UG (HAFTUNGSBESCHRANKT)	Specialist Financing	100
	RED & BLACK AUTO GERMANY 6 UG	Financial Company	100
	RED & BLACK AUTO GERMANY N°7	Financial Company	100
	SG EQUIPMENT FINANCE GMBH	Specialist Financing	100
	SG FRANCFORT	Bank	100
	SOCIETE GENERALE EFFEKTEN GMBH	Financial Company	100
	SOCIETE GENERALE SECURITIES SERVICES GMBH	Specialist Financing	100
	SOGECAP DEUTSCHE NIEDERLASSUNG	Insurance	100
	SOGESSUR DEUTSCHE NIEDERLASSUNG	Insurance	100
Australia			
	SOCIETE GENERALE SECURITIES AUSTRALIA PTY LTD	Broker	100
	SOCIETE GENERALE SYDNEY BRANCH	Bank	100
Austria			
	ALD AUTOMOTIVE FUHRPARKMANAGEMENT UND LEASING GMBH	Specialist Financing	100
	SG VIENNE	Bank	100
Belgium			
	AXUS FINANCE SRL	Specialist Financing	100
	AXUS SA/NV	Specialist Financing	100
	BASTION EUROPEAN INVESTMENTS S.A.	Financial Company	100
	PARCOURS BELGIUM	Specialist Financing	100
	SG BRUXELLES	Bank	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SG EQUIPMENT FINANCE BENELUX B.V. BELGIAN BRANCH	Specialist Financing	100
	SOCIETE GENERALE IMMOBEL	Financial Company	100
Benin			
	SOCIETE GENERALE BENIN	Bank	94.1
Bermuda			
	CATALYST RE INTERNATIONAL LTD.	Insurance	100
Brazil			
	ALD AUTOMOTIVE S.A.	Specialist Financing	100
	ALD CORRETORA DE SEGUROS LTDA	Specialist Financing	100
	BANCO SOCIETE GENERALE BRASIL S.A.	Bank	100
	SG EQUIPMENT FINANCE S.A. ARRENDAMENTO MERCANTIL	Specialist Financing	100
Burkina Faso			
	SOCIETE GENERALE BURKINA FASO	Bank	52.61
Cayman Islands			
	AEGIS HOLDINGS (OFFSHORE) LTD.	Financial Company	100
	SOCIETE GENERALE (NORTH PACIFIC) LTD	Bank	0
Cameroon			
	SOCIETE GENERALE CAMEROUN	Bank	58.08
Canada			
	SG CONSTELLATION CANADA LTD.	Specialist Financing	100
	SOCIETE GENERALE (CANADA BRANCH)	Bank	100
	SOCIETE GENERALE (CANADA)	Bank	100
	SOCIETE GENERALE CAPITAL CANADA INC	Broker	100
China			
	ALD FORTUNE AUTO LEASING & RENTING SHANGHAI CO. LTD	Specialist Financing	0
	SOCIETE GENERALE (CHINA) LIMITED	Bank	100
	SOCIETE GENERALE LEASING AND RENTING CO. LTD	Specialist Financing	100
Congo			
	SOCIETE GENERALE CONGO	Bank	93.47
South Korea			
	SG SECURITIES KOREA CO, LTD	Broker	100
	SG SEOUL	Bank	100
Cote d'Ivoire			
	SOCIETE GENERALE CAPITAL SECURITIES WEST AFRICA	Portfolio Management	99.98
	SOCIETE GENERALE COTE D'IVOIRE	Bank	73.25
Croatia			
	ALD AUTOMOTIVE D.O.O. ZA. OPERATIVNI I FINANCIJSKI LEASING	Specialist Financing	100
	ALD FLEET SERVICES D.O.O ZA TRGOVINU I USLUGE	Specialist Financing	100
Curasao			
	SGA SOCIETE GENERALE ACCEPTANCE N.V.	Financial Company	100
Denmark			
	ALD AUTOMOTIVE A/S	Specialist Financing	100
	NF FLEET A/S	Specialist Financing	80
	SG FINANS AS DANISH BRANCH	Specialist Financing	0
United Arab Emirates			
	SOCIETE GENERALE DUBAI	Bank	100
Spain			
	ALD AUTOMOTIVE S.A.U.	Specialist Financing	100
	ALTURA MARKETS, SOCIEDAD DE VALORES, SA	Broker	50
	GENEFIM SUCURSAL EN ESPANA	Real Estate and Real Estate Financing	100
	REFLEX ALQUILER FLEXIBLE DE VEHICULOS	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SG EQUIPMENT FINANCE IBERIA, E.F.C, S.A.	Specialist Financing	100
	SOCGEN FINANCIACIONES IBERIA, S.L.	Bank	100
	SOCGEN INVERSIONES FINANCIERAS SA	Financial Company	100
	SOCIETE GENERALE SUCCURSAL EN ESPANA	Bank	100
	SODEPROM	Real Estate and Real Estate Financing	100
Estonia			
	ALD AUTOMOTIVE EESTI AS	Specialist Financing	75.01
United States of America			
	AEGIS HOLDINGS (ONSHORE) INC.	Financial Company	100
	CGI NORTH AMERICA INC.	Specialist Financing	0
	LYXOR ASSET MANAGEMENT HOLDING CORP.	Portfolio Management	100
	LYXOR ASSET MANAGEMENT INC.	Financial Company	100
	SG AMERICAS EQUITIES CORP.	Financial Company	100
	SG AMERICAS OPERATIONAL SERVICES, LLC	Services	100
	SG AMERICAS SECURITIES HOLDINGS, LLC	Bank	100
	SG AMERICAS SECURITIES, LLC	Broker	100
	SG AMERICAS, INC.	Financial Company	100
	SG CONSTELLATION, INC.	Financial Company	100
	SG EQUIPMENT FINANCE USA CORP.	Specialist Financing	100
	SG MORTGAGE FINANCE CORP.	Financial Company	100
	SG MORTGAGE SECURITIES, LLC	Portfolio Management	100
	SG STRUCTURED PRODUCTS, INC.	Specialist Financing	100
	SGAIH, INC.	Financial Company	100
	SGB FINANCE NORTH AMERICA INC.	Specialist Financing	0
	SOCIETE GENERALE (NEW YORK)	Bank	100
	SOCIETE GENERALE FINANCIAL CORPORATION	Financial Company	100
	SOCIETE GENERALE INVESTMENT CORPORATION	Financial Company	100
	SOCIETE GENERALE LIQUIDITY FUNDING, LLC	Financial Company	100
Finland			
	AXUS FINLAND OY	Specialist Financing	100
	NF FLEET OY	Specialist Financing	80
France			
	29 HAUSSMANN EQUILIBRE	Portfolio Management	87.1
	29 HAUSSMANN EURO RDT	Portfolio Management	58.1
	29 HAUSSMANN SELECTION EUROPE - K	Financial Company	45.23
	29 HAUSSMANN SELECTION MONDE	Portfolio Management	68.7
	AIR BAIL	Specialist Financing	100
	AIX - BORD DU LAC - 3	Real Estate and Real Estate Financing	50
	AIX - BORD DU LAC - 4	Real Estate and Real Estate Financing	50
	ALD	Specialist Financing	79.82
	ALD AUTOMOTIVE RUSSIE SAS	Specialist Financing	100
	ALFORTVILLE BAIGNADE	Real Estate and Real Estate Financing	40
	AMPERIM	Real Estate and Real Estate Financing	50
	AMUNDI CREDIT EURO - P	Financial Company	57.43
	ANNEMASSE-ILOT BERNARD	Real Estate and Real Estate Financing	80
	ANTALIS SA	Financial Company	100
	ANTARES	Real Estate and Real Estate Financing	45
	ANTARIUS	Insurance	100
	ARTISTIK	Real Estate and Real Estate Financing	30
	AVIVA INVESTORS RESERVE EUROPE	Financial Company	69.35
	BANQUE COURTOIS	Bank	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	BANQUE FRANCAISE COMMERCIALE OCEAN INDIEN	Bank	50
	BANQUE KOLB	Bank	99.97
	BANQUE LAYDERNIER	Bank	100
	BANQUE NUGER	Bank	100
	BANQUE POUYANNE	Bank	35
	BANQUE RHONE ALPES	Bank	99.99
	BANQUE TARNEAUD	Bank	100
	BAUME LOUBIERE	Real Estate and Real Estate Financing	40
	BERLIOZ	Insurance	84.05
	BOURSORAMA INVESTISSEMENT	Services	100
	BOURSORAMA SA	Broker	100
	BREMANY LEASE SAS	Specialist Financing	100
	CARBURAUTO	Group Real Estate Management Company	50
	CARRERA	Group Real Estate Management Company	50
	CENTRE IMMO PROMOTION	Real Estate and Real Estate Financing	60
	CHARTREUX LOT A1	Real Estate and Real Estate Financing	100
	CHEMIN DES COMBES	Real Estate and Real Estate Financing	100
	COMPAGNIE FINANCIERE DE BOURBON	Specialist Financing	100
	COMPAGNIE FONCIERE DE LA MEDITERRANEE (CFM)	Group Real Estate Management Company	100
	COMPAGNIE GENERALE DE LOCATION D'EQUIPEMENTS	Specialist Financing	99.89
	CONTE	Group Real Estate Management Company	50
	CREDIT DU NORD	Bank	100
	DARWIN DIVERSIFIE 0-20	Portfolio Management	89.94
	DARWIN DIVERSIFIE 40-60	Portfolio Management	79.78
	DARWIN DIVERSIFIE 80-100	Portfolio Management	78.34
	(5) DESCARTES TRADING	Financial Company	0
	DISPONIS	Specialist Financing	100
	ESNI - COMPARTIMENT SG-CREDIT CLAIMS -1	Financial Company	100
	ETOILE CAPITAL	Financial Company	100
	ETOILE CLIQUET 90	Financial Company	73.52
	ETOILE MULTI GESTION EUROPE-C	Insurance	51.59
	ETOILE VAILEURS MOYENNES-C	Insurance	61.09
	F.E.P. INVESTISSEMENTS	Real Estate and Real Estate Financing	100
	FCC ALBATROS	Portfolio Management	51
	FEEDER LYX E ST50 D5	Portfolio Management	100
	FEEDER LYX E ST50 D6	Portfolio Management	100
	FEEDER LYXOR CAC 40	Financial Company	99.77
	FEEDER LYXOR CAC40 D2-EUR	Portfolio Management	100
	FEEDER LYXOR EURO STOXX 50 - D9	Financial Company	99.98
	FEEDER LYXOR STOXX 50	Financial Company	0
	FENWICK LEASE	Specialist Financing	100
	FINANCIERE PARCOURS	Specialist Financing	0
	FINANCIERE UC	Real Estate and Real Estate Financing	100
	FINASSURANCE SNC	Insurance	99
	FRANFINANCE	Specialist Financing	99.99
	FRANFINANCE LOCATION	Specialist Financing	100
	GALYBET	Real Estate and Real Estate Financing	100
	GENEBANQUE	Bank	100
	GENECAL FRANCE	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	GENECAR - SOCIETE GENERALE DE COURTAGE D'ASSURANCE ET DE REASSURANCE	Insurance	100
	GENECOMI FRANCE	Specialist Financing	99.64
	GENEFIM	Real Estate and Real Estate Financing	100
	GENEFINANCE	Portfolio Management	100
	GENEGIS I	Group Real Estate Management Company	100
	GENEGIS II	Group Real Estate Management Company	100
	GENEPIERRE	Real Estate and Real Estate Financing	49.49
	GENEVALMY	Group Real Estate Management Company	100
	ILOT AB	Real Estate and Real Estate Financing	80
	IMAPRIM AMENAGEMENT	Real Estate and Real Estate Financing	0
	IMMOBILIERE PROMEX	Real Estate and Real Estate Financing	35
	INVESTIR IMMOBILIER NORMANDIE	Real Estate and Real Estate Financing	100
	INVESTISSEMENT 81	Financial Company	100
	JSJ PROMOTION	Real Estate and Real Estate Financing	45
	KOLB INVESTISSEMENT	Financial Company	100
	LA CORBEILLERIE	Real Estate and Real Estate Financing	40
	LA FONCIERE DE LA DEFENSE	Real Estate and Real Estate Financing	100
	LES ALLEES DE L'EUROPE	Real Estate and Real Estate Financing	34
	LES CEDRES BLEUS	Real Estate and Real Estate Financing	40
	LES JARDINS D'ALHAMBRA	Real Estate and Real Estate Financing	35
	LES JARDINS DE L'ALCAZAR	Real Estate and Real Estate Financing	30
	LES MESANGES	Real Estate and Real Estate Financing	55
	LES TROIS LUCS 13012	Real Estate and Real Estate Financing	100
	LES VILLAS VINCENTI	Real Estate and Real Estate Financing	30
	L'HESPEL	Real Estate and Real Estate Financing	30
	LOTISSEMENT DES FLEURS	Real Estate and Real Estate Financing	30
	LYON LA FABRIC	Real Estate and Real Estate Financing	50
	LYXOR ASSET MANAGEMENT	Financial Company	100
	LYXOR GL OVERLAY F	Portfolio Management	87.27
	LYXOR INTERMEDIATION	Broker	100
	LYXOR INTERNATIONAL ASSET MANAGEMENT	Financial Company	100
	LYXOR SKYFALL FUND	Insurance	88.98
	MEDITERRANEE GRAND ARC	Real Estate and Real Estate Financing	50
	NORBAIL IMMOBILIER	Real Estate and Real Estate Financing	100
	NORBAIL SOFERGIE	Real Estate and Real Estate Financing	100
	NORMANDIE REALISATIONS	Real Estate and Real Estate Financing	100
	ONYX	Group Real Estate Management Company	50
	OPCI SOGECAPIMMO	Real Estate and Real Estate Financing	100
	OPERA 72	Group Real Estate Management Company	100
	ORADEA VIE	Insurance	100
	ORPAVIMOB	Specialist Financing	100
	PACTIMO	Real Estate and Real Estate Financing	100
	PARCOURS	Specialist Financing	100
	PARCOURS ANNECY	Specialist Financing	100
	PARCOURS BORDEAUX	Specialist Financing	100
	PARCOURS IMMOBILIER	Specialist Financing	100
	PARCOURS NANTES	Specialist Financing	100
	PARCOURS STRASBOURG	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	PARCOURS TOURS	Specialist Financing	100
	PAREL	Services	100
	PHILIPS MEDICAL CAPITAL FRANCE	Specialist Financing	60
	PIERRE PATRIMOINE	Financial Company	100
	PRAGMA	Real Estate and Real Estate Financing	100
	PRIORIS	Specialist Financing	95
	PROGEREAL SA	Real Estate and Real Estate Financing	25.01
	PROJECTIM	Real Estate and Real Estate Financing	60
	RED & BLACK CONSUMER FRANCE 2013	Financial Company	100
	RED & BLACK HOME LOANS FRANCE 1	Financial Company	100
	RIVAPRIM	Real Estate and Real Estate Financing	100
	RIVAPRIM REALISATIONS	Real Estate and Real Estate Financing	100
	S.C.I. DU DOMAINE DE STONEHAM	Real Estate and Real Estate Financing	50
	SAGEMCOM LEASE	Specialist Financing	100
	SAINT CLAIR	Real Estate and Real Estate Financing	0
	SAINTE-MARTHE ILOT C	Real Estate and Real Estate Financing	40
	SAINTE-MARTHE ILOT D	Real Estate and Real Estate Financing	40
	SAINT-MARTIN 3	Real Estate and Real Estate Financing	50
	SARL CS 72 - KERIADENN	Real Estate and Real Estate Financing	32.5
	SARL D'AMENAGEMENT DU MARTINET	Real Estate and Real Estate Financing	50
	SARL DE LA COTE D'OPALE	Real Estate and Real Estate Financing	35
	SARL DE LA VECQUERIE	Real Estate and Real Estate Financing	32.5
	SARL EKO BOUAYE	Real Estate and Real Estate Financing	0
	SARL SEINE CLICHY	Real Estate and Real Estate Financing	100
	SAS AMIENS - AVENUE DU GENERAL FOY	Real Estate and Real Estate Financing	100
	SAS BF3 NOGENT THIERS	Real Estate and Real Estate Financing	20
	SAS BONDUES - COEUR DE BOURG	Real Estate and Real Estate Financing	25
	SAS COPRIM RESIDENCES	Real Estate and Real Estate Financing	100
	SAS ECULLY SOIN	Real Estate and Real Estate Financing	75
	SAS FOCH SULLY	Real Estate and Real Estate Financing	90
	SAS LOIRE ATLANTIQUE TERTIAIRE	Real Estate and Real Estate Financing	0
	SAS MERIGNAC OASIS URBAINE	Real Estate and Real Estate Financing	90
	SAS MS FRANCE	Real Estate and Real Estate Financing	40
	SAS NOAHO AMENAGEMENT	Real Estate and Real Estate Financing	100
	SAS NORMANDIE HABITAT	Real Estate and Real Estate Financing	100
	SAS NORMANDIE RESIDENCES	Real Estate and Real Estate Financing	100
	SAS NOYALIS	Real Estate and Real Estate Financing	28
	SAS ODESSA DEVELOPPEMENT	Real Estate and Real Estate Financing	49
	SAS PARNASSE	Real Estate and Real Estate Financing	100
	SAS PAYSAGES	Real Estate and Real Estate Financing	51
	SAS PROJECTIM IMMOBILIER	Real Estate and Real Estate Financing	100
	SAS RESIDENCIAL	Real Estate and Real Estate Financing	68.4
	SAS ROANNE LA TRILOGIE	Real Estate and Real Estate Financing	41
	SAS SCENES DE VIE	Real Estate and Real Estate Financing	50
	SAS SOAX PROMOTION	Real Estate and Real Estate Financing	51
	SAS SOGEBROWN POISSY	Real Estate and Real Estate Financing	50
	SAS SOGEMYSJ	Real Estate and Real Estate Financing	51
	SAS SOGEPROM TERTIAIRE	Real Estate and Real Estate Financing	100
	SAS SOJEPRIM	Real Estate and Real Estate Financing	100
	SAS TIR A L'ARC AMENAGEMENT	Real Estate and Real Estate Financing	50
	SAS TOUR D2	Real Estate and Real Estate Financing	50
	SAS ZAC DU TRIANGLE	Real Estate and Real Estate Financing	51

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SC ALICANTE 2000	Group Real Estate Management Company	0
	SC CHASSAGNE 2000	Group Real Estate Management Company	0
	SCCV 282 MONTOLIVET 12	Real Estate and Real Estate Financing	60
	SCCV 3 CHATEAUX	Real Estate and Real Estate Financing	0
	SCCV ALFORTVILLE MANDELA	Real Estate and Real Estate Financing	49
	SCCV BAC GALLIENI	Real Estate and Real Estate Financing	51
	SCCV BAHIA	Real Estate and Real Estate Financing	51
	SCCV BOIS-GUILLAUME PARC DE HALLEY	Real Estate and Real Estate Financing	50
	SCCV BRON CARAVELLE	Real Estate and Real Estate Financing	50
	SCCV CAEN CASERNE MARTIN	Real Estate and Real Estate Financing	100
	SCCV CAEN PANORAMIK	Real Estate and Real Estate Financing	40
	SCCV CANNES JOURDAN	Real Estate and Real Estate Financing	50
	SCCV CHARTREUX LOT C	Real Estate and Real Estate Financing	50
	SCCV CHARTREUX LOT E	Real Estate and Real Estate Financing	100
	SCCV CHARTREUX LOTS B-D	Real Estate and Real Estate Financing	100
	SCCV CITY SQUARE	Real Estate and Real Estate Financing	35
	SCCV CLICHY BRC	Real Estate and Real Estate Financing	50
	SCCV COMPIEGNE - RUE DE L'EPARGNE	Real Estate and Real Estate Financing	35
	SCCV COURS CLEMENCEAU	Real Estate and Real Estate Financing	0
	SCCV CUGNAUX-LEO LAGRANGE	Real Estate and Real Estate Financing	50
	SCCV EKO GREEN CITY	Real Estate and Real Estate Financing	0
	SCCV EKO PARK OCEAN	Real Estate and Real Estate Financing	0
	SCCV EPRON - ZAC L'OREE DU GOLF	Real Estate and Real Estate Financing	70
	SCCV ESPACES DE DEMAIN	Real Estate and Real Estate Financing	50
	SCCV ETERVILLE ROUTE D'AUNAY	Real Estate and Real Estate Financing	50
	SCCV EURONANTES 1E	Real Estate and Real Estate Financing	50
	SCCV FAVERGES	Real Estate and Real Estate Financing	100
	SCCV GAO	Real Estate and Real Estate Financing	0
	SCCV GIGNAC MOUSSELINE	Real Estate and Real Estate Financing	70
	SCCV GIVORS ROBICHON	Real Estate and Real Estate Financing	85
	SCCV HEROUVILLE ILOT A2	Real Estate and Real Estate Financing	33.33
	SCCV HOUSE PARK	Real Estate and Real Estate Financing	35
	SCCV JA LE HAVRE 22 COTY	Real Estate and Real Estate Financing	40
	SCCV JDA OUISTREHAM	Real Estate and Real Estate Financing	50
	SCCV KYMA MERIGNAC	Real Estate and Real Estate Financing	30
	SCCV LA BAULE - LES JARDINS	Real Estate and Real Estate Financing	25
	SCCV LA MADELEINE SAINT-CHARLES	Real Estate and Real Estate Financing	50
	SCCV LA PORTE DU CANAL	Real Estate and Real Estate Financing	50
	SCCV LACASSAGNE BRICKS	Real Estate and Real Estate Financing	49
	SCCV LE BOUSCAT CARRE SOLARIS	Real Estate and Real Estate Financing	25
	SCCV LE COURTIL	Real Estate and Real Estate Financing	0
	SCCV LE TEICH COEUR DE VILLE	Real Estate and Real Estate Financing	0
	SCCV LES ECRIVAINS	Real Estate and Real Estate Financing	70
	SCCV LES PATIOS D'OR DE FLEURY LES AUBRAIS	Real Estate and Real Estate Financing	80
	SCCV LES SUCRES	Real Estate and Real Estate Financing	50
	SCCV LESQUIN PARC	Real Estate and Real Estate Financing	50
	SCCV LILLE - JEAN MACE	Real Estate and Real Estate Financing	33.4
	SCCV LOOS GAMBETTA	Real Estate and Real Estate Financing	35
	SCCV MARCQ PROJECTIM	Real Estate and Real Estate Financing	80
	SCCV MARQUETTE CALMETTE	Real Estate and Real Estate Financing	50
	SCCV MEHUL	Real Estate and Real Estate Financing	70

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SCCV MERIGNAC 53-55 AVENUE LEON BLUM	Real Estate and Real Estate Financing	30
	SCCV MONROC - LOT 3	Real Estate and Real Estate Financing	50
	SCCV MONS EQUATION	Real Estate and Real Estate Financing	50
	SCCV MONTREUIL ACACIA	Real Estate and Real Estate Financing	80
	SCCV NATUREO	Real Estate and Real Estate Financing	30
	SCCV NICE ARENAS	Real Estate and Real Estate Financing	100
	SCCV NOISY BOISSIERE	Real Estate and Real Estate Financing	51
	SCCV PARIS ALBERT	Real Estate and Real Estate Financing	50
	SCCV PARK OCEAN II	Real Estate and Real Estate Financing	35
	SCCV PRADES BLEU HORIZON	Real Estate and Real Estate Financing	50
	SCCV QUAI DE SEINE A ALFORTVILLE	Real Estate and Real Estate Financing	51
	SCCV QUAI NEUF BORDEAUX	Real Estate and Real Estate Financing	35
	SCCV ROMAINVILLE DUMAS	Real Estate and Real Estate Financing	70
	SCCV ROUEN 27 ANGLAIS	Real Estate and Real Estate Financing	100
	SCCV ROUSSET - LOT 03	Real Estate and Real Estate Financing	70
	SCCV SAINT JUST DAUDET	Real Estate and Real Estate Financing	80
	SCCV SAY	Real Estate and Real Estate Financing	35
	SCCV SENGHOR	Real Estate and Real Estate Financing	35
	SCCV SENSORIUM BUREAUX	Real Estate and Real Estate Financing	50
	SCCV SENSORIUM LOGEMENT	Real Estate and Real Estate Financing	50
	SCCV SOGAB ILE DE FRANCE	Real Estate and Real Estate Financing	80
	SCCV SOGAB ROMAINVILLE	Real Estate and Real Estate Financing	80
	SCCV SOGEPROM LYON HABITAT	Real Estate and Real Estate Financing	100
	SCCV SWING RIVE GAUCHE	Real Estate and Real Estate Financing	50
	SCCV TALENCE PUR	Real Estate and Real Estate Financing	95
	SCCV TASSIN - 190 CDG	Real Estate and Real Estate Financing	35
	SCCV VERNAISON - RAZAT	Real Estate and Real Estate Financing	50
	SCCV VILLA CHANZY	Real Estate and Real Estate Financing	40
	SCCV VILLENAVE D'ORNON GARDEN VO	Real Estate and Real Estate Financing	25
	SCCV VILLENEUVE D'ASCQ-RUE DES TECHNIQUES	Real Estate and Real Estate Financing	50
	SCCV VILLEURBANNE TEMPO	Real Estate and Real Estate Financing	100
	SCI 1134, AVENUE DE L'EUROPE A CASTELNAU LE LEZ	Real Estate and Real Estate Financing	50
	SCI 637 ROUTE DE FRANS	Real Estate and Real Estate Financing	30
	SCI AQPRIM PROMOTION	Real Estate and Real Estate Financing	50
	SCI ASC LA BERGEONNERIE	Real Estate and Real Estate Financing	50
	SCI AVARICUM	Real Estate and Real Estate Financing	99
	SCI BOBIGNY HOTEL DE VILLE	Real Estate and Real Estate Financing	35
	SCI BORDEAUX-20-26 RUE DU COMMERCE	Real Estate and Real Estate Financing	30
	SCI CENTRE IMMO PROMOTION RESIDENCES	Real Estate and Real Estate Financing	100
	SCI CHELLES AULNOY MENDES FRANCE	Real Estate and Real Estate Financing	50
	SCI DREUX LA ROTULE NORD	Real Estate and Real Estate Financing	0
	SCI DU 84 RUE DU BAC	Real Estate and Real Estate Financing	50
	SCI DU PARC SAINT ETIENNE	Real Estate and Real Estate Financing	40
	SCI ETAMPES NOTRE-DAME	Real Estate and Real Estate Financing	50
	SCI EUROPARC ST MARTIN DU TOUCH 2002	Real Estate and Real Estate Financing	0
	SCI HEGEL PROJECTIM	Real Estate and Real Estate Financing	85
	SCI LA MANTILLA COMMERCES	Real Estate and Real Estate Financing	100
	SCI LA MARQUEILLE	Real Estate and Real Estate Financing	50
	SCI L'ACTUEL	Real Estate and Real Estate Financing	30
	SCI LAVOISIER	Real Estate and Real Estate Financing	80
	SCI LE DOMAINE DU PLESSIS	Real Estate and Real Estate Financing	20
	SCI LE HAMEAU DES GRANDS PRES	Real Estate and Real Estate Financing	40

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SCI LE MANOIR DE JEREMY	Real Estate and Real Estate Financing	40
	SCI LE PARC DE BORDEROUGE	Real Estate and Real Estate Financing	0
	SCI LES BAIGNOTS	Real Estate and Real Estate Financing	40
	SCI LES CASTELLINES	Real Estate and Real Estate Financing	30
	SCI LES JARDINS DE LA BOURBRE	Real Estate and Real Estate Financing	40
	SCI LES JARDINS D'IRIS	Real Estate and Real Estate Financing	60
	SCI LES JARDINS DU BLAVET	Real Estate and Real Estate Financing	40
	SCI LES PORTES DU LEMAN	Real Estate and Real Estate Financing	70
	SCI LES RESIDENCES GENEVOISES	Real Estate and Real Estate Financing	0
	SCI LIEUSAINT RUE DE PARIS	Real Estate and Real Estate Financing	50
	SCI LINAS COEUR DE VILLE 1	Real Estate and Real Estate Financing	70
	SCI LOCMINE- LAMENNAIS	Real Estate and Real Estate Financing	30
	SCI L'OREE DES LACS	Real Estate and Real Estate Financing	70
	SCI MONTPELLIER JACQUES COEUR	Real Estate and Real Estate Financing	50
	SCI PROJECTIM HABITAT	Real Estate and Real Estate Financing	100
	SCI PROJECTIM MARCQ COEUR DE VILLE	Real Estate and Real Estate Financing	60
	SCI PRONY	Real Estate and Real Estate Financing	50
	SCI QUINTEFEUILLE	Real Estate and Real Estate Financing	30
	SCI QUINTESSENCE-VALESCURE	Real Estate and Real Estate Financing	50
	SCI RESIDENCE DU DONJON	Real Estate and Real Estate Financing	40
	SCI RHIN ET MOSELLE 1	Real Estate and Real Estate Financing	100
	SCI RHIN ET MOSELLE 2	Real Estate and Real Estate Financing	100
	SCI RIVAPRIM HABITAT	Real Estate and Real Estate Financing	100
	SCI RIVAPRIM RESIDENCES	Real Estate and Real Estate Financing	100
	SCI RSS INVESTIMMO COTE BASQUE	Real Estate and Real Estate Financing	20
	SCI SAINT JEAN	Real Estate and Real Estate Financing	0
	SCI SAINT OUEN L'AUMONE - L'OISE	Real Estate and Real Estate Financing	38
	SCI SAINT-DENIS WILSON	Real Estate and Real Estate Financing	60
	SCI SCS IMMOBILIER D'ENTREPRISES	Real Estate and Real Estate Financing	66
	SCI SOGECIP	Real Estate and Real Estate Financing	100
	SCI SOGECTIM	Real Estate and Real Estate Financing	100
	SCI SOGEPROM LYON RESIDENCES	Real Estate and Real Estate Financing	100
	SCI STRASBOURG ETOILE THUMENAU	Real Estate and Real Estate Financing	0
	SCI STRASBOURG ROUTE DE WASSELONNE	Real Estate and Real Estate Financing	0
	SCI TERRES NOUVELLES FRANCILIENNES	Real Estate and Real Estate Financing	80
	SCI TOULOUSE CENTREDA 3	Real Estate and Real Estate Financing	100
	SCI VELRI	Group Real Estate Management Company	50
	SCI VILLA EMILIE	Real Estate and Real Estate Financing	35
	SCI VITAL BOUHOT 16-22 NEUILLY SUR SEINE	Real Estate and Real Estate Financing	40
	SEFIA	Specialist Financing	100
	SERVIPAR	Specialist Financing	100
	SG 29 HAUSSMANN	Financial Company	100
	SG ACTIONS EURO	Insurance	47.75
	SG ACTIONS EURO SELECTION	Financial Company	40.05
	SG ACTIONS EURO VALUE-C	Insurance	64.94
	SG ACTIONS FRANCE	Portfolio Management	38.14
	SG ACTIONS LUXE-C	Insurance	84.25
	SG ACTIONS MONDE EMERGENT	Insurance	60.05
	SG ACTIONS US	Portfolio Management	65.06
	SG ACTIONS US TECHNO	Insurance	85.08
	SG CAPITAL DEVELOPPEMENT	Portfolio Management	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SG FINANCIAL SERVICES HOLDING	Portfolio Management	100
	SG FLEXIBLE	Portfolio Management	92.48
	SG LYXOR GOVERNMENT BOND FUND	Portfolio Management	100
	SG LYXOR LCR FUND	Portfolio Management	100
	SG MONE TRESO-E	Insurance	0
	SG MONETAIRE PLUS E	Financial Company	0
	SG OBLIG ETAT EURO-R	Insurance	79.94
	SG OBLIGATIONS	Insurance	82.92
	SG OPCIMMO	Real Estate and Real Estate Financing	97.95
	SG OPTION EUROPE	Broker	100
	SG VALOR ALPHA ACTIONS FRANCE	Financial Company	72.77
	SGB FINANCE S.A.	Specialist Financing	51
	SGEF SA	Specialist Financing	100
	SGI 10-16 VILLE L'EVEQUE	Insurance	100
	SGI 1-5 ASTORG	Insurance	100
	SGI HOLDING SIS	Group Real Estate Management Company	100
	SGI PACIFIC	Insurance	89.53
	SNC COEUR 8EME MONPLAISIR	Real Estate and Real Estate Financing	30
	SNC COPRIM RESIDENCES	Real Estate and Real Estate Financing	100
	SNC D'AMENAGEMENT FORUM SEINE ISSY LES MOULINEAUX	Real Estate and Real Estate Financing	33.33
	SNC ISSY FORUM 11	Real Estate and Real Estate Financing	33.33
	SNC NEUILLY ILE DE LA JATTE	Real Estate and Real Estate Financing	40
	SNC PROMOSEINE	Real Estate and Real Estate Financing	33.33
	SOCIETE "LES PINSONS"	Real Estate and Real Estate Financing	50
	SOCIETE ANONYME DE CREDIT A L'INDUSTRIE FRANCAISE (CALIF)	Bank	100
	SOCIETE CIVILE IMMOBILIERE CAP THALASSA	Real Estate and Real Estate Financing	45
	SOCIETE CIVILE IMMOBILIERE CAP VEYRE	Real Estate and Real Estate Financing	50
	SOCIETE CIVILE IMMOBILIERE DE DIANE	Real Estate and Real Estate Financing	30
	SOCIETE CIVILE IMMOBILIERE DE PIERLAS	Real Estate and Real Estate Financing	28
	SOCIETE CIVILE IMMOBILIERE DES COMBEAUX DE TIGERY	Real Estate and Real Estate Financing	100
	SOCIETE CIVILE IMMOBILIERE DOMAINE DURANDY	Real Estate and Real Estate Financing	25
	SOCIETE CIVILE IMMOBILIERE ERICA	Real Estate and Real Estate Financing	30
	SOCIETE CIVILE IMMOBILIERE ESTEREL TANNERON	Real Estate and Real Estate Financing	30
	SOCIETE CIVILE IMMOBILIERE FONTENAY - ESTIENNES D'ORVES	Real Estate and Real Estate Financing	50
	SOCIETE CIVILE IMMOBILIERE GAMBETTA DEFENSE V	Real Estate and Real Estate Financing	20
	SOCIETE CIVILE IMMOBILIERE LE BOTERO	Real Estate and Real Estate Financing	30
	SOCIETE CIVILE IMMOBILIERE LES HAUTS DE L'ESTAQUE	Real Estate and Real Estate Financing	35
	SOCIETE CIVILE IMMOBILIERE LES HAUTS DE SEPTEMES	Real Estate and Real Estate Financing	25
	SOCIETE CIVILE IMMOBILIERE MIRECRAU	Real Estate and Real Estate Financing	35
	SOCIETE CIVILE IMMOBILIERE NAXOU	Real Estate and Real Estate Financing	100
	SOCIETE CIVILE IMMOBILIERE TOULDI	Real Estate and Real Estate Financing	100
	SOCIETE CIVILE IMMOBILIERE VERT COTEAU	Real Estate and Real Estate Financing	35
	SOCIETE DE BOURSE GILBERT DUPONT	Financial Company	100
	SOCIETE DE LA RUE EDOUARD VII	Portfolio Management	99.91
	SOCIETE DES TERRAINS ET IMMEUBLES PARISIENS (STIP)	Group Real Estate Management Company	100
	SOCIETE DU PARC D ACTIVITE DE LA VALENTINE	Real Estate and Real Estate Financing	30
	SOCIETE EN NOM COLLECTIF PARNASSE	Real Estate and Real Estate Financing	100
	SOCIETE FINANCIERE D'ANALYSE ET DE GESTION	Financial Company	100
	SOCIETE GENERALE	Bank	100
	SOCIETE GENERALE CAPITAL FINANCE	Portfolio Management	100
	SOCIETE GENERALE CAPITAL PARTENAIRES	Portfolio Management	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SOCIETE GENERALE DE BANQUE AUX ANTILLES	Bank	0
	SOCIETE GENERALE FACTORING	Specialist Financing	100
	SOCIETE GENERALE PARTICIPATIONS INDUSTRIELLES	Portfolio Management	100
	SOCIETE GENERALE POUR LE DEVELOPPEMENT DES OPERATIONS DE CREDIT-BAIL IMMOBILIER "SOGEBAIL"	Real Estate and Real Estate Financing	100
	SOCIETE GENERALE REAL ESTATE	Real Estate and Real Estate Financing	100
	SOCIETE GENERALE SCF	Financial Company	100
	SOCIETE GENERALE SECURITIES SERVICES HOLDING	Portfolio Management	100
	SOCIETE GENERALE SFH	Specialist Financing	100
	SOCIETE IMMOBILIERE DU 29 BOULEVARD HAUSSMANN	Group Real Estate Management Company	100
	SOCIETE IMMOBILIERE URBI ET ORBI	Real Estate and Real Estate Financing	100
	SOCIETE MARSEILLAISE DE CREDIT	Bank	100
	SOGE BEAUJOIRE	Group Real Estate Management Company	100
	SOGE PERIVAL I	Group Real Estate Management Company	100
	SOGE PERIVAL II	Group Real Estate Management Company	100
	SOGE PERIVAL III	Group Real Estate Management Company	100
	SOGE PERIVAL IV	Group Real Estate Management Company	100
	SOGEACT.SELEC.MON.	Portfolio Management	99.78
	SOGECAMPUS	Group Real Estate Management Company	100
	SOGECAP	Insurance	100
	SOGECAP - DIVERSIFIED LOANS FUND	Specialist Financing	100
	SOGECAP DIVERSIFIE 1	Portfolio Management	100
	SOGECAP EQUITY OVERLAY (FEEDER)	Insurance	100
	SOGECAP LONG TERME N°1	Financial Company	100
	SOGECAPIMMO 2	Insurance	90.84
	SOGEFIM HOLDING	Portfolio Management	100
	SOGEFIMUR	Specialist Financing	100
	SOGEFINANCEMENT	Specialist Financing	100
	SOGEFINERG SG POUR LE FINANCEMENT DES INVESTISSEMENTS ECONOMISANT L'ENERGIE	Specialist Financing	100
	SOGEFONTENAY	Group Real Estate Management Company	100
	SOGELEASE FRANCE	Specialist Financing	100
	SOGEMARCHE	Group Real Estate Management Company	100
	SOGEPARTICIPATIONS	Portfolio Management	100
	SOGEPIERRE	Financial Company	100
	SOGEPROM	Real Estate and Real Estate Financing	100
	SOGEPROM ALPES	Real Estate and Real Estate Financing	100
	SOGEPROM ALPES HABITAT	Real Estate and Real Estate Financing	100
	SOGEPROM CENTRE-VAL DE LOIRE	Real Estate and Real Estate Financing	100
	SOGEPROM CVL SERVICES	Real Estate and Real Estate Financing	100
	SOGEPROM ENTREPRISES	Real Estate and Real Estate Financing	100
	SOGEPROM HABITAT	Real Estate and Real Estate Financing	100
	SOGEPROM LYON	Real Estate and Real Estate Financing	100
	SOGEPROM PARTENAIRES	Real Estate and Real Estate Financing	100
	SOGEPROM RESIDENCES	Real Estate and Real Estate Financing	100
	SOGEPROM SERVICES	Real Estate and Real Estate Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SOGEPROM SUD REALISATIONS	Real Estate and Real Estate Financing	100
	SOGESSUR	Insurance	100
	SOGEVIMMO	Group Real Estate Management Company	85.55
	ST BARNABE 13004	Real Estate and Real Estate Financing	50
	STAR LEASE	Specialist Financing	100
	STRACE	Real Estate and Real Estate Financing	20
	TEMSYS	Specialist Financing	100
	URBANISME ET COMMERCE PROMOTION	Real Estate and Real Estate Financing	100
	VALMINVEST	Group Real Estate Management Company	100
	VG PROMOTION	Real Estate and Real Estate Financing	35
	VIENNE BON ACCUEIL	Real Estate and Real Estate Financing	50
	VILLA D'ARMONT	Real Estate and Real Estate Financing	40
Ghana			
	SOCIETE GENERALE GHANA LIMITED	Bank	60.22
Gibraltar			
	HAMBROS (GIBRALTAR NOMINEES) LIMITED	Services	100
	SG KLEINWORT HAMBROS BANK (GIBRALTAR) LIMITED	Bank	100
Greece			
	ALD AUTOMOTIVE S.A. LEASE OF CARS	Specialist Financing	100
Guinea			
	SOCIETE GENERALE GUINEE	Bank	57.94
Equatorial Guinea			
	SOCIETE GENERALE DE BANQUES EN GUINEE EQUATORIALE	Bank	57.23
Hong Kong			
	SG ASSET FINANCE (HONG KONG) LIMITED	Broker	100
	SG CORPORATE FINANCE (ASIA PACIFIC) LIMITED	Financial Company	100
	SG CORPORATE FINANCE (HONG KONG) LIMITED	Financial Company	100
	SG FINANCE (ASIA PACIFIC) LIMITED	Financial Company	100
	SG FINANCE (HONG KONG) LIMITED	Financial Company	100
	SG HONG KONG	Bank	100
	SG LEASING (HONG KONG) LIMITED	Financial Company	100
	SG SECURITIES (HK) LIMITED	Broker	100
	SG SECURITIES (HK) NOMINEES LTD	Broker	100
	SG SECURITIES ASIA INTERNATIONAL HOLDINGS LIMITED	Broker	100
	SGL ASIA HK	Real Estate and Real Estate Financing	100
	SOCIETE GENERALE ASIA LTD	Financial Company	100
	TH INVESTMENTS (HONG KONG) 1 LIMITED	Financial Company	100
	TH INVESTMENTS (HONG KONG) 2 LIMITED	Financial Company	100
	TH INVESTMENTS (HONG KONG) 5 LIMITED	Financial Company	100
Hungary			
	ALD AUTOMOTIVE MAGYARORSZAG AUTOPARK-KEZELO ES FINANSZIROZO KORLATOLT FELELOSSEGU TARSASAG	Specialist Financing	100
Jersey Island			
	ELMFORD LIMITED	Services	100
	HANOM I LIMITED	Financial Company	100
	HANOM II LIMITED	Financial Company	100
	HANOM III LIMITED	Financial Company	100
	J D CORPORATE SERVICES LIMITED	Services	100
	KLEINWORT BENSON CUSTODIAN SERVICES LIMITED	Bank	100
	LYXOR MASTER FUND	Financial Company	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	NEWMEAD TRUSTEES LIMITED	Financial Company	100
	SG HAMBROS (FOUNDATIONS) LIMITED	Financial Company	100
	SG HAMBROS NOMINEES (JERSEY) LIMITED	Financial Company	100
	SG KLEINWORT HAMBROS BANK (CI) LIMITED	Bank	100
	SG KLEINWORT HAMBROS CORPORATE SERVICES (CI) LIMITED	Portfolio Management	100
	SG KLEINWORT HAMBROS TRUST COMPANY (CI) LIMITED	Financial Company	100
	SGKH TRUSTEES (CI) LIMITED	Services	100
	SOLENTIS INVESTMENT SOLUTIONS PCC	Financial Company	0
Isle of Man			
	KBBIOM LIMITED	Bank	50
	KBTIOM LIMITED	Bank	100
Guernsey Island			
	ARAMIS II SECURITIES CO, LTD	Financial Company	100
	CDS INTERNATIONAL LIMITED	Services	100
	GRANGE NOMINEES LIMITED	Bank	100
	GUERNSEY FINANCIAL ADVISORY SERVICES LIMITED	Bank	100
	GUERNSEY NOMINEES LIMITED	Bank	100
	HAMBROS (GUERNSEY NOMINEES) LTD	Services	100
	HTG LIMITED	Services	100
	K.B. (C.I.) NOMINEES LIMITED	Bank	100
	KLEINWORT BENSON INTERNATIONAL TRUSTEES LIMITED	Bank	100
	MISON NOMINEES LIMITED	Bank	100
	SG HAMBROS BANK (CHANNEL ISLANDS) LTD GUERNSEY BRANCH	Bank	100
British Virgin Islands			
	TSG HOLDINGS LTD	Services	0
	TSG MANAGEMENT LTD	Services	0
	TSG SERVICES LTD	Services	0
India			
	ALD AUTOMOTIVE PRIVATE LIMITED	Specialist Financing	100
	SG MUMBAI	Bank	100
	SOCIETE GENERALE GLOBAL SOLUTION CENTRE	Services	100
	SOCIETE GENERALE SECURITIES INDIA PRIVATE LIMITED	Broker	100
Ireland			
	ALD RE DESIGNATED ACTIVITY COMPANY	Insurance	100
	IRIS II SPV DESIGNATED ACTIVITY COMPANY	Financial Company	100
	IRIS SPV PLC SERIES SOGECAP	Real Estate and Real Estate Financing	100
	MERRION FLEET FINANCE LIMITED	Financial Company	100
	MERRION FLEET MANAGEMENT LIMITED	Specialist Financing	100
	NB SOG EMER EUR - I	Financial Company	100
	SG DUBLIN	Bank	100
	SG KLEINWORT HAMBROS PRIVATE INVESTMENT OFFICE SERVICES LIMITED	Bank	100
	SGBT FINANCE IRELAND DESIGNATED ACTIVITY COMPANY	Specialist Financing	100
	SOCIETE GENERALE HEDGING DESIGNATED ACTIVITY COMPANY	Financial Company	100
	SOCIETE GENERALE SECURITIES SERVICES (IRELAND) LTD	Financial Company	100
Italy			
	ALD AUTOMOTIVE ITALIA S.R.L.	Specialist Financing	100
	FIDITALIA S.P.A.	Specialist Financing	100
	FRAER LEASING SPA	Specialist Financing	73.85
	SG EQUIPMENT FINANCE ITALY S.P.A.	Specialist Financing	100
	SG FACTORING SPA	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SG LEASING SPA	Specialist Financing	100
	SG MILAN	Bank	100
	SOCECAP SA RAPPRESENTANZA GENERALE PER L'ITALIA	Insurance	100
	SOCIETE GENERALE SECURITIES SERVICES S.P.A.	Bank	100
	SOGESSUR SA	Insurance	100
Japan			
	LYXOR ASSET MANAGEMENT JAPAN CO LTD	Portfolio Management	100
	SG TOKYO	Bank	100
	SOCIETE GENERALE SECURITIES JAPAN LIMITED	Broker	100
Latvia			
	ALD AUTOMOTIVE SIA	Specialist Financing	75
Lithuania			
	UAB ALD AUTOMOTIVE	Specialist Financing	75
Luxembourg			
	AF EMG MK HD CURR - CLASSE C -LU0907913460	Insurance	0
	ALD INTERNATIONAL SERVICES S.A.	Specialist Financing	100
	AXUS LUXEMBOURG SA	Specialist Financing	100
	BARTON CAPITAL SA	Financial Company	100
	CANDRIAM BONDS EURO HIGH YIELD - LU1010337324	Insurance	0
	CODEIS COMPARTIMENT A0084	Insurance	100
	CODEIS COMPARTIMENT A0076	Financial Company	100
	CODEIS SECURITIES S.A.	Financial Company	100
	COVALBA	Financial Company	100
	FIDELITY FUNDS EUR HY IQ -LU0954694930	Insurance	49.6
	G FINANCE LUXEMBOURG SA	Financial Company	0
	GOLDMAN SACHS 2 G EM M DBP ID	Financial Company	100
	IVEFI S.A.	Financial Company	100
	LX FINANZ S.A.R.L.	Financial Company	0
	LYXOR EURO 6M - CLASS SI	Insurance	64.37
	LYXOR FUNDS SOLUTIONS	Financial Company	100
	PIONEER INVESTMENTS DIVERSIFIED LOANS FUND	Specialist Financing	100
	RED & BLACK AUTO LEASE GERMANY 2 S.A.	Financial Company	100
	RED & BLACK AUTO LEASE GERMANY S.A. N°7	Real Estate and Real Estate Financing	100
	SALINGER S.A.	Bank	100
	SG ISSUER	Financial Company	100
	SGBT ASSET BASED FUNDING SA	Financial Company	100
	SGBTCI	Financial Company	100
	SGL ASIA	Real Estate and Real Estate Financing	100
	SOCIETE GENERALE CAPITAL MARKET FINANCE	Bank	100
	SOCIETE GENERALE FINANCING AND DISTRIBUTION	Bank	100
	SOCIETE GENERALE LIFE INSURANCE BROKER SA	Insurance	100
	SOCIETE GENERALE LUXEMBOURG	Bank	100
	SOCIETE GENERALE LUXEMBOURG LEASING	Specialist Financing	100
	SOCIETE GENERALE PRIVATE WEALTH MANAGEMENT S.A.	Financial Company	100
	SOCIETE GENERALE RE SA	Insurance	100
	SOCIETE IMMOBILIERE DE L'ARSENAL	Group Real Estate Management Company	100
	SOGELIFE	Insurance	100
	SURYA INVESTMENTS S.A.	Specialist Financing	100
Madagascar			
	BANKY FAMPANDROSOANA VAROTRA SG	Bank	70
Malta			
	LNG MALTA INVESTMENT 1 LIMITED	Financial Company	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	LNG MALTA INVESTMENT 2 LIMITED	Financial Company	100
Morocco			
	ALD AUTOMOTIVE SA MAROC	Specialist Financing	50
	ATHENA COURTAGE	Insurance	99.9
	FONCIMMO	Group Real Estate Management Company	100
	LA MAROCAINE VIE	Insurance	99.98
	SG MAROCAINE DE BANQUES	Bank	57.62
	SOCIETE D'EQUIPEMENT DOMESTIQUE ET MENAGER "EQDOM"	Specialist Financing	53.72
	SOCIETE GENERALE DE LEASING AU MAROC	Specialist Financing	100
	SOCIETE GENERALE OFFSHORE	Financial Company	99.94
	SOGECAPITAL GESTION	Financial Company	99.94
	SOGECAPITAL PLACEMENT	Portfolio Management	99.94
	SOGEFINANCEMENT MAROC	Specialist Financing	100
Mauritius			
	SG SECURITIES BROKING (M) LIMITED	Broker	100
Mexico			
	ALD AUTOMOTIVE S.A. DE C.V.	Specialist Financing	100
	ALD FLEET SA DE CV SOFOM ENR	Specialist Financing	100
	SGFP MEXICO, S.A. DE C.V.	Financial Company	100
Monaco			
	CREDIT DU NORD - MONACO	Bank	100
	SMC MONACO	Bank	100
	SOCIETE DE BANQUE MONACO	Bank	100
	SOCIETE GENERALE (SUCCURSALE MONACO)	Bank	100
	SOCIETE GENERALE PRIVATE BANKING (MONACO)	Bank	100
Norway			
	ALD AUTOMOTIVE AS	Specialist Financing	100
	NF FLEET AS	Specialist Financing	80
	SG FINANS AS	Specialist Financing	0
New Caledonia			
	CREDICAL	Specialist Financing	96.64
	SOCIETE GENERALE CALEDONIENNE DE BANQUE	Bank	90.1
Netherlands			
	ALVARENGA INVESTMENTS B.V.	Specialist Financing	100
	ASTEROLD B.V.	Financial Company	100
	AXUS FINANCE NL B.V.	Specialist Financing	100
	AXUS NEDERLAND BV	Specialist Financing	100
	BRIGANTIA INVESTMENTS B.V.	Financial Company	100
	CAPEREA B.V.	Specialist Financing	100
	COPARER HOLDING	Group Real Estate Management Company	100
	HERFSTTAFEL INVESTMENTS B.V.	Specialist Financing	100
	HORDLE FINANCE B.V.	Financial Company	100
	MONTALIS INVESTMENT BV	Specialist Financing	100
	SG AMSTERDAM	Bank	100
	SG EQUIPMENT FINANCE BENELUX BV	Specialist Financing	100
	SOGELEASE B.V.	Specialist Financing	100
	SOGELEASE FILMS	Specialist Financing	100
	TYNEVOR B.V.	Financial Company	100
Poland			
	ALD AUTOMOTIVE POLSKA SP Z O.O.	Specialist Financing	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	SG EQUIPMENT LEASING POLSKA SP Z.O.O.	Specialist Financing	100
	SOCIETE GENERALE S.A. ODDZIAL W POLSCE	Bank	100
	SOGECAP SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	100
	SOGESSUR SPOLKA AKCYJNA ODDZIAL W POLSCE	Insurance	100
French Polynesia			
	BANQUE DE POLYNESIE	Bank	72.1
	SOGELEASE BDP "SAS"	Specialist Financing	100
Portugal			
	SGALD AUTOMOTIVE SOCIEDADE GERAL DE COMERCIO E ALUGUER DE BENS SA	Specialist Financing	100
Czech Republic			
	ALD AUTOMOTIVE S.R.O.	Specialist Financing	100
	ESSOX SRO	Specialist Financing	100
	FACTORING KB	Financial Company	100
	KB PENZIJNI SPOLECNOST, A.S.	Financial Company	100
	KB REAL ESTATE	Real Estate and Real Estate Financing	100
	KB SMARTSOLUTIONS, S.R.O.	Bank	100
	KOMERCNI BANKA A.S.	Bank	60.73
	KOMERCNI POJISTOVNA A.S.	Insurance	100
	MODRA PYRAMIDA STAVEBNI SPORITELNA AS	Financial Company	100
	PROTOS	Financial Company	100
	SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O.	Specialist Financing	100
	SOGEPROM CESKA REPUBLIKA S.R.O.	Real Estate and Real Estate Financing	100
	SOGEPROM MICHLE S.R.O.	Real Estate and Real Estate Financing	100
	STD2, A.S.	Group Real Estate Management Company	100
	VN 42	Real Estate and Real Estate Financing	100
	WORLDLINE CZECH REPUBLIC S.R.O.	Services	40
Romania			
	ALD AUTOMOTIVE SRL	Specialist Financing	100
	BRD - GROUPE SOCIETE GENERALE SA	Bank	60.17
	BRD ASSET MANAGEMENT SAI SA	Portfolio Management	99.97
	BRD FINANCE IFN S.A.	Financial Company	100
	S.C. BRD SOGELEASE IFN S.A.	Specialist Financing	100
	S.C. ROGARIU IMOBILIARE S.R.L.	Real Estate and Real Estate Financing	75
	SOCIETE GENERALE EUROPEAN BUSINESS SERVICES S.A.	Services	100
	SOGEPROM ROMANIA SRL	Real Estate and Real Estate Financing	100
	SOGESSUR S.A PARIS - SUCURSALA BUCURESTI	Insurance	100
United Kingdom			
	ACR	Financial Company	100
	ALD AUTOMOTIVE GROUP LIMITED	Specialist Financing	100
	ALD AUTOMOTIVE LIMITED	Specialist Financing	100
	BRIGANTIA INVESTMENTS B.V. (UK BRANCH)	Financial Company	100
	DESCARTES TRADING LONDON BRANCH	Financial Company	0
	FENCHURCH NOMINEES LIMITED	Bank	100
	FRANK NOMINEES LIMITED	Bank	100
	HORDLE FINANCE B.V. (UK BRANCH)	Financial Company	100
	JWB LEASING LIMITED PARTNERSHIP	Specialist Financing	100
	KBIM STANDBY NOMINEES LIMITED	Bank	100
	KBPB NOMINEES LIMITED	Bank	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
	KH COMPANY SECRETARIES LIMITED	Bank	100
	KLEINWORT BENSON FARMLAND TRUST (MANAGERS) LIMITED	Bank	75
	LANGBOURN NOMINEES LIMITED	Bank	100
	LYXOR ASSET MANAGEMENT UK LLP	Financial Company	100
	MAGPIE ROSE LIMITED	Bank	0
	PICO WESTWOOD LIMITED	Bank	0
	ROBERT BENSON, LONSDALE & CO. (CANADA) LIMITED	Bank	100
	SAINT MELROSE LIMITED	Bank	0
	SG (MARITIME) LEASING LIMITED	Specialist Financing	100
	SG EQUIPMENT FINANCE (DECEMBER) LIMITED	Specialist Financing	100
	SG FINANCIAL SERVICES LIMITED	Financial Company	100
	SG HAMBROS (LONDON) NOMINEES LIMITED	Financial Company	100
	SG HAMBROS TRUST COMPANY LIMITED	Financial Company	100
	SG HEALTHCARE BENEFITS TRUSTEE COMPANY LIMITED	Financial Company	100
	SG INVESTMENT LIMITED	Financial Company	100
	SG KLEINWORT HAMBROS BANK LIMITED	Bank	100
	SG KLEINWORT HAMBROS LIMITED	Bank	100
	SG KLEINWORT HAMBROS TRUST COMPANY (UK) LIMITED	Bank	100
	SG LEASING (ASSETS) LIMITED	Specialist Financing	100
	SG LEASING (CENTRAL 1) LIMITED	Specialist Financing	0
	SG LEASING (CENTRAL 3) LIMITED	Specialist Financing	100
	SG LEASING (GEMS) LIMITED	Specialist Financing	100
	SG LEASING (JUNE) LIMITED	Specialist Financing	100
	SG LEASING (MARCH) LIMITED	Specialist Financing	100
	SG LEASING (USD) LIMITED	Specialist Financing	100
	SG LEASING (UTILITIES) LIMITED	Specialist Financing	100
	SG LEASING IX	Specialist Financing	100
	SG LONDRES	Bank	100
	SGFLD LIMITED	Financial Company	0
	SOCGEN NOMINEES (UK) LIMITED	Financial Company	100
	SOCIETE GENERALE EQUIPMENT FINANCE LIMITED	Specialist Financing	100
	SOCIETE GENERALE INTERNATIONAL LIMITED	Broker	100
	SOCIETE GENERALE INVESTMENTS (U.K.) LIMITED	Financial Company	100
	STRABUL NOMINEES LIMITED	Financial Company	100
	TH INVESTMENTS (HONG KONG) 2 LIMITED (UK BRANCH)	Financial Company	100
	TYNEVOR B.V. (UK BRANCH)	Financial Company	100
Russian Federation			
	ALD AUTOMOTIVE OOO	Specialist Financing	100
	CLOSED JOINT STOCK COMPANY SG FINANCE	Specialist Financing	100
	CREDIT INSTITUTION OBYEDINYONNAYA RASCHOTNAYA SISTEMA	Financial Company	100
	LLC RUSFINANCE	Bank	100
	LLC RUSFINANCE BANK	Bank	100
	LLC TELSYCOM	Services	100
	PJSC ROSBANK	Bank	99.97
	RB CAPITAL ASSET MANAGEMENT LIMITED LIABILITY COMPANY	Real Estate and Real Estate Financing	100
	RB FACTORING LLC	Specialist Financing	100
	RB LEASING LLC	Specialist Financing	100
	RB SERVICE LLC	Group Real Estate Management Company	100
	RB SPECIALIZED DEPOSITARY LLC	Financial Company	100
	SOCIETE GENERALE STRAKHOVANIE LLC	Insurance	100
	SOCIETE GENERALE STRAKHOVANIE ZHIZNI LLC	Insurance	100

Country	Company	Type of company	Share of voting rights as of 31.12.2020
Senegal			
	SOCIETE GENERALE SENEGAL	Bank	64.87
Serbia			
	ALD AUTOMOTIVE D.O.O BEOGRAD	Specialist Financing	100
Singapore			
	SG MARKETS (SEA) PTE. LTD.	Broker	100
	SG SECURITIES (SINGAPORE) PTE. LTD.	Broker	100
	SG SINGAPOUR	Bank	100
	SG TRUST (ASIA) LTD	Financial Company	100
Slovakia			
	ALD AUTOMOTIVE SLOVAKIA S.R.O.	Specialist Financing	100
	ESSOX FINANCE S.R.O.	Specialist Financing	100
	KOMERCNI BANKA SLOVAKIA	Bank	100
	SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O. ORGANIZACNA ZLOZKA (SLOVAK REPUBLIC BRUNCH)	Specialist Financing	100
Slovenia			
	ALD AUTOMOTIVE OPERATIONAL LEASING DOO	Specialist Financing	100
Sweden			
	ALD AUTOMOTIVE AB	Specialist Financing	100
	NF FLEET AB	Specialist Financing	80
	SG FINANS AS SWEDISH BRANCH	Specialist Financing	0
	SOCIETE GENERALE SA BANKFILIAL SVERIGE	Bank	100
Switzerland			
	ALD AUTOMOTIVE AG	Specialist Financing	100
	ROSBANK (SWITZERLAND)	Bank	0
	SG EQUIPMENT FINANCE SCHWEIZ AG	Specialist Financing	100
	SG ZURICH	Bank	100
	SOCIETE GENERALE PRIVATE BANKING (SUISSE) S.A.	Bank	100
Taiwan			
	SG SECURITIES (HONG KONG) LIMITED TAIPEI BRANCH	Broker	100
	SG TAIPEI	Bank	100
Chad			
	SOCIETE GENERALE TCHAD	Bank	67.83
Thailand			
	SOCIETE GENERALE SECURITIES (THAILAND) LTD.	Broker	100
Togo			
	SOCIETE GENERALE TOGO	Bank	100
Tunisia			
	UNION INTERNATIONALE DE BANQUES	Bank	52.34
Turkey			
	ALD AUTOMOTIVE TURIZM TICARET ANONIM SIRKETI	Specialist Financing	100
	SG ISTANBUL	Bank	100
Ukraine			
	ALD AUTOMOTIVE UKRAINE LIMITED LIABILITY COMPANY	Specialist Financing	100

Report of the Supervisory Board

Throughout 2020, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's annual (separate) and consolidated financial statements for the period from 1 January 2020 to 31 December 2020, the Supervisory Board reports that the accounts and financial documents were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and financial documents show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements prepared on their basis give a true and fair view of the Bank's and Group's accounting and financial situation.

The Supervisory Board reviewed the consolidated financial statements of the Bank for the period from 1 January to 31 December 2020 in the European Single Electronic Format (ESEF), including XBRL tagging and did not identified any deficiencies.

The Supervisory Board recommends that the general meeting approve the annual (separate) and consolidated financial statements and the distribution of profit for the year 2020 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2020, drawn up under S. 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2020 to 31 December 2020, Komerční banka, a.s. did not suffer any harm resulting from the contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 10 March 2021

On behalf of the Supervisory Board of Komerční banka, a.s.:

Jean-Luc Parer
Chairman

Management affidavit

To the best of our knowledge, we believe that this annual report gives a true and fair view of the Bank's and Group's financial position, their business activities and results from the year 2020, as well as the outlook for the development of the Bank's and Group's financial situation, business activities, and results.

Prague, 17 March 2021

Signed on behalf of the Board of Directors:

Jan Juchelka
Chairman of the Board of Directors and Chief Executive Officer

Jitka Haubová
Member of the Board of Directors

Independent Auditor’s Report

to the Shareholders of Komerční banka, a.s.

Deloitte.

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„THE REPORT BELOW REPRESENTS THE AUDITOR'S REPORT THAT RELATES SOLELY AND EXCLUSIVELY TO THE OFFICIAL ANNUAL REPORT PREPARED IN THE XHTML FORMAT."

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka a.s.

Having its registered office at: Na Příkopě 33 č.p. 969, 114 07 Prague 1

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of Komerční banka, 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 income and 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 income and 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 consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated 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
Allowances for the loans and advances	
At 31 December 2020, gross loans and advances to customers, banks (hereinafter "loans") amounted to CZK 955,516 million and CZK 883,485 million for the Group and the Company, respectively, against which allowances for loans to customers and banks (hereinafter "allowances") of CZK 12,954 million and CZK 10,410 million, respectively, were recorded. The allowances are determined either (i) individually for significant non-performing exposures (Stage 3) or (ii) using statistical models for performing loans (Stage 1 and 2) and insignificant non-performing exposures (Stage 3). The measurement of allowances for loans is deemed a key audit matter due to the level of judgement applied by the Management especially with regard to identifying impaired receivables and quantifying loan impairment. The level of uncertainty and level of subjectiveness of management judgments relating to 2020 financial reporting increased significantly due to the COVID-19 pandemic. The most significant judgements applied in determining allowances are: • Assumptions used in the expected credit loss (ECL) statistical models such as probability of default, recovery rates and macroeconomic factors reflected in forward looking information • Timely identification of exposures with a significant increase in credit risk (Stage 2) and on non-performing exposures (Stage 3) in the context of COVID 19 pandemic • Valuation of collateral and assumptions used in expected future cash flows on individually assessed credit-impaired exposures. *The management provided further information about loan impairment in Note 3.5.5.11, Note 22 and Note 43A to the* Consolidated *Financial Statements and in Note 3.5.5.11, Note 21 and Note 42A to the Separate Financial Statements.* *The* management *provided further information about Covid-19 impacts on loan portfolio and impairment in Note 3.3.3, Note 3.5.5.11 and Note 43A to the Consolidated Financial Statements and in Note 3.3.3, Note 3.5.5.11 and Note 42A to the Separate Financial Statements.*	Based on our risk assessment and industry knowledge, we examined the allowances, evaluated the methodology applied and the assumptions used. Together with our specialists, we reperformed the calculation of the allowances. We tested the design and operating effectiveness of selected key internal controls the management of the Bank has established for the impairment assessment and allowance recognition. With the assistance of our IT specialists, we tested IT controls relating to access rights and change management of relevant IT applications. <u>Assumptions used in the expected credit loss models</u> In cooperation with our specialists, we assessed the model methodology, internal validation reports and the results of the back-testing for selected internal models. We assessed whether the modelling assumptions considered all relevant risks, were relevant in the light of historical experience and future outlook, economic climate and the circumstances of customers. We evaluated the appropriateness of risk parameters used in the calculation of allowances. On a selected sample, we recalculated certain risk parameters and performed analytical procedures. In light of the extreme volatility in economic scenarios caused by the current COVID19 pandemic and government responses, we assessed whether the macroeconomic and other parameters used in the ECL statistical models fairly reflect the expected degree of defaults and recoverability of loans in the future. <u>Identification of exposures with a significant increase in credit risk and non-performing loans</u> We tested system-based and manual controls of the timely classification of loans to the relevant stage. In cooperation with our specialists, we evaluated assumptions used for staging models and we recalculated the staging on a portfolio basis. We assessed the approach to staging and to modification loss recognition adopted by the bank for loans to customers with deferred payments related to government and non-government measures that were implemented to mitigate the negative consequences of the COVID-19 pandemic.

Key audit matter	Related audit procedures
	We tested a sample of loans and advances (including loans that had not been classified by the management as Stage 3 and specific industries which were most impacted by COVID-19) to make our own assessment as to whether impairment had occurred and to assess whether impairment had been identified in a timely manner. Allowances for individually assessed credit-impaired loans We tested controls of the regular assessment and approval of allowances by the management. We selected a sample of loans and, where we deemed them impaired, assessed the expected future cash flows including assessment of the collateral valuation, application of different scenarios and scenario weight. Our testing took into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19.
Interest and fee income recognition	
For the year ended 31 December 2020 the gross interest income amounted to CZK 36,485 million and CZK 32,977 million for the Group and the Company, respectively. Total fee and commission income for the same period amounted to CZK 6,362 million and CZK 5,307 million for the Group and the Company, respectively. These items are the main contributors to the net operating income of the Company and the Group affecting their profitability, with their main source being customer loans and deposits. While interest income is recognised on an accruals basis over the expected life of a financial instrument, the recognition of fee income depends on the nature of the fees as follows: • Fees and commissions that represent an integral component of the effective interest rate of a financial instrument; and • Fees and commissions for services and acts performed – the income from these fees is recognised at a point in time when the respective services are provided or the act is performed. If the fees and commissions relate to a longer period, they are recognised over the period on a straight-line basis. The specifics of revenue recognition and a large volume of individually small transactions, which depends on the quality of input data relating to interest and fees and on IT solutions for their recognition, resulted in this matter being identified as a key audit matter. *The* management *provided further information about interest and fee income in Note 3.5.2.1, Note 3.5.2.2, Note 5 and Note 6 to the Consolidated Financial Statements and in Note 3.5.2.1, Note 3.5.2.2, Note 5 and Note 6 to the Separate Financial Statements*.	Based on our risk assessment and industry knowledge, we evaluated the methodology applied and the assumptions used by the management. We tested the design and operating effectiveness of the key internal controls and focused on: • Assessment of interest/fees recognition during new product validation; • Input data related to interest/fees on customer loans and deposits, including authorisation of the changes in the interest and fees price list and authorisation of non-standard interest/fees; • Recognition of fees and interest income and the 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: We evaluated the accounting treatment applied by the Bank to determine whether the methodology complies with the requirements of the relevant accounting standard. We focused our testing on verification of the correct classification of: • Fees that are identified as directly attributable to the financial instrument; and • Fees that are not identified as directly attributable to the financial instrument. We evaluated the mathematical formulas used for accruing the relevant income over the expected life of the financial instrument.

Key audit matter	Related audit procedures
	We analysed the accuracy of the recognised amount of interest income and fee and commission income using substantive analytical tests and data analytics.

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 to express an opinion on the Consolidated 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 among Related Entities (the "Report on Relations")

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of Komerční banka, a.s. for the year ended 31 December 2020 which is included in Financial part of this annual report in chapter "Report on Relations among Related Entities". 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 Komerční banka, 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 of 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:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 29 June 2020 and our total uninterrupted engagement including previous renewals has lasted for 6 years.

Consistence with the Additional Report to the Audit Committee

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 17 March 2021 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of 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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 17 March 2021

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Daniela Hynštová
registration no. 2235

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